Hügli

# ANNUAL REPORT 2016

huegli.com


Hügli
Suppe
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# Key Figures in brief

385.2

M. CHF **SALES**.
INCREASE OF 1.8 %
TO PREVIOUS YEAR.

42.8

M. CHF **EBITDA.**
THAT CORRESPONDS
TO AN EBITDA-MAR-
GIN OF 11.1 %.

28.6

M. CHF **EBIT**.
DECREASE OF –6.4 %
TO PREVIOUS YEAR
(30.6 M. CHF).

22.3

M. CHF **GROUP NET PROFIT**. DECREASE OF –4.6 % TO PREVIOUS YEAR.

157.5

M. CHF **SHARE-HOLDERS' EQUITY**.
THAT CORRESPONDS
TO AN EQUITY RATIO
OF 53.7 %.

75.4

M. CHF **NET DEPT**.
THE NET DEPT IN THE
PREVIOUS YEAR
AMOUNTED TO
67.0 M. CHF.

29.6

M. CHF **INVESTMENTS**
IN A MODERN
AND COMPETITIVE
MACHINERY IN ALL
SITES.

57'651

**TONS** OF TOP-QUALITY
**FOOD** PRODUCED
AND SOLD.

1'496

**EMPLOYEES** (FTES).
THAT MEANS AN
INCREASE OF 60 FTES
TO 2015.

# One Group. Many Teams. One Goal.

Hügli was founded in Switzerland in 1935. Today it is one of the leading European companies for the development, production and marketing of dry blends in the convenience segment such as soups, sauces, bouillons, ready to serve meals, desserts, functional food, liquid warm and cold sauces, "like meat" specialities and vegetarian bread spreads. Hügli caters to the kitchens of the professional out of home market, manufactures products for brand companies, food industry as well as for food retailers. With its flavouradding semi-finished products, Hügli partners with food manufacturers and sells own brands, mostly of organic quality, to consumers.

# Content

# **One Group. One Goal** ••• The Hügli Group

## STRATEGIC OBJECTIVES

### Group

GROWTH ABOVE MARKET LEVEL/ OVER-PROPORTIONAL **INCREASE OF EBITDA**

### Countries

**DEVELOPMENT OF EXISTING MARKETS**/ EVALUATION OF FURTHER DISTRI-BUTION COUNTRIES

### Divisions

BALANCED **GROWTH** THROUGHOUT **ALL SALES DIVISIONS**

## CORE COMPETENCES

### Markets

SELECTED PRODUCTS IN **NICHE MARKETS**

### Cus-tomers

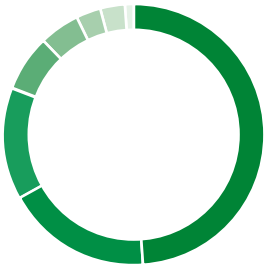
**CUSTOMER-ORIENTED PRODUCTION** AT SEV-EN LOCATIONS

### Employ-ees

MOTIVATING HÜGLI CULTURE: **THE EMPLOYEE AS ENTREPRENEUR**

**Personnel 2016**

in %/Number of full-time positions



| | | |
|---|---|---|
| Germany | 49 % | 733 |
| Eastern Europe | 18 % | 266 |
| Switzerland | 14 % | 221 |
| United Kingdom | 7 % | 103 |
| Netherlands | 5 % | 68 |
| Italy | 3 % | 47 |
| Austria | 3 % | 38 |
| Spain | 1 % | 20 |
| **Total:** | **100 %** | **1'496** |

## OUR HISTORY

The principal firm was established in Arbon, Switzerland, in 1935 by the industrial entrepreneur Beat Stoffel. He was prompted by the future Group's name giver Otto Hügli, who was the company's first manager and a gifted product developer. The first steps of expansion took the firm in 1959 around Lake Constance to Hard in Austria and in 1964 to Radolfzell in Germany. Today, Hügli with its more than 900 employees is one of most important employers in the Lake Constance area. The expansion was taken further in 2000, when the Group acquired a new production site in Zásmuky, Czech Republic. From Zásmuky, Hügli has been developing the Group's sales and distribution business in other Eastern European countries, in Poland in 2002, in Slovakia in 2003 and in Hungary in 2005. Over the course of time, further geographical expansions occurred at the Southern foot of the Alps in Brivio, Italy, in 2007, and in 2008 in Redditch, in the heart of the United Kingdom, with specialised production sites at each location. As a result of an acquisition in 2015, Hügli took over a production site in La Vall d'Uixó (Castellón) in Spain and a sales organisation in Wellingborough, United Kingdom. In 2016, the Hügli Group acquired 80 % of the capital shares of Dutch Bresc B. V., Sleeuwijk as part of a successor solution.

## OUR VISION

We want to work only in markets and production areas, in which we can excel in the performance of relevant services for our clients. The service to customers is the main focus of the thinking and conduct of all our employees.

## OUR MISSION

Hügli specialises in the creative development and efficient production of foods in the convenience segment, primarily comprising of soups, sauces, bouillons, seasonings, instant meals, desserts and delicatessen. Sales and distribution concentrate on selected countries, in which Hügli can offer customers a higher quality than the competitors. A production located in the customers' vicinity and direct marketing addressed to professional customers form the core of the Group's strategy. Hügli aims to heighten the customer benefit with better products – and these are recognised not least by their flavour. It goes without saying that Hügli stands for the highest production quality, which is periodically confirmed through an external quality certification.

## OUR OBJECTIVES

Hügli's strategy has a long-term focus on sustainable growth. The Group wants to grow overproportionally and achieve sales growth of 5 % including acquisitons on the long term. Company acquisitions round off the product line, and production technology, and serve the market development in a new country. The sale of own products is a main objective while the product line is supplemented

with selected trade goods in line with customer needs. Growth is to be broadly achieved throughout all sales divisions. Hügli is committed to its economic and social responsibility towards its stakeholders – employees, business partners, shareholders and investors – and strives to achieve an adequate return on the invested capital through sustainable growth, continuous process improvement and consistent cost management. This is the best foundation for a steadily and solidly growing company that is rooted locally and active all across Europe.

## OUR DIVISIONAL SALES AND DISTRIBUTION STRUCTURE UNTIL 2016

The Group consists in five specialised sales and distribution divisions which cater for differing customer needs.

### Food Service

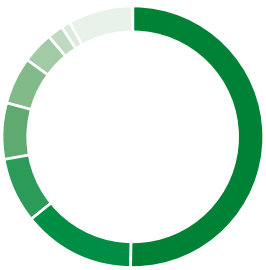
The largest division concentrates on the customer segments restaurants, hotels, canteens and similar institutions. Sales and distribution are effected through Hügli's sales offices. In this area of business depending on product segment and country Hügli is number 2 or 3 in Europe. A comprehensive sales organisation with over 250 vendors in 8 countries reaches more than 40'000 customers directly. Outstanding own products are combined with selected trade specialities, with which Hügli can supply customers with a well-balanced product line for a high standard cuisine.

### Private Label

The Hügli Group is one of the biggest Private Label Retail producers of dry blended meals in Europe. Hügli manufactures own brands of several leading retail food trade organisations. The market share of these products has in the past years been consistently increasing, thanks to a very good price-performance-ratio.

**Sales based on location of customers 2016**

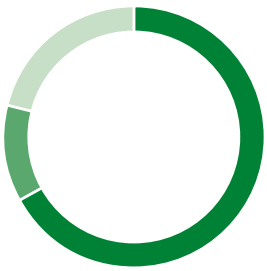
in %



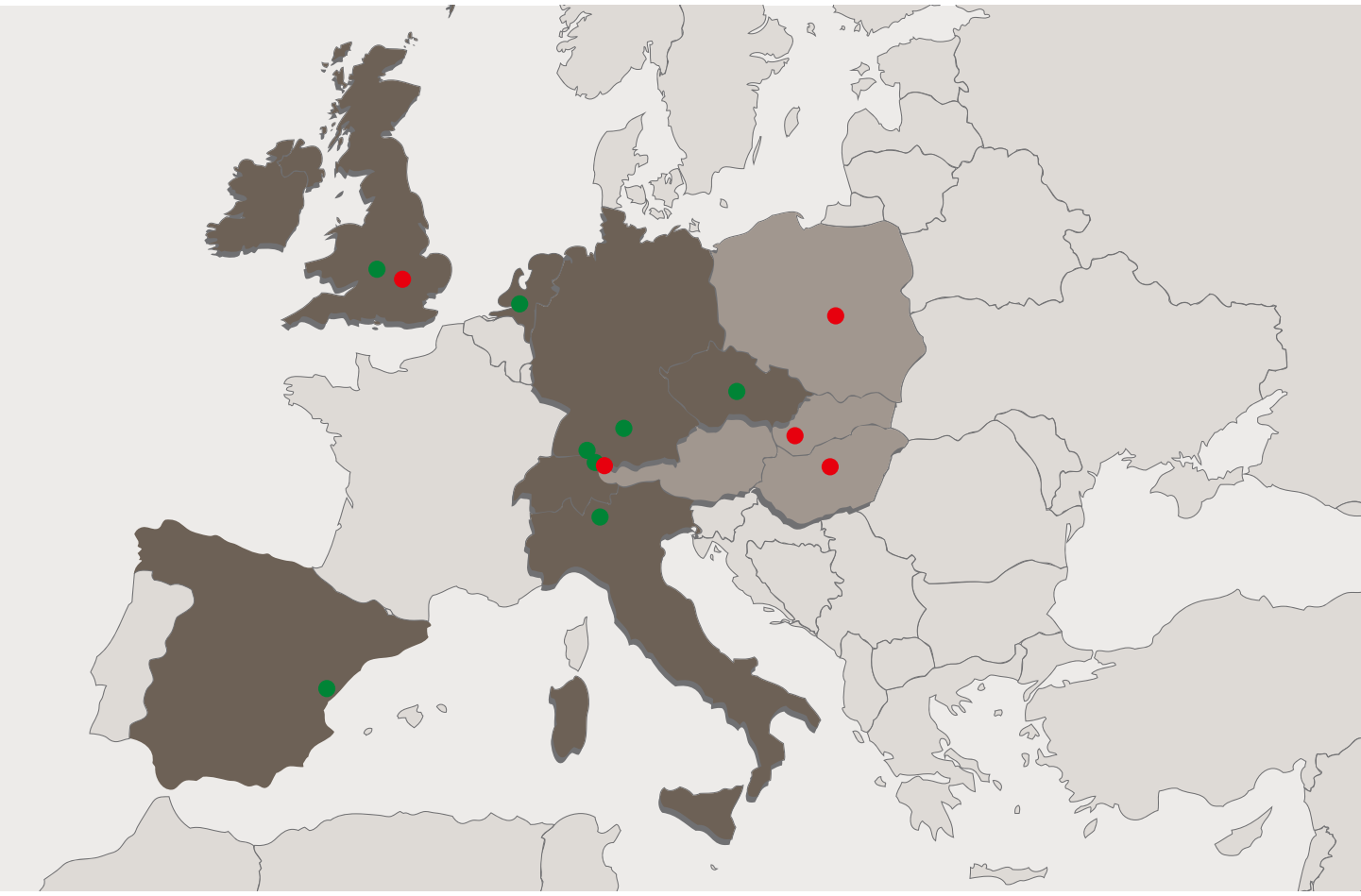
| | |
|---|---|
| Germany | **51 %** |
| Switzerland | **14 %** |
| United Kingdom | **8 %** |
| Eastern Europe | **7 %** |
| Austria | **6 %** |
| Netherlands | **4 %** |
| Italy | **2 %** |
| Spain | **1 %** |
| Others | **7 %** |

**Product groups 2016**

in %



| | |
|---|---|
| Dry blend products (dehydrated) | **67 %** |
| Ready to Eat/ Ready to Use products (hydrated) | **12 %** |
| Trading goods | **21 %** |



## WELL POSITIONED IN EUROPE

**Production sites**
- Switzerland – sites Steinach and St. Gallen
- Germany – sites Radolfzell (2), Neuburg/Kammel and Ulm
- United Kingdom – site Redditch
- Italy – site Brivio
- Czech Republic – site Zásmuky
- Spain – site La Vall d'Uixó
- Netherlands – site Sleeuwijk

**Sales companies**
- Austria – Hard
- Slovakia – Trnava
- Poland – Lodz
- Hungary – Budapest
- United Kingdom – Wellingborough

## Brand Solutions

The customers of the Brand Solutions Division are marketing and sales organisations with own brands. We produce for these customers consumer packages under their own brands, beside the Hügli core product line also in the range of dressings, liquid sauces, slimming and dietary products as well as sports nutrition. In addition to the manufacturing of brand products ready for sale, Hügli offers a comprehensive range of product related services in culinary art, trends and technology.

## Food Industry

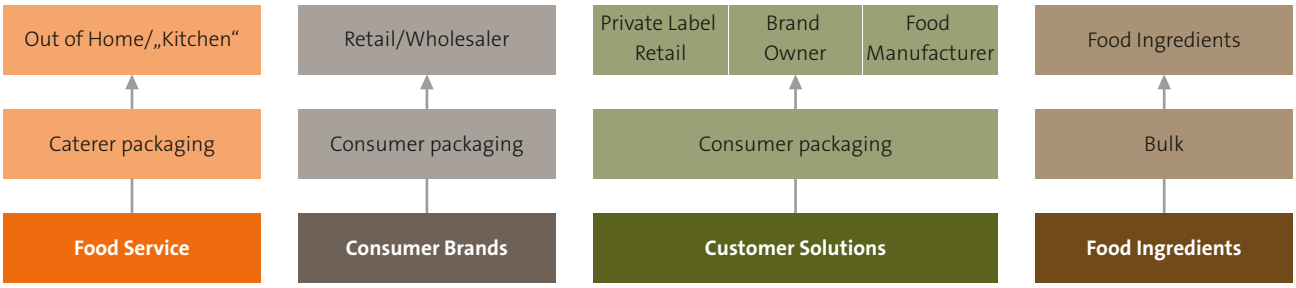
The Food Industry Division supplies a large number of well-known customers of the food processing industry with semi-finished products and in the sense of outsourcing as well as with consumer packages. In the offered product segments of compounds, flavours and snack seasonings customers profit from Hügli's extensive know-how and innovative product development. The shortest possible reaction time and high flexibility are a must for our customers. Hügli Food Industry does not sell products only, it also sells solutions.

## Consumer Brands

The Consumer Brands Division sells Hügli's own brands such as Heirler, Cenovis, Natur Compagnie, Erntesegen, EDEN or granoVita to health food stores, natural food stores, as well as to the food retail trade. The product line comprises of products manufactured by Hügli within the product groups of soups, sauces, bouillons, seasonings and ready-to-serve meals, as well as a range of merchandise consisting mainly of dairy products, oils and delicatessen articles, mostly of organic quality. The Tellofix and Oscho brands are sold via various distribution channels directly to end customers.

## THE NEW DIVISIONAL SALES AND ORGANISATIONAL STRUCTURE SINCE 2017

On 1 January 2017, an organisational adjustment was initiated with the aim to strengthen cross-national cooperation of sales divisions and production companies in the various countries, accelerate Hügli's geographic expansion and exploit the new product lines' market potential more effectively. This aggregation of know-how also strives to increase process quality and cost efficiency. As a result of this organisational adjustment, the sales divisions are consolidating the European key account business (consumer packs) of Private Label Retail, Brand Solutions and Food Industry. The new Customer Solutions division (share of sales: 35 %–40 %) is headed by Group Executive Management member Jörg Meyer. The sale of semi-finished products (compounds, snack seasonings) to the foodstuff industry will be split off in the Food Ingredients division (share of sales: 5 %–10 %) and headed by Group Executive Management member Endrik Dallmann. Endrik Dallmann also assumes the newly created Group function "Countries&Processes", in which the management and support processes of the production companies should be designed cost-efficient according to the strategic focus. Group Executive Management member and Head of Operations Dirk Balzer will additionally take on the new strategic Group function "New Technology" with the goal to set up a competence centre for product innovations outside the dehydrated products core business.
The Food Service division (share of sales: 35 %–40 %) and the Consumer Brands division (share of sales: 10 %–15 %) remain unchanged in their customer focus, while a closer cooperation with the other divisions for the geographic expansion is planned, as well as with the Group function New Technology. The business operations of the in 2016 acquired company Bresc B. V. will be kept under Others (share of sales: 4 %–5 %) because of the different distribution structure.



# Solid profitability despite lower earnings

- Sales up by +1.8 % to CHF 385 million
- Currency- and acquisition-adjusted sales drop by –2.6 %
- Cyclical key account business depressed
- EBITDA dropped slightly with –2.6 % to CHF 42.8 million
- EBIT margin at 7.4 % below previous year's level (8.1 %)
- Earnings per share fall by –5.7 % to CHF 45.73
- Strong balance sheet despite intensive investment activities
- Solid return on invested capital (ROIC) of 9.6 %
- Unchanged dividend at CHF 16.00 per bearer share proposed
- Outlook 2017: organic sales growth in the range of 0 %–2 %, increase of EBITDA margin

DEAR READERS,

## Market changes and macroeconomics put brakes on growth

While Hügli had generated an average annual organic growth of +3.1 % in the preceding three financial years, the financial year 2016 was marked by macroeconomic uncertainties, heightened competition and changes to distribution structures. Organic sales dropped by –2.6 % based on sales losses relating mostly to the trade goods assortment, and for a lesser part to own products. Owing to slightly higher foreign currency rates (+0.8 %) and an acquisition, Hügli still achieved a sales growth of +1.8 % to CHF 385.2 million. The Group's strategy includes an annual sales increase of 5 % in the medium-term, which in part rests on growth to be achieved by acquisitions of competitors in the consolidated core market, and by strategic round-off acquisitions. As of 1 January 2016, Hügli acquired a majority stake of 80 % in the Dutch Bresc B. V. as part of a succession plan. Bresc has successfully specialised in the production and sale of chilled garlic and herb specialties for the European gastronomy and industry. In 2016, Bresc contributed CHF 13.7 million to Group sales.

## Germany depressed, other segments on the up

In the largest country segment Germany, earnings unexpectedly underwent considerable changes due a sales drop in local currencies by –5.7 % in 2016, after a growth period lasting three years with an average sales increase of +6 % per year. There are numerous reasons for this. On the one hand, fewer promotional tenders from key accounts were won due to the heightened competition, and on the other hand, a number of production orders were actively discontinued because of their unsatisfactory margin. Even though a consistent cost management helped to keep operating costs in 2016 at a only slightly elevated level year-on-year, in spite of salary increases due to collective agreements, EBIT decreased markedly by –26 % to CHF 12.6 million, causing the EBIT margin to drop from 7.3 % in the previous year to 5.6 %.
The country segment Switzerland/Rest of Western Europe recorded an organic sales growth of +1.2 % overall, profiting from the positive development of Granovita Spain, acquired in 2015, and a pleasing sales increase in Italy. Due to the sustained strong Swiss Franc, the largest subsidiary in Switzerland only just managed to maintain its sales level. Hügli UK was faced with smaller order volumes of key account customers that resulted in diminishing sales. Thanks to an under-proportional increase of operating costs in the segment Switzerland/Rest of Western Europe, the EBIT margin, at 9.6 % in the previous year, went further up. Including the newly acquired Group company Bresc, the reported EBIT

Thomas Bodenmann, CEO (left)
and Dr Jean Gérard Villot, Chairman of the
Board of Directors (right)

margin 2016 amounts to 10.1 % overall.
The segment Eastern Europe (Czech Republic, Slovakia, Poland, Hungary) developed outstandingly well owing to a sales growth of +7.3 % in local currencies carried by all divisions and countries. The ensuing improved production capacity uptake led to a pronounced EBIT increase of +30 %. The EBIT margin newly attained 9.4 %.

## Private Label Retail / Consumer Brands declined, Food Industry in upturn

The Private Label Retail division (brands of the retail food trade) lost and actively cut back part of the sales volume it had built up in the previous two years (+14.5 % in 2015 and +10.7 % in 2014) in the course of optimising its product line. The sales decline of –3.2 % in local currencies resulted mainly from the lack of promotional sales in the retail market Germany. The Consumer Brands division sales of Hügli's own organic brands were affected by the slowdown of the natural food market and the rising pressure from competition among meat replacement products. The division recorded an overall sales decline of –9.2 % in 2016, based on the trade goods assortment alone, while sales of own products went up. The insourcing of production of former trade goods assists the division in expanding the value chain and strengthen the quality and profitability of the products. The Food Industry division achieved a very favourable sales development of +5.0 % in the foodstuffs industry. Thanks to a well-filled innovative project pipeline, new orders from large food manufacturers were won. In the Food Service division, the performance of all DACH countries declined, especially Switzerland and Austria, whereas the EAST countries once again developed very well. Overall, the division just maintained the previous year's sales level (–0.2 %).

## Lack of sales depresses earnings, operating costs under control

In 2016, the organic gross margin came to stand slightly above the previous year's figure owing to shifts in the mix (higher share of own products, insourcing of trade goods). On a comparable basis, personnel expenses remained level with the previous year's figure. Due to the newly acquired Group subsidiary alone, the number of staff rose by +4.2 % to 1'496 full-time equivalents as per the end of 2016. The other operating expenses increased owing to growth initiatives and improvement projects, mainly in the areas of production, IT, development and quality management. The reported EBIT thus dropped by –6.4 % to CHF 28.6 million which corresponds to an EBIT margin of 7.4 %. Owing to lower tax expenses, consolidated profits decreased by only –4.6 % to CHF 22.3 million in the financial year 2016. The profit margin amounts to 5.8 % of sales, compared to 6.2 % achieved in the previous year.

## Strong balance sheet despite intensive investment activities

In the past one and a half years, Hügli committed a lot of money and energy to a new plant (mixing plant with high-bay storage) in Radolfzell on Bodensee. We built a cutting-edge production plant for dry blend products in Europe. It will set new standards with regard to automation and quality assurance, and reduce future production costs through an increase in efficiency and the omission of logistics expenditures. The recognition of CHF 33 million for the under construction item in the balance sheet at the end of 2016 confirms that the new plant is a major project and comprises an essential part of Hügli's expenditures for tangible fixed assets in the past two years (CHF 30 million in 2016 and CHF 34 million in 2015). In addition, Hügli made several acquisitions in both years, which drove the cash flow from investment activities overall to a high CHF 39 million in 2016 and CHF 46 million in 2015. In the financial year, the entire investment amount was fortunately covered by the recorded cash flow from operating activities. Net debt rose slightly to CHF 75 million as per the end of 2016. The relevant key figure net debt to EBITDA ratio increased marginally from 1.5x to 1.8x in 2016. Despite the impact of acquired goodwill in equity, the equity ratio maintained its solid level of 53.7 %. The return on invested capital (ROIC) was affected by the lower income and higher invested capital and dropped from 10.8 % to 9.6 % in 2016. Measured against the weighted average cost of capital (WACC) of 7.0 %, we achieved a lower but still solid value added of +2.6 %.

## Outlook 2017

For the financial year 2017, we anticipate that the economic environment will continue to be demanding due for the most part to a stagnant market and heightened competition. Our main objective is to outdo our competitors in meeting the high quality demands of our customers thanks to innovative products manufactured at cutting-edge automated production plants. Maintaining a consistent cost management is essential in all business areas. These measures aim to improve both earnings and free cash flow. In 2017, we expect a moderate organic sales growth of 0 %–2 %, combined with an increase of the EBITDA margin above 11.1 %, the value reported in 2016.

## Unchanged dividend proposed

The Board of Directors will propose an unchanged dividend of CHF 16.00 per bearer share to shareholders at the ordinary General Meeting on 17 May 2017. This corresponds to a payout ratio of 35 % of earnings per share.

Steinach, March 2017

Dr Jean Gérard Villot
Chairman of the Board of Directors

Thomas Bodenmann
CEO, President of the Group Executive Management

# **Many Teams** ••• Divisions and Production

151

m. CHF **Sales**
Division
**Food Service**

77

m. CHF **Sales**
Division
**Private Label**

52

m. CHF **Sales**
Division **Brand Solutions**

34

m. CHF **Sales**
Division **Food Industry**

57

m. CHF **Sales**
Division
**Consumer Brands**

# Division Food Service

## 40’000

**Customers** such as Restaurants/ Hotels/Canteens/ hospitals/ Caterer

## MARKET PRESENCE

under the brands **Hügli, Supro, Tutto Gusto, Vogeley**

## SALES ORGANISA-TION

To **bulk con-sumers** and customers in **gastronomy**

## OWN PRODUCTS

and **trading goods** as completion

### Share of sales 2016

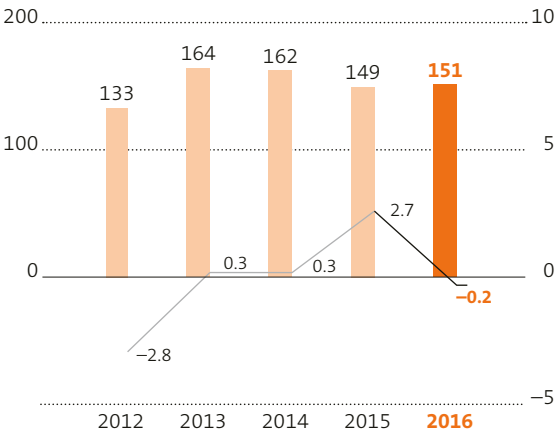
in million CHF

| | |
|---|---|
| Food Service | **151.0** |
| Private Label | 76.8 |
| Brand Solutions | 51.7 |
| Food Industry | 34.1 |
| Consumer Brands | 57.4 |
| Others | 14.2 |

### Development of sales/ organic growth 2012–2016

in million CHF/in %

( ● Development of sales/—organic growth)



THE FOOD SERVICE DIVISION EXCLUSIVELY SERVES THE 'OUT OF HOME' MARKET. OUR CUSTOMER SEGMENTS HERE INCLUDE GASTRONOMY, CANTEENS, HOSPITALS, INSTITUTES AND INSTITUTIONS, CATERERS, THE ARMED FORCES AND OTHERS. IN ADDITION TO OUR CORE PRODUCT LINES OF SAUCES, BOUILLONS AND SOUPS, WE ALSO OFFER OUR CUSTOMERS ADDITIONAL PRODUCTS FROM OUR OWN PRODUCTION INCLUDING DESSERTS, BASIC PRODUCTS, DRESSINGS AND ITALIAN SPECIALITIES. WE HAVE ALSO STRENGTHENED OUR PRODUCT PORTFOLIO IN THE VARIOUS COUNTRIES WITH SELECTED EXCLUSIVE AND COMMERCIAL PRODUCT RANGES.

**Manfred Jablowski**
Head of Food Service/
Member of the Group
Executive Management

## Stable growth despite a weak market

The food service market in Europe has changed perceptibly over the past few years, and poses us with new challenges each year. These challenges have included, for example, cost pressure in the institutions, new statutory regulations, and changed nutritional behaviour – which have resulted in our core ranges slumping in all of the countries we serve. We recorded stable growth on the whole in 2016 in the face of falling markets, however we also recorded growth in some areas. Our expectations were not met in the DACH region. We have started to adjust our customer group in Germany, and have parted company with non-profitable sales. As a result we have substantially improved our gross margin. We were not able to reach our targets in Switzerland, as the gastronomy business, which also depends on tourism, is continuing to suffer as a result of the Swiss Frank being overly expensive. Growth in Austria was positive, but was dampened by the loss of a key account.

Our sales increased in all of the EAST countries (Czech Republic, Slovakia, Hungary and Poland) by a high single-digit percentage, and have thus exceeded our forecasts substantially. These results are based on successful activities in our key account business, and also to the fact that our field sales teams have made a major contribution to our successful business.

We also recorded similar growth in our ITEX cluster (Italy and Export). Here too, thanks to our export customers, we succeeded in recording results that were significantly higher than budget, and we also improved our profitability.

## Growth potential for the future

Key growth drivers are new product ranges and additional customers. Our projects are geared to both of these two areas. In particular, we also believe that there is significant potential for the future in our activities with Ready to Eat products, which also recorded above average growth rates in 2016 – and we expect this potential to be realised in all of the countries we serve. The Hügli Group has created corresponding production capacity, so that we can further drive this category with our customers, and in particular also penetrate new customer groups with these products. We believe that developing new markets will offer additional potential for growth. In addition, we believe that our strong customer orientation and our high level of flexibility are clear competitive advantages and that these will drive our new customer acquisitions and also future growth.

# Division Private Label

**76.8**

M. CHF **sales** in 2016

**IN 33**

**countries** Hügli private label products are **present**

**700**

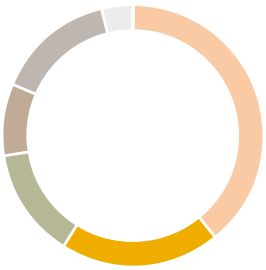
**products tailored to customers** are distributed by the Private Label division

**1 CLEAR TASK**

We want to **solve** the **problems** of our customers

## Share of sales 2016

in million CHF



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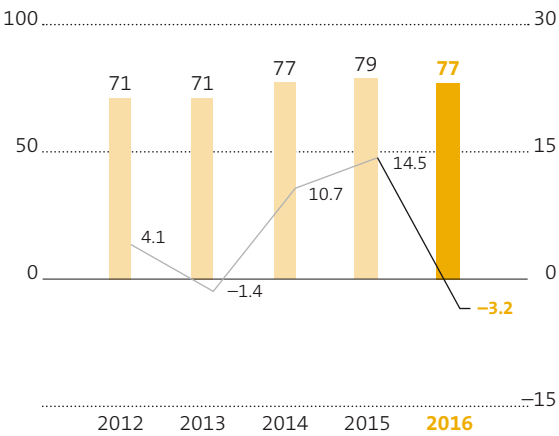


OUR PRIVATE LABEL DIVISION SUPPLIES RETAIL ORGANISATIONS THROUGHOUT EUROPE. IN THIS REGARD, WE INITIALLY DEVELOP A CUSTOMISED PRODUCT RANGE IN LINE WITH THE PRIVATE LABEL CUSTOMER'S SPECIFIC COMPETITIVE SITUATION AND HIS STRATEGIC ORIENTATION. TO DO SO WE USE OUR DEVELOPMENT EXPERTISE, OUR END-TO-END KNOWLEDGE OF THE MARKET AND OUR IN-DEPTH UNDERSTANDING OF THE MARKET. THE PRIVATE LABEL DIVISION USES THE HÜGLI GROUP'S EXTENSIVE EXPERTISE IN DRIED PRODUCTS TO CREATE INDIVIDUAL SOLUTIONS IN THE LARGER SEGMENTS SUCH AS SOUPS, SAUCES, BOUILLONS, MIXES AND OVEN-READY MEALS. IN ADDITION, THE PRIVATE LABEL DIVISION HAS ALSO BECOME ESTABLISHED IN THE WET PRODUCTS SECTOR, AND SAUCES IN PARTICULAR, AS A FLEXIBLE AND RELIABLE PARTNER FOR THE EUROPEAN RETAIL TRADE, AND NOW SUPPLIES CUSTOMERS THROUGHOUT EUROPE, FROM SWEDEN TO BULGARIA.

**Jörg Meyer**
Head of Private Label/
Member of the Group
Executive Management

## Controlled downturn in revenues

After two high-growth years in its traditional markets thanks to the changed competitive environment, most recently with growth of +14.5 % in 2016, the Private Label division has obtained a very dominant position. As a result, various competitors had to reinforce their activities on these markets while some customers in turn started to look for potential alternatives in order to avoid dependencies. This meant that it was not possible to maintain all of our business given this environment, which led to a slight downturn in revenues of –3.2 %. It is pleasing to note that we were able to maintain all of our strategic business, which means that losses were steered into areas where these to not put attaining our long-term objectives at risk. Even if it was not totally possible to maintain our extraordinary position, in Germany in particular, we were able to significantly expand our positions on the high-growth markets in the UK and Eastern Europe – with sales up substantially in Eastern Europe and also higher in the UK.

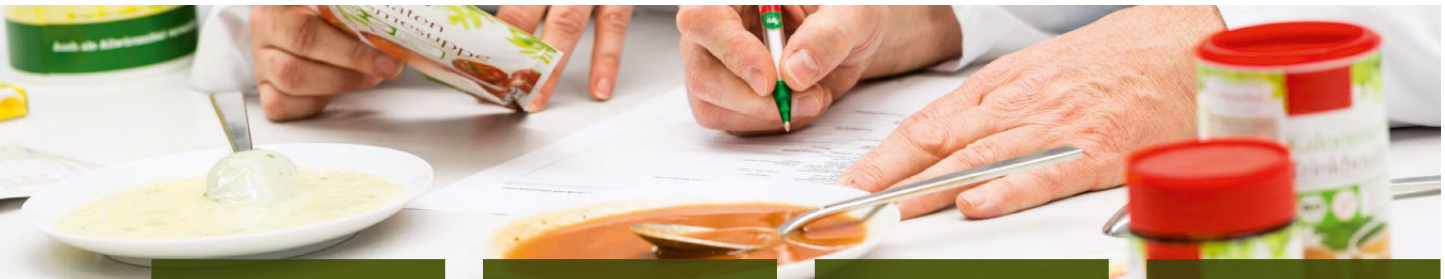
## Income level continues to be a top priority

Our income level has improved over the past few years, and it did not suffer from the increased competition. The market is extremely price-sensitive, and it was possible to increase the relevant KPIs once again at all levels.

## Perspective: Continued implementation of our strategic orientation

The division has almost completely exploited the existing potential on its traditional markets and segments in particular in Germany. This is made more difficult by the fact that these markets are tending to fall as a result of changing consumer behaviour. As a result, this division has already started to establish a presence on new markets, and also in new product categories. New areas of business will also be approached, over and above our now well-established business with pasta sauces. New options, such as the production of spreadable sandwich toppings in jars will also play a key role, as will the use of existing expertise for Health & Nutrition products. The new organisational structure as of 1 January 2017 will offer the conditions required in this regard. In this new structure, the key account business in the Brand Solutions, Food Industry and Private Label Retail will be brought together under uniform management. >> see page 7/new sales structure

# Division Brand Solutions



MARKET PRESENCE

mainly acting in the countries **Switzerland, Germany** and the **UK**

51.7

M. CHF **sales** in 2016

CONTRIBUTION TO GROWTH

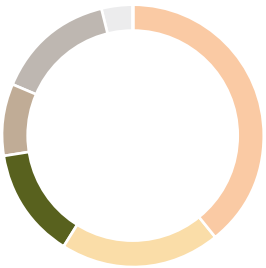
dynamic growth in the **ORGANIC** and **HEALTH & NUTRITION** sector

CUSTOMISED SOLUTIONS

extensive **portfolio of services**, customised solutions

**Share of sales 2016**

in million CHF

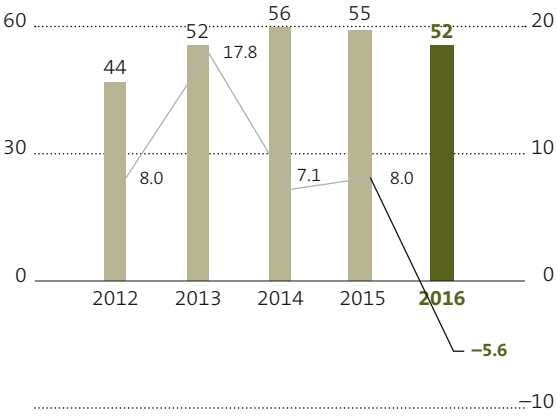


| | |
|---|---|
| Food Service | 151.0 |
| Private Label | 76.8 |
| Brand Solutions | **51.7** |
| Food Industry | 34.1 |
| Consumer Brands | 57.4 |
| Others | 14.2 |

**Development of sales/ organic growth 2012–2016**

in million CHF/in %

( ● Development of sales/—organic growth)



BRAND SOLUTIONS – THE DIVISION FOR SALES AND MARKETING COMPANIES. WE OFFER AN EXTENSIVE PORTFOLIO OF SERVICES FOR BRAND OWNERS WITHOUT THEIR OWN PRODUCTION – FROM ADVICE ON NEW PRODUCT LINES, THROUGH TO PRODUCT DEVELOPMENT, SUPPORT IN PACKAGE DESIGN, THROUGH TO THE FINISHED PRODUCT AND THE DESIRED MARKETING SUPPORT. TAILORED TO THE CUSTOMER'S NEEDS. WE OFFER THESE SERVICES IN ALL OF HÜGLI'S PRODUCT CATEGORIES AND IN THE SALES SEGMENTS WEIGHT MANAGEMENT, BALANCED NUTRITION AND SPORTS NUTRITION ("HEALTH & NUTRITION"), CONVENTIONAL PRODUCTS ("CLASSIC") AND ORGANICALLY GROWN PRODUCTS ("ORGANIC").

**Endrik Dallmann**
Head of Brand Solutions and Food Industry/ Member of the Group Executive Management

## Organic sales downturn

After four consecutive years of growth the Brand Solutions division had to record an organic sales downturn of –5.6 % in 2016. The level of sales on the continent was kept practically constant, however this downturn was mostly due to customers in the United Kingdom. There were several contributing factors in this regard, including a significant migration in UK end consumers preferences as a result of nutrition-related reporting in the British press.

## ORGANIC European market leader

In the ORGANIC segment we are the European market leader for innovative development and production for our dried, organic-quality products, together with the Consumer Brands division. We have unique expertise in this segment and close alliances with the most important European brands.

## New product range for HEALTH & NUTRITION

The Health & Nutrition segment contributed to the reduced sales in the United Kingdom in 2016, however we were able to continue this product group's successful growth in Germany. Our growing portfolio of projects means that we can take an optimistic view of the future with this key, high-growth world of products.

## Back on track for growth as part of the new Customer Solutions division.

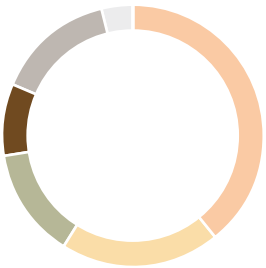
Both the market for organic foods and also for Health & Nutrition products will continue to grow faster than the overall market. For this reason from 2017 Hügli Group will bundle its comprehensive know-how for all sales channels focusted to the end consumers in the new Customer Solutions division.

>> see page 7/new sales structure

# Division Food Industry


**Share of sales 2016**

in million CHF

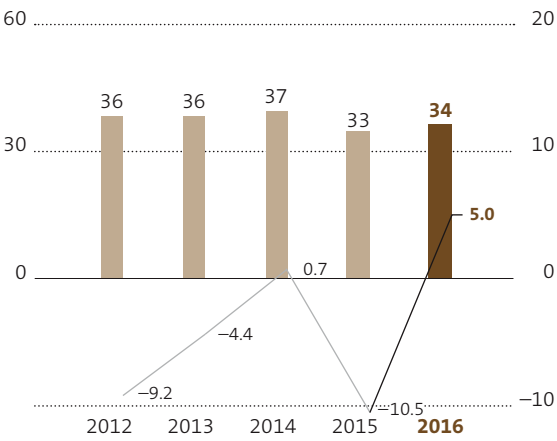


| | |
|---|---|
| Food Service | 151.0 |
| Private Label | 76.8 |
| Brand Solutions | 51.7 |
| Food Industry | **34.1** |
| Consumer Brands | 57.4 |
| Others | 14.2 |

**Development of sales/ organic growth 2012–2016**

in million CHF/in %

( ● Development of sales/—organic growth)



CUSTOMERS IN THE FOOD INDUSTRY DIVISION ARE GLOBAL GROUPS IN THE FOODSTUFFS INDUSTRY AS WELL AS SMALL AND MEDIUM-SIZED MANUFACTURERS IN OUR INDUSTRIES. THEY BUY CUSTOMISED SERVICES FROM HÜGLI IN THE FORM OF CONSUMER PACKS USING THEIR BRANDS FOR THE RETAIL SEGMENT IN THE PRODUCT CATEGORIES SOUPS, SAUCES, BOUILLONS, CONVENIENCE FOODS, DESSERTS, DRESSINGS, TOMATO SAUCES AND HEALTH & NUTRITION. IN ADDITION WE SUPPLY OUR CUSTOMERS WITH TOP-QUALITY FLAVORINGS FOR FURTHER PROCESSING (INGREDIENTS) AND WE ARE A RELIABLE PARTNER FOR OUTSOURCED MIXING SERVICES.

**Endrik Dallmann**
Head of Brand Solutions and Food Industry/ Member of the Group Executive Management

## Turnaround in 2016

The Food Industry division turned around in 2016 and grew by +5.0 % in national currencies. The Food Industry division grew in Germany in particular.

The previous year's growth continued in the product groups offered, and in particular the segments Snack Seasonings – flavouring mixes for the European snack industry – and the Consumer Packs Food (in which we produce end consumer packs for industrial customers using our customers brands) enjoyed substantial growth.

Our customers also benefit from the Hügli Group's broad experience in the Ingredients segment. We ourselves use many types of ingredients which we supply – and that is why we always know what we are talking about. In the Snacks segment, the largest growth trend in Europe is currently Healthy Snacks – here too we can quickly and competently provide innovative product ideas with our seasonings thanks to our Health & Nutrition expetise.

## An even greater focus on essential issues

Breaking this division down into its fundamentally different product groups will allow us to focus even more strongly on individual customer needs in future. The Consumer Packs segment will be integrated into the new Customer Solutions division, and the entire ingredients range will be continued in the new Food Ingredients division. We will support these industrial customers in future with a team of specialists, which can focus entirely on the needs of the processing industry. The most modern blending plant in Europe at our Radolfzell facility which went live in March 2017 and our great innovational strength, for example in the Snack Seasonings segment, mean that we are excellently positioned for future growth in the Food Ingredients division.

>> see page 7/new sales structure

# Division Consumer Brands

**57.4**

M. CHF **sales** in 2016

**BRANDS**

**EDEN, granoVita, Natur Compagnie, Heirler, Cenovis, Erntesegen, Tellofix** and **Oscho**

**MARKETS**

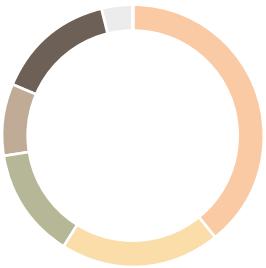
**natural food stores**, **organic food stores**, **retail trade organisations**, direct sales

**ANSWERS TO NUTRITION TRENDS**

**"Free From"** products, substitutes to meat products, mostly of **organic quality**

## Share of sales 2016

in million CHF

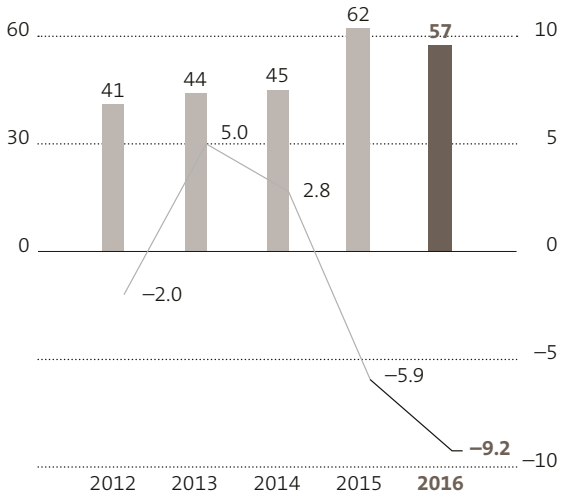


| | |
|---|---|
| Food Service | 151.0 |
| Private Label | 76.8 |
| Brand Solutions | 51.7 |
| Food Industry | 34.1 |
| Consumer Brands | **57.4** |
| Ohters | 14.2 |

## Development of sales/ organic growth 2012–2016

in million CHF/in %

( ● Development of sales/—organic growth)



THE CONSUMER BRANDS DIVISION SELLS OUR END-CONSUMER BRANDS VIA VARIOUS SALES CHANNELS IN EUROPE, FOCUSING ON GERMANY. WE MOSTLY SERVE THE SPECIALIST TRADE SEGMENT WITH BRANDS SUCH AS EDEN AND GRANOVITA IN THE REFORMHAUS CHAIN, AND ERNTESEGEN AND NATUR COMPAGNIE IN ORGANIC STORES. WE ARE ALSO INCREASINGLY DISTRIBUTING OUR PRODUCTS IN TRADITIONAL GROCERY STORES, FOR EXAMPLE WITH OUR HEIRLER AND CENOVIS BRANDS. THE TELLOFIX AND OSCHO BRANDS HOLD A SPECIAL POSITION – THESE ARE MOSTLY OFFERED VIA DIRECT-SALES MERCHANTS AND ALSO VIA MAIL ORDER.

**Frank von Glan**
Head of Consumer Brands/Member of the Group Executive Management

## Difficult fiscal year and market transitions

The Consumer Brands division had to record a –9.2 % downturn in sales during the fiscal year. These difficulties can be explained in particular from a product group perspective: We are loosing out significantly with meat replacement products and traded goods. In contrast, our regular business with dry blend products remains stable. We can see that consumers for meat replacement products are clearly moving away from the specialist trade (organic food and health stores "Reformhaus") and migrating retail stores. Retail brands are growing, driven by TV advertising and appealing to so-called "flexitarians". The retail trade has very quickly grasped hold of the vegan/vegetarian trend – thus making it unnecessary for consumers to make a seperate shopping trip to specialist stores in order to meet their needs. In addition, our new recipe strategy under the Heirler brand did not bring about the desired result. As a result, we will launch a new, revised range with a significantly improved taste under the EDEN brand, and in "vegetarian and organic" quality. As was also the case in the previous year, we delisted various traded goods articles with low sales figures. Our aim is to focus on a coordinated, profitable product range.

## Dynamic market growth

The organic market grew by +13 % in Europe in 2015 and in 2016 key countries also reported substantial growth. The pace of growth on the German market, which is key for Hügli, is moving towards retail stores (+15 %), whereas specialist organic stores only grew by +5 %. Revenues of "Reformhaus", where we have a high market share, is – at best – stagnating. The migration of the vegan trend to retail stores can be felt here. The successful expansion of organic retail brands, in particular "dm-bio" and "Alnatura" are impacting the specialist trade. Our revenues develop in line with channel developments: Brands with a strong presence in the Reformhaus chain (Heirler, Eden and Granovita) report a much weaker performance. In contrast our organic store brand "Natur Compagnie" is enjoying pleasing growth. We will continue to reduce our dependence on the German Reformhaus chain by distributing our products using other channels. Our sales companies granoVita UK and Spain are benefiting from the positive markets in these countries. Exports from Germany could also grow.

## Mixed outlook

We are starting 2017 optimistically thanks to our large number of innovative new products that we will launch in 2017 and the new listings in retail stores that we have already achieved. However the turnaround for meat replacement products and traded goods is only expected for the second half of the year, which means that this division's revenue will fall again slightly over the year as a whole.

# State-of-the-art blending technology

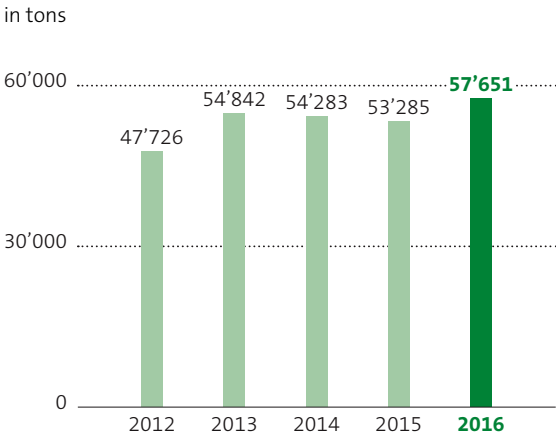
**Dirk Balzer**
Head of Operations/
Member of the Group
Executive
Management

ULTIMATE PRODUCTION EFFICIENCY AND STATE-OF-THE-ART EQUIPMENT ARE KEY PILLARS FOR HÜGLI'S SUCCESSFUL GROWTH, AND THEY ALSO SUPPORT OUR CLAIM TO BE ONE OF THE LEADING EUROPEAN FOOD MANUFACTURERS. AFTER ALMOST 100 YEARS IN "WERK 1" (PLANT 1) IN RADOLFZELL, WHICH HAS BEEN CONSTANTLY EXPANDED OVER THE YEARS, WE ARE NOW DISCONTINUING PRODUCTION IN THE OLDEST SUB-SECTION AND ARE RELOCATING THE HEART OF OUR PRODUCTION IN RADOLFZELL. THE NEW STRATEGIC DEPARTMENT "NEW TECHNOLOGY" AIMS TO DRIVE THE ESTABLISHMENT OF A CENTER OF COMPETENCE FOR PRODUCT INNOVATIONS OUTSIDE THE TRADITIONAL DRY PRODUCTS BUSINESS.

## Putting into operations new blending plant

The new blending plant went live in Radolfzell in March 2017, including a connected high-bay warehouse. This plant was built in just one and a half years and we have created one of the most modern dry mixing factories in Europe – and this meets the Hügli's requirements for ultimate efficiency and the very best equipment thanks to its automation and quality assurance. Combining the warehouse, blending plant and packaging plant will lead to substantial efficiency gains and offer significant savings as transports within the town will no longer be required. Later, additional production lines from Werk 1 Güttinger Strasse will also be transferred, with the result that the existing aroma and preliminary stage production can be modernised.

**Tons sold 2012–2016**




## Realigned the organisational structure

In addition, we have realigned our organisational structure as of 1 January 2017 to allow us to process our new technologies in a target-oriented manner. We now manage product developments for our plants for vegetarian and vegan replacement products and liquid products ("New Technology") centrally, however with separate application departments in the plants. This structure is supported by our Business Unit "New Technology". This business unit's tasks include supporting the plants, and in particular market and competition analysis in this area. We believe that this will result in faster and more target-oriented development of new product range concepts and products for all of our divisions and that this will also distinguish us from the competition to a greater extent. We have organized our smaller plants as "lean sites", with only the absolute essentials in terms of their structures, thus combating the cost disadvantages posed by smaller units. In so doing, we aim to maintain the advantage of having local branches in our distribution countries. We have aligned our programs to increase efficiency to the respective size of the plants, and these have now been implemented in all of our production facilities. In the coming years, in addition to increasing automation, these will lead to greater productivity

29.6

M. CHF **INVESTMENTS** IN A MODERN AND COMPETITIVE MACHINERY IN ALL SITES.

57’651

**TONS** OF TOP-QUALITY **FOOD** PRODUCED AND SOLD.

**NEW TECHNOLOGY**

BUNDLING DEVELOPMENT RESOURCES FOR **NEW TECHNOLOGY**. EXPANDED TECHNOLOGY IN **“LIQUID AND MEAT SUBSTITUTE”.**

# Business development of the Segments

## SEGMENT GERMANY

The Germany segment comprises the Group's largest production site in Radolfzell with Plants 1 and 2, the production location Neuburg an der Kammel and its facility in Ulm.

>> see page 66/Segment Reporting

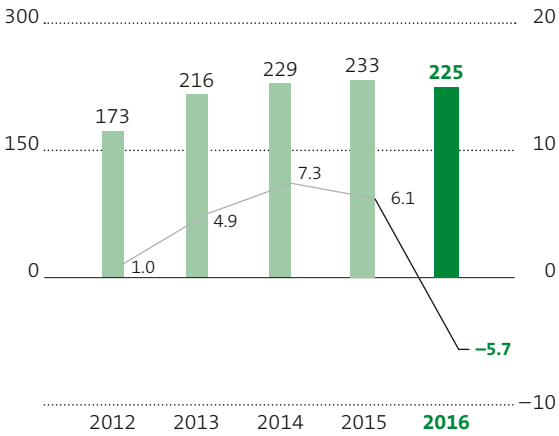
### Business Development Germany

| | Unit | 2016 | 2015 | Variance in % |
|---|---|---|---|---|
| Sales | m. CHF | 224.7 | 233.4 | –3.7 |
| EBIT | m. CHF | 12.6 | 17.1 | –26.2 |
| EBIT margin | % | 5.6 | 7.3 | |
| Number of employees (full-time positions) | FTE | 733 | 747 | –1.9 |
| Investments | m. CHF | 23.8 | 22.8 | 4.7 |

**Development of sales/ organic growth 2012–2016**

in million CHF/in %

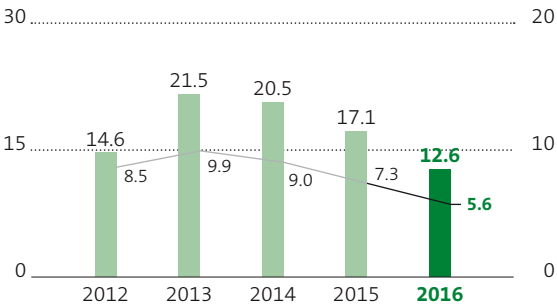
( ● Development of sales/—organic growth)




**EBIT/EBIT margin 2012–2016**

in million CHF/in %

( ● EBIT/—EBIT margin)




Radolfzell produces products for all five divisions. The focus is on large-series production of soups, sauces and instant meals in small packages for the Private Label division. This requires a highly efficient and automated production, which is accomplished with similarly qualified staff and ultra-modern factory equipment. The facility in Neuburg an der Kammel specialises in filling cans. The plant in Ulm produces top-quality meat replacement products.

## Completion of major project

The downturn in revenues in the sales divisions Consumer Brands and Private Label meant that the Germany segment hat to accept an organic sales downturn of –5.7% after pleasing growth in the previous year. The EBIT margin fell from 7.3% to 5.6%. The number of employees fell slightly to 733 FTEs as of the balance sheet date.

The new blending plant went live in Radolfzell in March 2017, including a connected high-bay warehouse. This plant was built in just one and a half years and we have created one of the most modern dry blending factories in Europe – and this meets the Hügli's requirements for ultimate efficiency and the very best equipment thanks to its automation and hygiene. Combining the warehouse, blending plant and packaging plant will lead to substantial efficiency gains and offer significant savings as transports within the town will no longer be required. Capital expenditure thus reached a new high in 2017 at CHF 23.8 million.

# SEGMENT SWITZERLAND/REST OF WESTERN EUROPE

The Switzerland/Rest of Western Europe segment groups together the six countries of Switzerland, Austria, Italy, UK, Spain and the Netherlands. >> see page 66/Segment Reporting

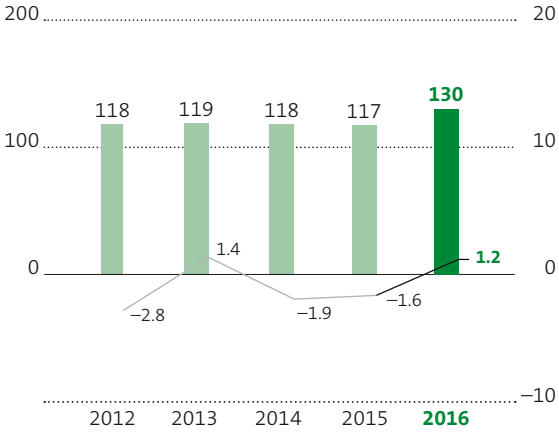
## Business Development Switzerland/Rest of Western Europe

| | | 2016 | 2015 | Variance |
|---|---|---|---|---|
| | Unit | | | in % |
| Sales | m. CHF | 130.1 | 117.2 | 11.0 |
| EBIT | m. CHF | 13.2 | 11.3 | 16.4 |
| EBIT margin | % | 10.1 | 9.6 | |
| Number of employees (full-time positions) | FTE | 497 | 424 | 17.2 |
| Investments | m. CHF | 5.1 | 8.3 | –38.7 |

**Development of sales/ organic growth 2012–2016**

in million CHF/in %

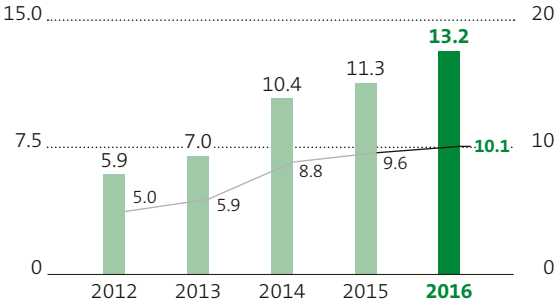
( ● Development of sales/—organic growth)




**EBIT/EBIT margin 2012–2016**

in million CHF/in %

( ● EBIT/—EBIT margin)




## Switzerland production site

The production site in Steinach has specialised in small and medium-sized series production as well as the production of "customised" dry blended products. In addition to dry products, the production site in St. Gallen is a state-of-the-art facility for the production of liquid salad dressings and dip sauces. Hügli Switzerland has been well known for many years as a reliable partner for the production of organic products for other group companies. The constant demand means that the quantities produced have been kept constant year-on-year. In addition, extensive investments were made in "New Technology" in financial year 2016. Efficient production, excellent capacity up take and also consistent cost management mean that this location was able to maintain its excellent operating results.

## Italy production site

Our facility in Northern Italy produces mostly tomato-based liquid pasta sauces in jars and liquid soups, which are mainly sold in the Private Label, Brand Solutions, and Food Service divisions, as well as Italian specialties (grilled vegetables, artichokes and mushrooms in oil), which in turn are sold in all countries, mainly in our Food Service division. The extension to the product range means that we have once again significantly increased the quantities we produce, and coupled with our lean organisation in this location this has lead to excellent results. In terms of capital expenditure, we should note the extension to a filling plant for pouch packs. This has allowed us to offer liquid products in large containers using waste-reducing aluminium pouches for the gastronomy sector for the first time.
This highly efficient and fully automated filling plant, together with our culinary competence, offers excellent conditions to further reinforce our position on the market in this product segment.

### United Kingdom production site

Our production site in Redditch specialises in the manufacturing of blended dried-food products in the area of "health and nutrition", namely for balanced nutrition, sports nutrition and weight management. We cover a broad range of production-related services, making our site a proven and approved partner for the foodstuffs industry. Despite a higher number of tons produced, we were not able to maintain our revenue level year-on-year.

### Spanish production site

The production location in La Vall d'Uixó to the north of Valencia which was acquired in 2015 specialises in yeast-based sandwich spreads (patés). It supplies both customers and also the Granovita organisations in Germany and the UK.

### Netherlands production site

We added a new production location in The Netherlands when we acquired Bresc B. V. in financial year 2016. Bresc specialises in chilled fresh garlic and herb products and is geared to the European gastronomy market. The product range includes garlic and herb purees through to authentic herb mixes and Ready to Use products.

## SEGMENT EASTERN EUROPE

In Eastern Europe, Hügli East caters for the Food Service and Private Label markets in the Czech Republic, Poland, Slovakia and Hungary. Production in Eastern Europe is performed at the Czech facility in Zásmuky, which supplies the group's three own sales subsidiaries and also export markets.

>> see page 66/Segment Reporting

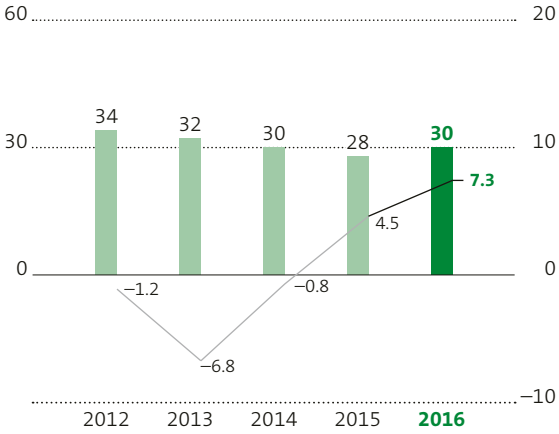
### Business Development Eastern Europe

| | | 2016 | 2015 | Variance |
|---|---|---|---|---|
| | Unit | | | in % |
| Sales | m. CHF | 30.3 | 27.7 | 9.3 |
| EBIT | m. CHF | 2.8 | 2.2 | 29.8 |
| EBIT margin | % | 9.4 | 7.9 | |
| Number of employees (full-time positions) | FTE | 266 | 265 | 0.0 |
| Investments | m. CHF | 0.7 | 3.0 | –76.0 |

**Development of sales/ organic growth 2012–2016**

in million CHF/in %

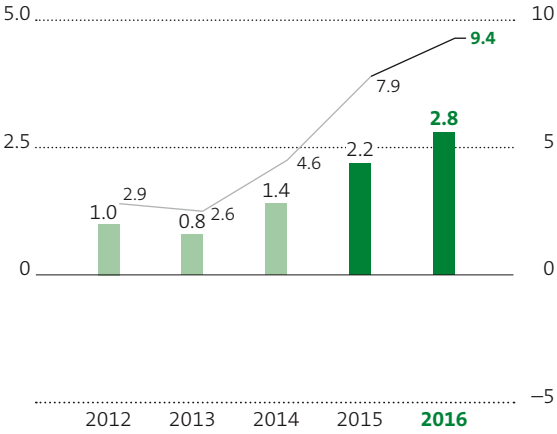
( ● Development of sales/—organic growth)




**EBIT/EBIT margin 2012–2016**

in million CHF/in %

( ● EBIT/—EBIT margin)




## Efficient production location

The pleasing growth for both of the sales divisions active in Eastern Europe, Food Service and Private Label, meant that the entire segment enjoyed 7.3% revenue growth. Structures have been simplified and more efficiently organised in the past few years, and capacity uptake was improved. As a result, EBIT has been increased throughout this entire segment from CHF 2.2 million in the previous year to CHF 2.8 million. The EBIT margin improved again from 7.9% to 9.4% in the current year. The number of FTEs remained practically unchanged year-on-year at 266. Capital expenditure totaled CHF 0.7 million in 2016, and this was mostly for replacement investments after a larger investment in expansion was made in Zásmuky in the previous year.

The site is in top shape with regard to productivity and efficiency. Going forward, it will play an even bigger role in large-series production.

# Corporate Governance

HÜGLI ATTACHES GREAT VALUE TO MAINTAINING A GOOD AND RESPONSIBLE CORPORATE GOVERNANCE. THE GROUP ACKNOWLEDGES ITS ECONOMIC AND SOCIAL RESPONSIBILITY. HIGH TRANSPARENCY CONTRIBUTES TO STRENGTHENING THE STAKEHOLDERS' – SHAREHOLDERS, INVESTORS, STAFF AND BUSINESS PARTNERS – TRUST IN THE COMPANY AND ITS MANAGEMENT. OUR CORPORATE GOVERNANCE RESTS ON CLEARLY LAID OUT STRUCTURES, PRECISELY ALLOCATED AREAS OF RESPONSIBILITY, EFFICIENT DECISION PROCESSES AND APPROPRIATE CONTROL ROUTINES.

The following report is in line with the Corporate Governance Directive of SIX Swiss Exchange. If not mentioned differently, the information reflects the situation on 31 December 2016.
The Compensation Report can be found in a separate chapter on pages 42 to 49.

## 1. GROUP STRUCTURE AND SHAREHOLDERS

### Group Structure

The Hügli Group consists of one single business unit with a uniform strategy defined by the Board of Directors that focuses on the development, production and distribution of Hügli's core product line (soups, sauces, bouillons and further dry blended products). The management of all Group subsidiaries is centralised and performed by the Board of Directors and the CEO based on the designated Group strategy. Group Executive Management chaired by the CEO makes all relevant decisions. The segmentation is based on the geographic responsibilities relating to production sites and their associated distribution companies. The country segment Germany covers all associated German companies, the country segment Switzerland/Rest of Western Europe includes the companies in Switzerland, Austria, United Kingdom, Italy, Spain and the Netherlands, and the country segment Eastern Europe comprises the companies in Czech Republic, Slovakia, Poland and Hungary. >> see page 104/Group companies

In addition, cross-national sales organisations/divisions were created, reflecting the customer segments of the Hügli Group. These sales divisions mainly focus on customer needs and are responsible for a dynamic sales development as well as the optimal organisation in the area of marketing and sales. With regard to this area, the Hügli Group has adopted a matrix organisation. The Food Service division covers the "Out of Home Market" with sales to hotels, restaurants, institutions such as corporate canteens, hospitals, residential homes and other caterers. The Private Label Retail division supplies big European retail trade organisations, primarily discounters and consumer markets with products sold under their own labels. The Brand Solutions division produces for customers with own marketing and sales organisations consumer packages under their own brands. The Food Industry division specialises in the sale of semi-finished and finished products to the European food industry. The Consumer Brands division sells Hügli's own brands, predominantly in organic quality, to health food stores, natural food as well a to the food retail trade.

The only listed company in the scope of consolidation is Hügli Holding AG, 9323 Steinach, Switzerland. Its bearer shares are listed on the SIX Swiss Exchange in Zurich (security no. 464795). On 31 December 2016, the closing price for the Hügli bearer share was CHF 765, corresponding to a market capitalisation of CHF 371 million. Of this total, CHF 214 million are represented by the stock capitalisation of the listed bearer shares and CHF 157 million by unlisted registered shares.

**Major Shareholders**

- Dr A. Stoffel Holding AG/Dr A. Stoffel, 9320 Arbon, Switzerland:
  40'131 bearer shares with a par value of CHF 1.00 each (14.3 % of bearer share capital)/ 410'000 registered shares with a par value of CHF 0.50 each (100 % of the registered share capital)/65.2 % of the voting rights, equivalent to 50.5 % of the share capital
- Hügli Holding AG, CH-9323 Steinach, Switzerland (own shares):
  1'569 bearer shares with a par value of CHF 1.00 each (0.6 % of bearer share capital)/0.3 % of voting rights, equivalent to 0.4 % of the share capital
- Free Float:
  238'300 bearer shares with a par value of CHF 1.00 each (85.1 % of bearer share capital)/34.5 % of voting rights, equivalent to 49.1 % of the share capital

**Cross-Shareholdings**

There are no cross-shareholdings.

## 2. SHARE CAPITAL STRUCTURE

The share capital is divided into:

| **Share capital** | **2016** |
|---|---|
| in CHF | |
| 280'000 bearer shares with a par value of CHF 1.00 each (listed) | 280'000 |
| 410'000 registered shares with a par value of CHF 0.50 each (not listed) | 205'000 |
| **Total share capital** | **485'000** |

Each share grants one vote at the Annual General Meeting of shareholders. The dividend entitlement of all the registered and bearer shares is calculated in proportion to their par value. There is no conditional or approved capital and there are no certificates of profit participation or of dividend rights. There are no limitations on transferability and no special provisions relating to nominee entries. There are no convertible loans and no options on shareholding rights outstanding at present.

Development of shareholders' equity of Hügli Holding AG in the last three financial years:

| in CHF | Change in % | 31.12.2016 | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| Share capital | 0 | 485'000 | 485'000 | 485'000 |
| Reserves | 14.7 | 156'100'000 | 136'100'000 | 121'100'000 |
| Retained earnings | –12.1 | 35'329'088 | 40'182'290 | 39'122'806 |
| Own shares | 44.8 | –798'914 | –1'447'617 | –2'061'187 |
| **Total equity** | **9.0** | **191'115'175** | **175'319'673** | **158'646'619** |

## 3. BOARD OF DIRECTORS

### Members of the Board of Directors

**Dr Jean Gérard Villot**
born 1952, a French national, Chairman of the Board of Directors since 2011. He was elected to the Board of Directors of Hügli Holding AG at the General Meeting in May 2002. From 2003 until 2010, he was Vice President of the Board as well as CEO and Chairman of the Group Executive Management. Apart from his function as Chairman of the Board of Directors, Jean Villot is responsible for the coordination of investments within the Hügli Group as well as for acquisitions. He completed a doctorate at the University of Strasbourg and after holding various positions in the industry, he worked as a management consultant, most recently as director of corporate consulting and member of executive management of Prognos AG, Basel. He joined Hügli in 1990 and was in charge of Hügli Switzerland until 1996, after which he was responsible for Hügli Germany until the end of 2002.

**Dr Andreas Binder**
born 1957, Swiss national, member of the Board of Directors since May 2015. Dr Andreas Binder has been a practicing attorney at law and partner in the corporate and business law firm Binder Rechtsanwälte in Baden since 1992. He is member of the Board of Directors of several industrial and financial companies. He is among others Vice President of the Board of Directors of Neue Aargauer Bank Ltd., Aarau, Chairman of the Board of Directors of the Cura Group, Laufenburg and SwissMedia-Forum AG, Baden. He has been a honorary professor of debt and corporate law since 2004, and director of the Corporate Governance Competence Center at the University of St. Gallen's Research Institute for International Management since 2013. After graduating from the University of St. Gallen (lic. oec. and lic. iur.), Dr Andreas Binder was admitted as barrister-at-law of the Canton Aargau and acquired a doctorate (Dr. iur.) from the University of Basel.

**Dr Ida Hardegger**
born 1957, a Swiss national, member of the Board of Directors for Hügli Holding AG since 2012. After acquiring the teaching diploma and studying at the University of St. Gallen, she worked as a personal assistant for former Federal Councillor Dr Kurt Furgler. Subsequently she became General Legal Counsel of NUEVA Group before joining the Executive Management of both Denner AG and Denner Group and assuming the position of Head of Marketing. After taking on responsibility for several projects abroad, she was appointed CEO of Orell Füssli Book Publishing Group, worked in the Group management of OF Holding and in the Executive Management of Valora Group. She has been self-employed since 2006. She has graduated from the Law School at the University of St. Gallen (Dr iur. HSG), is a lawyer and has attended courses of further education at, among other institutions, INSEAD at Fontainebleau and at Columbia University. She is a member of the Administration of Genossenschaft Migros Zürich, of the Board of Directors of Alfred Müller Group, Baar, as well as other not listed companies (SME) in Switzerland.

**Dr Christoph Lechner**
born 1967, a German and Swiss national, member of the Board of Directors of Hügli Holding AG since 2001. After his degree in national economy (USA) and business administration (Germany), he received his doctorate and professorship in economics at the University of St. Gallen. Between 1987 and 1995, he worked in various functions for Deutsche Bank Group. He was Guest professor at the University of Connecticut (USA) in 2002/2003 and the Wharton School at the University of Pennsylvania. Since 2004, he has been a professor for Strategic Management at the University of St. Gallen as well as Chairman of the Directorate of its Institute of Business Administration (IfB). He is a member of the Board of Directors of Helvetia Holding AG.

Dr Jean Gérard Villot

Dr Andreas Binder

Dr Ida Hardegger

Dr Christoph Lechner

Dr Ernst Lienhard

Dr Alexander Stoffel

**Dr Ernst Lienhard**
born 1946, a Swiss national, member of the Board of Directors for Hügli Holding AG since 2001. He completed his studies at the University of St. Gallen in 1976 with a doctorate in economics. Ernst Lienhard joined Credit Suisse Zurich in 1972. After serving abroad in Paris, Peru, New York and the Bahamas, he was appointed head of commerce in Zurich and became Managing Director Swiss Corporates in 1997. Ernst Lienhard retired in 2004. He is a member of the Board of Directors of Dätwyler Holding AG as well as of other Swiss family-owned companies.

**Dr Alexander Stoffel**
born 1928, a Swiss national. Mr Stoffel retired as Chairman of the Board of Directors of Hügli Holding AG on 31 December 2010. He had held this position since 1966. Since January 2011, he has been a full member of the Board of Directors. He graduated from the University of St. Gallen in 1956 with a doctorate in economics. In the same year, he took over the management of Hügli Nährmittel AG, a family business with sales then totalling around CHF 1 million. In the course of the rapid expansion of Hügli, Alexander Stoffel successively held practically all the management functions, except for technical plant management, at Hügli Switzerland and in subsidiaries subsequently formed in Austria and Germany. Hügli Holding AG was established in 1966, at which time Alexander Stoffel became its chairman. On 31. 12. 2002, he retired as Chairman of the Group Executive Management.

All members of the Board of Directors, with the exception of Jean Gérard Villot, are non-executive. Neither the executive member nor the non-executive members of the Board of Directors have been a member of Group Executive Management of Hügli Holding AG or of a Group subsidiary in the past three business years.

## Statutory rules regarding the number of permissible mandates of members of the Board of Directors

Article 26 of the articles of incorporation of Hügli Holding AG regulates the number of permissible mandates of members of the Board of Directors in compliance with article 12 paragraph 1 section 1 OaEC (Ordinance Against Excessive Compensation in Listed Stock Companies).

A member of the Board of Directors cannot fulfil more than the following number of mandates.

- Maximum of 4 mandates for companies that qualify as publicly held companies according to article 727 paragraph 1 section 1 of the Swiss Code of Obligations (or as corresponding foreign companies); and additionally
- Maximum of 10 mandates for larger companies according to article 727 paragraph 1 section 2 of the Swiss Code of Obligations (or corresponding foreign companies); and additionally
- Maximum of 15 mandates for legal entities that do not comply with the above mentioned criteria

Mandates prescribed by the company or charitable mandates, associations etc. are subject to a separate restriction.
Mandates are defined as activities at the highest management or administration levels of other legal entities that are obliged to be entered in the commercial register or a comparable foreign register, and that are not controlled by the company and that do not control the company.

## Material Interests

Ernst Lienhard was a member of the executive management of a bank providing important services to Hügli (Credit Suisse) until 2004. Christoph Lechner advises Hügli on strategic matters relating to special projects (last time in 2005). Since 2015 Andreas Binder consults Hügli in legal matters with the business law firm Binder Rechtsanwälte. The other non-executive members have no significant business relations with the Hügli Group.
Alexander Stoffel is the majority shareholder of Hügli Holding AG through his family holding company, Dr A. Stoffel Holding AG. Jean Villot is vice president of the board of Dr A. Stoffel Holding AG.

>> see page 30/Major Shareholders

## Election and Term of Office

The members of the Board of Directors and the Chairman of the Board of Directors are elected separately by the Annual General Meeting for the duration of one year until the next ordinary Annual General Meeting. A re-election is possible. The Special Council of holders of bearer shares annually elects its representative in the Board of Directors, in line with article 709 CO (Swiss Code of Obligations). There is not limitation on the term of office.
When selecting new members, the Board of Directors thrives for a balanced consideration of expertise, competencies and entrepreneurial experience, all of which are necessary for the top leadership and supervision of the executive management of an international food corporation.

## Internal Organisation

The Annual General Meeting 2016 has elected the Chairman of the Board of Directors as well as the members of the Compensation Committee, comprising the entire Board of Directors, separately. Furthermore, the Board of Directors has constituted itself. Christoph Lechner was elected as Vice President of the Board of Directors and CFO Andreas Seibold was designated as Secretary of the Board of Direc-

tors. The Chairman, Jean Villot, is responsible for preparing the meetings of the Board of Directors and for coordinating its work. He is primarily concerned with strategic issues, long-term investment planning and the evaluation of acquisitions. He works closely with the Chairman of the Group Executive Management (CEO), whom he supervises directly. Christoph Lechner evaluates the planned and implemented measures from a strategic perspective and against the background of scientific findings. Alexander Stoffel and Jean Villot are contributing their extensive experience and expertise gained throughout their professional activities in the food industry. Legal matters and questions relating to the Corporate Governance are assessed by Andreas Binder. Ida Hardegger evaluates legal issues and contributes her expertise on the food industry and retail market. Ernst Lienhard is the financial expert on the Board of Directors. He assesses measures in consideration of the financial risk management.
The Board of Directors has decided not to set up any board committees for the time being. Because of its small size, the Board performs the necessary tasks under the joint responsibility of all its members. In the event of possible conflicts of interest (e.g. establishment of compensation), the members concerned withdraw from the meeting.
The Board of Directors meets according to business requirements, normally five to six times a year for an entire day. Each member may ask the Chairman to call an immediate meeting, stating the reasons for his request. In the reporting year, the Board of Directors held six meetings as well as a three-day management meeting with the Group's executive staff.

## Division of Powers

The division of responsibilities between the Board of Directors and Group Executive Management are defined in the organisational regulations of those bodies. The Board has delegated the coordination of the Board and the Group Executive Management to its Chairman Jean Villot. The operative Executive Management of the Group is the responsibility of CEO Thomas Bodenmann.
In addition to the seven tasks, which are reserved exclusively for the Board of Directors by article 716a CO (Swiss Code of Obligations), and partly for the performance of those tasks, the Board has reserved the following powers for itself:

- approval of the overall Group strategy and divisional strategies
- approval of the budgets according to the rolling three-year plan, and verification of compliance with the budget figures
- approval of all acquisitions and sales of companies, together with the cessation of existing business areas and the entry into new areas
- the implementation of a risk assessment, which includes the operability of the internal control system
- appointment and dismissal of members of the Group Executive Management and establishment of their compensation
- As it bears ultimate responsibility for the company, the Board of Directors may operate in all business areas of the company if it regards that as necessary for the proper performance of its tasks. However, it takes care not to intervene in areas of delegated, operational responsibility if there is no necessity.

### Information and Controlling Instruments

The internal Management Information System (MIS) prepared for the Board of Directors includes the consolidated income and balance sheet figures of the Group and the country segments as well as commentaries thereto. Furthermore, a Group contribution margin statement of the sales divisions, broken down by customer segments, is prepared. A written copy of the MIS is provided to each Board member. The monthly reporting contains sales figures and gross margins of the international subsidiaries and the sales divisions including variance analyses regarding the previous year and budget as well as commentaries on the current course of business. A widespread overview of the Hügli Group and the geographical segments (income statement, balance sheet, statement of changes in equity, cash flow statement) as well as a consolidated division reporting of the cross-national sales organisations and customer segment based subunits are prepared quarterly with a focus on Group contribution margins of sales and marketing. This reporting contains variance analyses regarding the previous year and budget. Moreover, the Board receives forecasts of the expected yearly figures. Once a year, a three-year rolling strategic plan is realised.

At the meetings of the Board of Directors, the Chairman of the Group Executive Management presents and comments on the course of business and important topics. Depending on the agenda item (budget, yearly financial statements, projects) the other members of the Group Executive Management also present information on specific topics.

The Chairman of the Board of Directors and the Chairman of the Group Executive Management inform and consult each other regularly on all important business matters. The Chairman consults with country and division management, and visits corporate subsidiaries to see for himself how their operations are run and how they are implementing the Group strategy. The entire Board attends the annual three-day management meeting of the Group's executive staff and obtains direct and detailed information about current strategic and operating projects and achieved goals.

The external auditors provide the Board with audit reports and management letters of the Group as well as those of important Group subsidiaries. Aside from the Hügli Holding AG auditor, external auditors are once a year commissioned to give a presentation in a Board meeting and participate in a consultation with the Board of Directors. Further, specific internal audit reports on behalf of the Board are included in the internal audit.

The Board of Directors and the Group Executive Management attach considerable importance to careful handling of strategic, financial and operative risks. The controlling of risk management procedures and the continuous updating of risk identification are carried out through periodic meetings with department heads and managers performing Group functions. Significant changes are subject to in-depth analysis and assessed in compliance with the Group-wide risk management.

## 4. GROUP EXECUTIVE MANAGEMENT

The responsibilities, working method and delimitation of powers from those of the Board of Directors are set out in the organisational regulations of the Group Executive Management. The Group Executive Management is the senior operational management body of the Hügli Group. It reports to the Board of Directors and consists of seven members. No member has any other important engagements in other organisations or material commitments. Hügli Holding AG and its subsidiary companies have not concluded any management agreements with third parties.

f. l. t. r: Endrik Dallmann, Dirk Balzer, Frank von Glan, Thomas Bodenmann, Jörg Meyer, Andreas Seibold, Manfred Jablowski

## Members of the Group Executive Management

**Thomas Bodenmann**
born 1962, a Swiss national, has been the Chairman of Group Executive Management (CEO) since 2011. He had been elected to the Group Executive Management in 2001, at which time he was Head of the Food Service Division. He graduated from the Department of Business Administration at St Gallen University of Applied Sciences with a degree in business administration and completed various courses of further education at the University of St. Gallen and at Harvard Business School in Boston, USA. After having worked in a number of positions in the industry, he became the manager for Sales Switzerland at Benckiser (Schweiz) AG in Winterthur, holding the position until 1995. Thomas Bodenmann joined Hügli Switzerland in 1995 as export manager and member of the Executive Management of Hügli Switzerland. From 1997 to 2010 he was the Managing Director of Hügli Switzerland and from 1999 to 2010 also of Hügli Austria. Thomas Bodenmann is a member of the Board of Directors of Bataillard AG, Rothenburg.

**Dirk Balzer**
born in 1970, a German citizen, has been a member of the Group Executive Management since 2011 as Head of Manufacturing. Dirk Balzer graduated in food engineering from the Univestity of Stuttgart-Hohenheim in Germany, and started his professional career in process technology with Nestlé Deutschland AG. After having held various further positions in production for Maggi GmbH he joined the Hügli Group in 2001 and managed production operations in Hügli's largest location in Radolfzell until 2012. He has also been responsible for product development and the strategic "New Technology" department since 2017.

**Endrik Dallmann**
born 1968, a German national, has been a member of the Group Executive Management and Head of the key account divisions Brand Solutions

and Food Industry since 1 July 2011. The graduate in business administration (VWA) studied law and economics at the universities of Köln and Konstanz (without graduating). He joined Hügli Radolfzell in 1994 and managed various operating projects. From 2005, he was Managing Director of the German Hügli subsidiaries Inter-Planing GmbH and Oscho GmbH. Mr Dallmann is Managing Director of Hügli Germany since 2014. From 2017 Endrik Dallmann will be Head of the Food Ingredients division (semi-finished products to the foodstuff industry) and assumes responsibility for the newly created strategic area "Countries&Processes".

**Frank von Glan**
born 1962, a German national, since November 2015 Division Head of Consumer Brands and Member of Group Executive Management. Frank von Glan has a degree in economics from the University of Hannover. He worked for Mondelez Germany (previously Kraft Jacobs Suchard) for 17 years in various marketing and sales functions, and lastly as managing director of the foods division. From 2006 to 2013, Frank von Glan was the managing director of the German companies of Wessanen Group, Allos GmbH and Tartex & Dr. Ritter GmbH. He subsequently joined the owner-operated medium-size company Minderleinsmühle GmbH as Head of Marketing and Sales.

**Manfred Jablowski**
born 1964, a German national, has been a member of the Group Executive Management and Head of the Food Service division since 1 July 2011. After having graduated as an engineer in food technology, he held various management positions in sales in the course of 20 years. He gathered comprehensive experience in the area of Food Service at ETO/Dr Oetker, where he worked as Head of Key Accounts from 2001. In 2006, he became responsible for Hügli's largest Food Service country organisation in Germany.

**Jörg Meyer**
born 1963, a German national, has been a member of Group Executive Management and Head of the Private Label Retail division since November 2012. After acquiring a degree in economics from the Bochum University of Applied Sciences, he worked as Head of Marketing and as Head of Sales for different international food corporations in Germany for more than 20 years. In his latest position, as Managing Director of a Danish food producing group, an important Private Label supplier of the European food retail trade, he carried full responsibility for marketing and sales. From 2017 Jörg Meyer will lead the new Customer Solutions division which is consolidating the key account business (consumer packs) of Private Label Retail, Brand Solutions and Food Industry.

**Andreas Seibold**
born 1964, a Swiss national, became Chief Financial Officer and member of the Group Executive Management in 2004. After studying economics at the University of Zurich (lic. oec. publ.), he went on to qualify as a chartered accountant at the Swiss Institute of Certified Accountants, while maintaining his professional employment. Having worked for many years as an auditor with KPMG Zurich he moved to Sefar AG, Rüschlikon, as Head of Finance and Treasury and then to Sefar Holding AG as Head of Group Controlling. In addition to his function as CFO, he was elected as Secretary of the Board of Directors. He is also the managing director and member of the foundation council of the employee benefit foundation of Hügli Nährmittel AG and member of the technical commission Swiss GAAP FER, the foundation for accounting and reporting recommendations.

### Statutory rules regarding the number of permissible activities of members of the Group Excekutive Management

Article 26 of the articles of incorporation of Hügli Holding AG regulates the number of permissible mandates for the members of Group Executive Management.

A member of Group Executive Management cannot fulfil more than the following number of mandates.

- Maximum of 1 mandate for companies that qualify as publicly held companies according to article 727 paragraph 1 section 1 of the Swiss Code of Obligations (or as corresponding foreign companies); and additionally
- Maximum of 3 mandates for larger companies according to article 727 paragraph 1 section 2 of the Swiss Code of Obligations (or corresponding foreign companies); and additionally
- Maximum of 5 mandates for legal entities that do not comply with the above mentioned criteria.

With regard to separate restrictions and definitions, the provisions stated in article 26 of the articles of incorporation of Hügli Holding AG applicable for the Board of Directors also apply for Group Executive Management >> see page 32/Board of Directors

## 5. COMPENSATIONS, SHAREHOLDING INTERESTS AND LOANS

The members of the Board of Directors and the Group's Executive Management are entitled to remuneration in line with their activities and responsibilities. The board of directors determines this remuneration itself according to the total amount approved by the Annual General Meeting.
Remuneration for the members of the Board of Directors comprises fixed remuneration through to the next ordinary General Meeting and also social security contributions and contributions to benefit funds as well as additional insurance contributions and other incidental payments. Remuneration for the President of the Board of Directors can also include profit participation if this office includes executive functions.
Remuneration for the members of the Group's Executive Management comprises annual fixed basic remuneration and a variable profit participation, as well as social security contributions and contributions to benefit funds as well as additional insurance contributions and other incidental payments. The variable profit participation comprises cash remuneration which is based on pre-defined performance benchmarks. The performance benchmarks can be based on quantity and quality-based targets, as well as short-term and long-term remuneration elements.
The company can grant members of the Board of Directors and the Group's Executive Management loans at standard market conditions with the approval of the Board of Directors. The amount of the loan may not exceed 100 % of the total cash remuneration for the last remuneration period for the respective member of the Board.
In compliance with the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the Swiss Code of Obligations, Hügli discloses information on the compensation paid to the Board of Directors and Group Executive Management in a separate chapter "Compensation Report" on pages 42 to 49 of the annual report. >> see page 42/Compensation Report

## 6. SHAREHOLDERS' RIGHTS OF PARTICIPATION

There are no limitations on voting rights. Each share grants one vote.
There are no statutory quorum requirements.
There are no rules deviating from statutory provisions in respect of the convening of the General Meeting. Bearer shareholders' invitations are published in the Swiss Official Gazette of Commerce (SHAB). The registered shareholder is invited by letter at the address last provided to the Board of Directors.
Shareholders, whose individual or combined shares represent at least 5 % of the share capital, can ask for an item to be included on the agenda. The request listing the proposals is to be presented to the Board of Directors in writing at least 60 days before the General Meeting of shareholders.

## 7. CHANGE OF CONTROL AND SAFEGUARDING MEASURES

### Obligation of Purchase Offer

The basic rule of article 32 of the "Swiss Federal Act on Stock Exchanges and Securities Trading"(SESTA) shall apply. It provides that a purchasing party, which acquires more than 33 1/3 % of voting rights of a listed company, is obligated to make a purchase offer for all shares of the company admitted for trading.

### Change of Control Clauses

No such agreements exist with the members of the Board of Directors, the Group Executive Management or other executive staff. The notice period for members of Group Executive Management ranges up to twelve months. They are entitled to receive salary and compensation based on earnings within this period.

## 8. STATUTORY AUDITORS

### Duration of Mandate and Term of Office of the Auditor in Charge

OBT AG, St. Gallen, Switzerland is the statutory auditor for Hügli Holding AG. The firm was appointed for the first time in 1962 as the statutory auditing company to Hügli Nährmittel AG and then as auditing company to Hügli Holding AG following its incorporation in 1966. The audit mandate runs for one year with the possibility of reappointment under article 19 of the articles of incorporation. The auditor in charge, Stefan Traber, has held his position since the financial year 2014.

### Audit Fees

In 2016, OBT AG, St. Gallen, invoiced the sum of TCHF 106 to Hügli Holding AG and its Swiss subsidiaries for services provided in connection with the audit of the annual financial statements and consolidated financial statements.
No additional fees were paid to OBT AG or to persons or companies affiliated to it.

### Information Instruments of External Audit

The Board of Directors examines the audit reports of Hügli Holding AG as well as the audit reports and the management letters of the main subsidiaries.
A meeting is held on the approval of the annual financial statements with the Group auditors and alternately with an auditor of a subsidiary. At this meeting the reports and important issues of the management letters – including the internal control system – are discussed in detail, and additional issues regarding the key audit matters are clarified.
The Board of Directors evaluates the performance of the external audit company on a regular basis and decides on the proposal to the Annual General Meeting of Shareholders concerning the appointment of the external audit company.

## 9. INFORMATION POLICY

The Hügli Group cares for open and regular communication with shareholders, the capital market and the public. The CEO and the CFO are available as contacts for all issues concerning external communication.
Hügli informs twice a year about the course of business and the financial situation by issuing an annual and a half-year report. Important businesses and events, which may have an impact on share price are published routinely (ad hoc publicity).

**Key dates in 2017**

| | |
|---|---|
| Sales report | 31 January 2017 |
| Media and analysts' conference (Annual Report 2016, Sales Q1 2017) | 11 April 2017 |
| General meeting in Arbon | 17 May 2017 |
| ex-dividend date | 19 May 2017 |
| Dividend payment | 23 May 2017 |
| Half-Year Report 2017 | 18 August 2017 |

Further dates, reports and media releases can be found at www.huegli.com/en/investor-relations/
The company's official publication is the Swiss Official Gazette of Commerce (SHAB).

**Responsible Manager for Investor Relations:**
Andreas Seibold, CFO / Tel. +41 71 447 22 50 / andreas.seibold@huegli.com

# Compensation Report

HÜGLI'S COMPENSATION POLICY IS BASED ON THE CONVICTION THAT THE COMPANY'S SUCCESS DEPENDS ESSENTIALLY ON THE QUALITY AND THE COMMITMENT OF ALL EMPLOYEES. THE COMPENSATION SYSTEMS AND THE SHAREHOLDING PLANS FOR THE BOARD OF DIRECTORS AND GROUP EXECUTIVE MANAGEMENT ARE LINKED TO ACHIEVING SUSTAINABLE PROFITS, AIMING TO SAFEGUARD THE COMPANY'S LONG-TERM SUCCESS AND AT THE SAME TIME TO CREATE ADDED VALUE FOR SHAREHOLDERS.

## Overview in brief

The compensation systems are defined by the Compensation Committee with a long-term focus and reviewed periodically. Their structure is clear, simple and comprehensible. The compensation systems for the Board of Directors and Group Executive Management are governed by the same principles. They are to provide a total compensation in line with the market and with performance, aiming to attract individuals with the necessary skills and character traits, and to retain them for the long term.

The non-executive members of the Board of Directors receive a fixed compensation; the Chairman receives an additional profit share as an executive member. Each member can obtain company shares at a preferential price, which is 25 % below the market value, instead of the compensation. These shares are subject to a retention period of 3 years and delivered subsequently. The Chairman's profit share is calculated based on the organic increase of group net profit above a threshold value defined by the Board of Directors. In 2016, the total compensation paid to the entire Board of Directors (7 members throughout the term of office 2015/2016, 6 members throughout the term of office 2016/2017) decreased by –9 % to TCHF 1'222 (TCHF 1'342 in the previous year). The fixed remuneration remained unchanged. The total compensation decreased due to the lower calculation of the compensation value of the share-based payment, the reduction to 6 members since May 2016, the omission of a seniority bonus and the lower profit share of the Chairman of the Board of Directors.

The members of Group Executive Management receive a fixed salary and a variable component of salary. For all members, this variable component of salary depends on the organic increase of group net profit above a threshold value defined by the Board of Directors. The calculation of the variable component of salary for members of Group Executive Management with responsibility for a sales segment additionally depends on the organic increase of the supervised contribution margin. The members of Group Executive Management may also use a limited amount of the compensation to buy company shares at the same conditions as the Board of Directors (preferential price 25 % below market value, retention period of 3 years). The total compensation of the entire Group Executive Management (7 members) decreased by –11 % to TCHF 3'214 in 2016 (TCHF 3'595 in the previous year). This decrease was mainly caused by a change to Group Executive Management in October 2015. The ensuing personnel expenses for the notice period of the resigned member were deferred in the previous year. Without this change of personnel, total compensation would have declined by –3 %, essentially due to lower variable components of salary as a result of the lower organic Group net profit in 2016, the lower calculation of the compensation value of the share-based payment and the omission of a seniority bonus.

## Introduction

The present compensation report includes information about the compensation policy, the procedure for fixing compensations and the terms of the shareholding programmes for the members of the Board of Directors and of Group Executive Management. It also presents details on compensations in 2016.

The compensation report was compiled in accordance with the "Ordinance Against Excessive Compensation in Listed Stock Companies"(OaEC) and the Corporate Governance Directive (DCG) of SIX Swiss Exchange.

## Compensation policy

The principles of the compensation policy for the members of the Board of Directors and Group Executive Management are designed to provide simple and clearly structured salary systems that ensure fair remuneration and are transparent for the company's employees. The salary is determined by the job specifications and competencies of the function (complexity of the task, responsibility, technical and personal requirements), the company's business success and the measurable individual performance of operational segments. The variable performance-related component is a supporting controlling instrument that aims to achieve the overarching goal of contributing to the company's long-term success. The stock ownership programmes also include a direct financial participation in the medium-term performance of the Hügli share and support the consolidation of interests.

## Compensation Committee

In accordance with the articles of incorporation, the members of the Compensation Committee are each year elected individually by the Annual General Meeting of Shareholders for the period until the next ordinary Annual General Meeting. The Board of Directors decided to perform the task under the joint responsibility of all members and elected Dr Christoph Lechner as Chairman of the Compensation Committee. The Compensation Committee convenes whenever this is required. In the financial year 2016, 3 meetings were held. The Compensation Committee advises the Board of Directors on the definition of the compensation strategy and the compensation system for the highest management level of the group, and periodically reviews the corresponding regulations. It puts forward proposals relating to the individual remunerations of the members of the Board of Directors and of Group Executive Management and assists the Board of Directors with proposals to the General Meeting of Shareholders relating to the total compensations.

At its meeting in November 2015, the Compensation Committee reviewed the compensation strategy and the regulations on the variable compensation of members of Group Executive Management and of the Chairman of the Board of Directors for the period 2016–2018. The Committee takes into account characteristics of the industry sector's labour market and for purposes of comparison relies on compensation studies of consultancy firms as well as on publicly accessible information such as compensation reports of Stock Exchange listed companies of comparable size. Industrial small caps with an authoritative shareholder were considered comparable and taken into account (Gurit, Phoenix Mecano, Bachem, Lem, Looser, Bossard, Orior and Vetropack). The review was performed as part of a scenario analysis for each member for the years 2016 to 2018. The Compensation Committee found the corresponding remunerations to be adequate and motivating. The compensations were below the interquartile mid-range of the comparative group in all categories, with the exception of the Chairman of the Board of Directors, whose full-time executive function is not comparable. The regulations on the variable compensations of the members of Group Executive Management and the Chairman of the Board of Directors were extended accordingly for the years 2016–2018, including the existing calculation system and unchanged compensation bases. Only the basis of the variable compensation of the Chairman of the Board of Directors was reduced in the context of the reduction of fixed compensations as per 01.01.2017, from which date on, this function will not require a full-time performance. The Chairman of the Board of Directors continues to serve as an executive member although he transfers tasks to the CEO and from 2017 fulfils his function on a part-time basis.

According to the regulations, the variable compensations in 2017 effect the following correlation with the organic Group net profit: If Group net profit increases or decreases, respectively, by +/–5 %, total compensations to the members of Group Executive Management and to the Chairman of the Board of Directors increase or decrease, respectively, by approximately +/–2 %.

## Compensation of the Board of Directors

The compensations reflect the level of responsibility and scope of activities performed by each member. The members are compensated from the time of their election until the next Annual General Meeting. The non-executive members receive a one-off compensation in December, the Chairman receives a monthly compensation. The compensation system of the five non-executive members of the Board of Directors has provided a fixed basic compensation of net TCHF 60 since 2011. The individual social security contributions are paid entirely by the employer side. As the task is performed under the joint responsibility of all members, this compensation covers the whole scope of activities. The remuneration does not include a variable performance-related component. Instead of the basic compensation, each member may obtain company shares according to the regulations on the optional share-based payment. The purchase price equals the average share price within the 12-month period 01. 11.–31. 10., or the lower share price on the cut-off date 31. 10. of the year, in which the transaction is performed. The purchase offer is valid until the end of November. If the purchase option is not exercised, it is forfeited and the basic compensation is paid out. The purchase price is 25 % below the market price. The shares remain in the custody of Hügli Holding AG during a retention period of 3 years and are subsequently transferred to the members. The resulting compensation value is calculated according to the Circular of the Swiss Federal Tax Administration and represents a shared-based compensation. As a full-time executive member, the Chairman of the Board of Directors had a full time workload until 31. 12. 2016 (part-time from 2017). Alongside a Chairman's responsibilities (preparing the meetings of the Board of Directors, coordinating its tasks, working with the CEO), he takes on further functions in the company. The Board of Directors' directives govern these additional functions, which comprise mainly strategic long-term investment planning and the evaluation of acquisitions. In addition to a fixed monthly compensation, the Chairman of the Board of Directors receives a profit share. The profit share is derived from the increase of the group net profit above a threshold value defined by the Board of Directors. It is based as a matter of principle on organic profit increase without acquisition and divestment effects. For such changes in the business areas, the Board of Directors defines a correctional factor at the profit level for a limited time, whenever this is required. This profit share has no ceiling. No profit share will apply if the lower threshold, determined by a minimum profit amount for the coverage of costs of equity, is not reached. Under normal conditions, the profit share should represent around 10 % to 40 % of the basic compensation. In the financial year, it equalled 23 %, in the previous year 24 %. In addition, the Chairman of the Board of Directors can participate in the above mentioned stock ownership programme for non-executive members up to a maximum purchase price of CHF 150'000. Furthermore, until 31. 12. 2016, the full-time Chairman belongs to the corporate pension plan and is insured in the corporate Swiss pensions fund with his wages covered by the AHV (cancelled as of 01. 01. 2017). The employer savings premiums are paid in accordance with the general regulation that applies to all employees. Until 31. 12. 2016, the Chairman was also provided with a company car (cancelled as of 01. 01. 2017). The following tables present the breakdown of components of the individual compensations paid to the members of the Board of Directors. In December 2016, 758 shares (642 in the previous year) were transferred to the Board of Directors based on the regulations regarding optional share-based payments for the current term June 2016 to May 2017. The purchase price totalled TCHF 579.40 per share (CHF 540.00 per share in the previous year). The private share of the company car was determined by tax values. Real travel expens-

es are not included. Pension and social expenses include both the employer's and the employees' contributions. The overview presents all compensations of the members of the Board of Directors for the financial year January to December 2016. Included are also service mandate fees of associated legal entities with a close connection to the function of the Board of Directors. The compensations for the term of office from June 2016 to May 2017 paid in December 2016 were deferred accordingly (capitalisation of 5/12 shown on the balance sheet). The General Meeting of Shareholders approved on 25 May 2016 a sum of CHF 1.3 million as maximum total compensation of the Board of Directors for the term of office 2016/2017 (CHF 1.7 million approved for the previous year's period 2015/2016). Relating to the financial year 2016, this corresponds to the amount of CHF 1.47 million. Changes to the previous year ensued with regard to non-executive members from the share-based compensation (differing purchase price per share and thereof resulting number of shares, respectively, calculation of compensation value). The fixed remuneration remained unchanged. In addition, the Board of Directors comprises 6 members throughout the term of office 2016/2017 due to a retirement, previously it was constituted by 7 members. The reduction of the fixed basic compensation of the Chairman of the Board of Directors relates to a seniority bonus granted in the previous year, the decrease of the variable compensation results from a smaller profit share due to the lower Group net profit in 2016.
Proposal to the General Meeting of Shareholders on 17 May 2017: The Board of Directors proposes a maximum total sum of CHF 1.0 million for the compensations of the Board of Directors for the term of office 2017/2018. The decrease from the approved proposal for the previous year's period (CHF 1.3 million) is established by the reduction of the annual total compensation of the Chairman of the Board of Directors from CHF 0.8 million to the new sum of CHF 0.4 million as of 01. 01. 2017 which now applies to the full term of office.

| 2016 | Compensation net | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fix | Variable | Stock ownership plans | | Company car | Compen-sation to BoD | Pension and social insurance | Total 2016 |
| | in CHF 1'000 | in CHF 1'000 | Number | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 |
| Dr Jean Gérard Villot, President | 516 | 120 | 150 | 6 | 8 | **650** | 175 | **825** |
| Dr Andreas Binder | 60 | 0 | 103 | 6 | 0 | **66** | 9 | **75** |
| Dr Ida Hardegger | 60 | 0 | 103 | 6 | 0 | **66** | 9 | **75** |
| Fritz Höchner (until May 2016) | 25 | 0 | 45 | 3 | 0 | **28** | 2 | **30** |
| Dr Christoph Lechner | 60 | 0 | 103 | 6 | 0 | **66** | 9 | **75** |
| Dr Ernst Lienhard | 60 | 0 | 103 | 6 | 0 | **66** | 5 | **71** |
| Dr Alexander Stoffel | 60 | 0 | 103 | 6 | 0 | **66** | 5 | **71** |
| **Total Board of Directors** | **841** | **120** | **710** | **39** | **8** | **1'008** | **214** | **1'222** |

| 2015 | Compensation net | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fix | Variable | Stock ownership plans | | Company car | Compen-sation to BoD | Pension and social insurance | Total 2015 |
| | in CHF 1'000 | in CHF 1'000 | Number | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 |
| Dr Jean Gérard Villot, President | 557 | 133 | 108 | 16 | 8 | **714** | 182 | **896** |
| Dr Andreas Binder (since May 2015) [1] | 47 | 0 | 62 | 5 | 0 | **52** | 5 | **57** |
| Dr Ida Hardegger | 60 | 0 | 115 | 12 | 0 | **72** | 10 | **82** |
| Fritz Höchner | 60 | 0 | 115 | 12 | 0 | **72** | 6 | **78** |
| Dr Christoph Lechner | 60 | 0 | 62 | 5 | 0 | **65** | 8 | **73** |
| Dr Ernst Lienhard | 60 | 0 | 115 | 12 | 0 | **72** | 6 | **78** |
| Dr Alexander Stoffel | 60 | 0 | 115 | 12 | 0 | **72** | 6 | **78** |
| **Total Board of Directors** | **904** | **133** | **692** | **74** | **8** | **1'119** | **223** | **1'342** |

[1] incl. consulting fees in the amount of TCHF 12

## Compensation to Group Executive Management

The compensation system for the members of Group Executive Management is defined by the full Board of Directors with a long-term focus and reviewed periodically. The compensation includes a fixed basic salary, a variable component of salary, the option to participate in the stock ownership programme, non-cash benefits (mostly company car) and corporate pension plan benefits. The fixed salary is determined mainly by task, responsibility and qualification. The variable component of salary depends on attainment of organic business success. It is measured by two financial objectives: Contribution margin per supervised sales segment and group net profit. Members of Group Executive Management without responsibility for a segment are assessed on the basis of group net profit only. The variable component of salary as derived from contribution margin per sales segment is calculated as a part of the increase or decrease of contribution margin recorded since a fixed date in the past. The profit share is derived from the increase of the group net profit above a threshold value defined by the Board of Directors. It is based as a matter of principle on the organic increase in contribution margin and profit, respectively, without acquisition and divestment effects. For such changes in the business areas, the Board of Directors defines a correctional factor at the profit level for a limited time, whenever

this is required. This profit share has no ceiling. No profit share will apply if the lower threshold, determined by a minimum profit amount for the coverage of costs of equity, is not reached. Under normal conditions, the variable component of salary should represent around 10 % to 40 % of the basic compensation. In the financial year, it ranged from 0 % to 21 %, depending on the individual member, in the previous year from 2 % to 23 %.

The members of Group Executive Management may use a limited amount of the compensation (CHF 100'000 per member, CHF 150'000 for the CEO) to buy company shares at the same conditions as the Board of Directors. The purchase price equals the average share price within the 12-month period 01. 11.–31. 10., or the lower share price on the cut-off date. The purchase offer is valid until the end of November. If the purchase price option is not exercised, it is forfeited. The purchase price is 25 % below the market price. The shares remain in the custody of Hügli Holding AG during a retention period of 3 years and are subsequently transferred to the members. The resulting compensation value is calculated according to the Circular of the Swiss Federal Tax Administration and represents a shared-based compensation. The Swiss members of Group Executive Management belong to the corporate pension fund with their total wages. The employer-savings premiums are covered in accordance with the general regulation that applies to all employees. There are no other special regulations relating to the pension fund. Moreover, every member of Group Executive Management is provided with a company car.

The following tables present the breakdown of components of the individual compensations paid to Group Executive Management, including the highest amount paid to a member. In November 2016, Group Executive Management purchased 473 shares (543 in the previous year) in accordance with the regulations on the stock ownership programme. The purchase price was CHF 579.40 per share (CHF 478.50 per share in the previous year).

The private share of the company car was determined by tax values. Real travel expenses are not included. The members of Group Executive Management are subject to the same expense regulations approved by the tax office as the other senior managers (expense regulations, additional regulations for lump-sum allowance). Pension and social expenses include both the employer's and the employees' contributions.

The General Meeting of Shareholders approved on 20 May 2015 a sum of CHF 4.5 million as maximum total compensation of Group Executive Management for the following financial year 2016.

| 2016 | Compensation net | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fix | Variable | Stock ownership plans | | Company car | Compen-sation to Mgmt | Pension and social insurance | Total 2016 |
| | in CHF 1'000 | in CHF 1'000 | Number | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 |
| **Total Group Executive Management** | **2'370** | **279** | **473** | **20** | **45** | **2'714** | **500** | **3'214** |
| thereof maximum total compensation: Thomas Bodenmann, CEO | 559 | 120 | 34 | 1 | 6 | **686** | 176 | **862** |

| 2015 | Compensation net | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fix | Variable | Stock ownership plans | | Company car | Compen-sation to Mgmt | Pension and social insurance | Total 2015 |
| | in CHF 1'000 | in CHF 1'000 | Number | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 | in CHF 1'000 |
| **Total Group Executive Management** | **2'634** | **328** | **543** | **77** | **52** | **3'091** | **504** | **3'595** |
| thereof maximum total compensation: Thomas Bodenmann, CEO | 595 | 133 | 208 | 30 | 6 | **764** | 184 | **948** |

Changes to the previous year mainly resulted from the resignation of a member of Group Executive Management as per the end of October 2015 with immediate release. The salary payments in the following 12-month notice period were deferred as compensation expenses 2015. The successor joined Group Executive Management in November 2015. These events led to a significant decrease of the total compensation in 2016. Without this change of personnel, total compensation would have declined by –3 %, essentially due to lower variable components of salary as a result of the lower Group net profit in 2016. The compensation expenses nevertheless increased exchange rate-related due to the compensations paid to members of Group Executive Management in EUR which were subject to a +2 % higher translation. The decrease of the basic compensation of the CEO mainly relates to a seniority bonus in line with regulations which was included in the previous year.
Proposal to the General Meeting of Shareholders on 17 May 2017: The Board of Directors proposes an unchanged maximum total sum of CHF 4.5 million for the compensation of Group Executive Management for the financial year 2018. This maximum amount comprises valuation reserves becauce some calculation factors are not yet fixed. The EUR/CHF exchange rate is relevant in this regard because it is applied to translations of compensations paid in EUR. In addition, the amount of Group net profit 2018 may deviate from the budget and have a direct impact on the amount of variable compensations as well as on the calculation of the compensation value of employee shares.

## Further compensation, loans to corporate bodies

In 2016, as in the previous year, no compensation was paid to former members of the Board of Directors or Group Executive Management. No further compensation was paid to members of the Board of Directors and Group Executive Management, or to other corresponding related parties. In 2016, no loans, credits or securities were granted to currently serving or former members of corporate bodies, or related parties thereof. As per 31. 12. 2016, there were no such claims outstanding.

## Shareholdings of members of the Board of Directors and Group Executive Management

The information on shareholdings of the members of the Board of Directors and of Group Executive Management is included on page 100 of the Notes to the Financial Statements 2016 of Hügli Holding AG.

# Report of the statutory Auditor on Compensation Report

We have audited the accompanying compensation report (pages 42–49) dated March 23, 2017 of Hügli Holding AG for the year ended December 31, 2016.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the accompanying compensation 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 compensation 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 compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditors judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation 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 compensation report for the year ended December 31, 2016 of Hügli Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

St. Gallen, 23 March 2017
OBT AG

Stefan Traber
Licensed Audit Expert
Auditor in Charge

Beat Willi
Licensed Audit Expert

# Information for Investors

BEARER SHARES ARE TRADED AT THE SWISS STOCK EXCHANGE SINCE 1986, WHEREAS REGISTERED SHARES ARE NOT LISTED. THERE ARE NO RESTRICTIONS OF TRANSFERABILITY. EVERY STOCK ALLOWS ONE VOTE AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS. THERE EXIST NO CONVERTIBLE BONDS OR OPTIONS TO OWNERSHIP RIGHTS.

## Share capital structure

The share capital is divided into:

| Share capital<br>in CHF | 2016 |
|---|---|
| 280'000 bearer shares with a par value of CHF 1.00 each (listed) | 280'000 |
| 410'000 registered shares with a par value of CHF 0.50 each (not listed) | 205'000 |
| **Total share capital** | **485'000** |

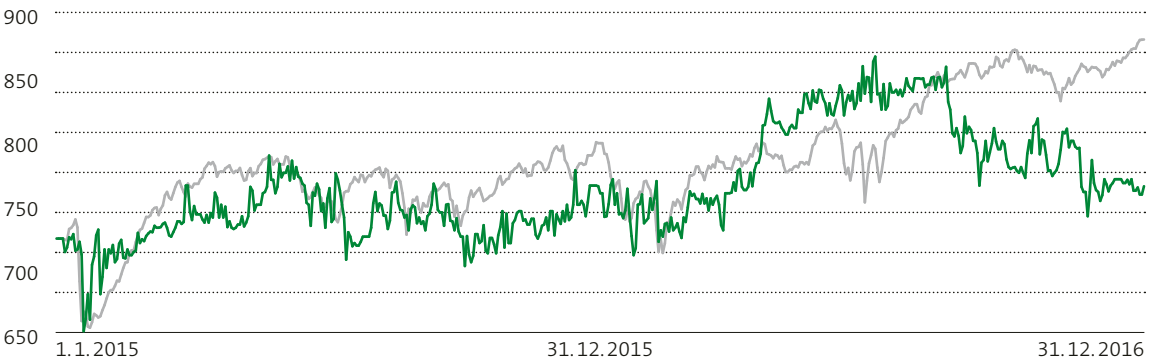
## Market capitalisation

On 31 December 2016, the closing price for the Hügli bearer share was CHF 765, corresponding to a market capitalisation of CHF 371 million. Of this total, CHF 214 million are represented by the stock capitalisation of the listed bearer shares and CHF 157 million by unlisted registered shares.

| Listing | |
|---|---|
| ISIN | CH0004647951 |
| Security no. | 464795 |
| SIX symbol | HUE |

## Share price development 2015–2016

in CHF (—Hügli/—Vontobel Small Cap Index, adapted)



**Major Shareholders/Free Float as per 31 December 2016**

- Dr A. Stoffel Holding AG/Dr A. Stoffel, 9320 Arbon, Switzerland:
  40'131 bearer shares with a par value of CHF 1.00 each (14.3 % of bearer share capital)/ 410'000 registered shares with a par value of CHF 0.50 each (100 % of the registered share capital)/65.2 % of the voting rights, equivalent to 50.5 % of the share capital
- Hügli Holding AG, CH-9323 Steinach, Switzerland (own shares):
  1'569 bearer shares with a par value of CHF 1.00 each (0.6 % of bearer share capital)/0.3 % of voting rights, equivalent to 0.4 % of the share capital
- Free Float:
  238'300 bearer shares with a par value of CHF 1.00 each (85.1 % of bearer share capital)/34.5 % of voting rights, equivalent to 49.1 % of the share capital

**Agenda 2017**

| | |
|---|---|
| Sales report | 31 January 2017 |
| Media and analysts' conference (Annual Report 2016, Sales Q1 2017) | 11 April 2017 |
| General meeting in Arbon | 17 May 2017 |
| ex-dividend date | 19 May 2017 |
| Dividend payment | 23 May 2017 |
| Half-Year Report 2017 | 18 August 2017 |

**Distribution**

The Board of Directors will propose to the General Meeting on 17 May 2017 a dividend pay-out of CHF 16.00 per bearer share (CHF 16.00 in the previous year). The year-end rate corresponds to a dividend yield of gross 2.1 %.

**Informationen for shareholders**

Financial reports, information on corporate governance and on the Hügli share listed on the SIX Swiss Exchange can be retrieved from our Investor Relations website: www.huegli.com/en/investor-relations. The company's official publication is the Swiss Official Gazette of Commerce (SHAB).

**Research**

Hügli Holding AG is monitored and evaluated by various bank institutes and financial analysts. At present, these are the following contacts:

- Bank Vontobel, René Weber, Telephone +41 58 283 77 57
- Zürcher Kantonalbank, Daniel Bürki, Telephone +41 44 292 34 34
- RESEARCH PARTNERS AG, Ronald Wildmann, Telephone +41 44 533 40 33

## Key data Hügli bearer share

| | Unit | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Net profit per bearer share | CHF | 45.73 | 48.49 | 48.79 | 43.41 | 31.18 |
| Dividend (proposal 2016) | CHF | 16.00 | 16.00 | 16.00 | 14.00 | 12.00 |
| Payout ratio | % | 35 | 33 | 33 | 32 | 38 |
| Equity per bearer share | CHF | 325 | 317 | 310 | 282 | 259 |
| Market price 31. 12. | CHF | 765 | 759 | 724 | 517 | 500 |
| Markte price high | CHF | 866 | 789 | 739 | 550 | 670 |
| Markte price low | CHF | 710 | 651 | 516 | 486 | 472 |
| Enterprise Value 31. 12. | m. CHF | 446 | 435 | 407 | 316 | 329 |
| **Price/Earnings Ratio 31. 12.** | | **16.7** | **15.7** | **14.8** | **11.9** | **16** |
| **Enterprise Value/EBITDA 31. 12.** | | **10.4** | **9.9** | **8.9** | **7.4** | **9.8** |

# **One Group.** ••• Financial Reporting

385.2

M. CHF **SALES**.
THAT MEANS AN
INCREASE OF 1.8 %

42.8

M. CHF **EBITDA**; 11.1 %
EBITDA MARGIN

53.7

% **EQUITY RATIO**

## Content

# Financial Report for the Consolidated Financial Statements

**Andreas Seibold**
Chief Financial Officer/Member of the Group Executive Management

## SALES DECLINE DEPRESSES EARNINGS, FOCUS ON COST CONTROL, BACKING FROM STRONG BALANCE SHEET, SOLID PROFITABILITY ACHIEVED

### Market environment affects sales development

Due to the changing cooking and consumption habits, Hügli has for some time been operating in a stagnant or even declining market in Europe with its core assortment. The solid organic sales growth of an average +3.1 % p. a. achieved over the past three business years was only attained by gaining market shares in a consolidated market. In 2016, additional headwinds arising from shifts in the sales structure and heightened competition brought about an organic sales decline of –2.6 %. This decline mainly relates to trade goods (–8.6 %), which underwent an active reduction in assortments and were at the same time affected by original producers' intensified marketing efforts in direct sales. In addition, some product categories were carried over to own products due to the insourcing of production. Own products declined slightly by –0.8 % overall. Against the background of a marginal price effect (+0.3 %), this decline resulted from the correspondingly smaller sales volumes. Recorded Group sales nevertheless increased in 2016 by +1.8 % to CHF 385.2 million. They include the acquisition of Bresc B. V. in Holland as per 01. 01. 2016 that contributed annual sales of CHF 13.7 million (+3.6 %). The positive currency effect within the Group amounted to +0.8 % (EUR +2.1 %, GBP: –9.2 %).

Food Industry stands out from among our sales divisions with a pleasing organic growth of +5.0 % in 2016. Main drivers were new orders from global foodstuffs corporations buying products manufactured and specifically customer-tailored by Hügli, and selling them using their own brands. Food Service, while still achieving an organic growth rate of +2.8 % in H1 2016, had to face a slump of –0.2 % for the entire year 2016 due to the loss of a key account customer in H2. While all DACH countries showed a negative performance, the EAST countries again developed favourably with single digit growth rates. Private Label declined by –3.2 %, contending with a very strong previous year that had profited from many promotional sales (+14.5 % in 2015), mainly in Germany. The smaller EAST and UK regions, on the other hand, developed particularly well. The market efforts applied in Spain and France brought about a first harvest too. Brand Solutions (–5.6 %) depends considerably on the order behaviour of sales companies, or their market success, respectively. The diminishing demand from a few key account customers affected chiefly our production site in the UK. A quite sobering result with overall –9.2 % was recorded by the Consumer Brands division that saw an increase of +12 % relating to own products but also a concurrent sizable drop of –25 % with regard to trade goods. The Bresc B. V. acquisition was not allocated to any division and recognised within the "others" segment because the company is being developed independently owing to its differing sales structure.

### Sales decline diminishes earnings in Germany

In the geographic segment Germany, earnings underwent unexpected significant changes. Based on strong sales increases in the past three years, on average above +6 % p. a., earnings developed pleasingly despite rising costs. Organic sales dropped by –5.7 % in the financial year 2016. There are numerous reasons for this, among them the heightened competition, the fact that fewer promotional tenders were won due to customers' higher diversification of suppliers as well as adjustments to the product portfolio. The Private Label division registered the biggest drop in sales to food retailers, while the sales of the Food Service division in the gastronomy market also declined. A singular bright spot presented itself in the perceptibly rising volume of production orders from large food companies that helped the Food

Industry division to achieve a sales increase. Despite the gain in gross margin of the Consumer Brands division, Germany's gross margin did not exceed the previous year's level. The average number of full-time equivalents remained constant year-on-year, although the 747 full-time equivalents as per the start of the financial year 2016 had dropped slightly to 733 at year's end. Germany's salary increases due to collective agreements could only be absorbed because the previous year's extraordinary expenses were omitted and variable compensations reduced. Overall, operating costs were maintained at level of the previous year, despite increased expenses for projects in the areas of production and IT. Germany's EBIT decreased by –26 % to CHF 12.6 million, its EBIT margin dropped from 7.3 % attained in the previous year to 5.6 %. Investments once again reached a very high level with CHF 23.8 million, following the CHF 22.8 million invested in the previous year. In both years, expenditures were committed to our cutting-edge blending plant with automated high-bay storage in Radolfzell. The project costs, at the end of 2016 recorded as under construction, exceed CHF 33 million. The new plant went into operation at the end of Q1 2017.

## Switzerland/Rest of Western Europe with a slight gain

The geographic segment Switzerland/Rest of Western Europe recorded an organic sales growth of +1.2 % owed mainly to the positive sales development of liquid sauces and soups in Italy, as well as the pleasing progress of Granovita Spain acquired in 2015. At the same time, order volumes of some of the key account customers of Hügli UK in health & nutrition declined, making it impossible to uphold the previous year's sales level. Due to the strong Swiss Franc, the largest subsidiary in Switzerland only just managed to maintain the sales level as particularly the gastronomy sales continued to drop. The number of full-time equivalents rose organically from 424 in the previous year to 429 as per the end of 2016. Personnel expenses thus rose slightly, whereas the other operating costs were maintained at the previous year's level owing to a good cost management. By these means, the segment's EBIT margin continued to growth further. Since the beginning of 2016, the Dutch Bresc B. V. has been part of this segment, supplying an acquisition-related sales growth of CHF 13.7 million with its 68 employees, and thanks to its good earnings adding a pleasing EBIT contribution. Overall, the segment's EBIT margin rose from 9.6 % in the previous year to 10.1 %.

## Hügli EAST continues on growth track

The country cluster Hügli EAST (production subsidiary in CZ and sales companies in SK, PL and HU) achieved a remarkably good organic sales increase of +7.3 % that was based on all sales divisions and countries. The gross margin remained constant. While the number of full-time equivalents remained almost unchanged with 266 as per the end of 2016 when compared to the beginning of the year, the average number of employees increased slightly along with personnel expenses. The improved sales performance and higher production capacity uptake, combined with only under-proportionally risen operating costs resulted in a distinctive EBIT increase of +30 %. The EBIT margin increased from 7.9 % in the previous year to 9.4 % in 2016.

## Slightly higher gross margin, operating costs under control

In 2016, the organic gross margin stood marginally above the previous year's figure owing to a shift in the mix. The margin increase manifested itself mainly in the Consumer Brands division, due on the one hand to the insourcing of the production of trade goods, on the other hand to the discontinuation of trade goods with a lower margin. On a comparable basis, personnel expenses in local currencies remained practically constant with –0.1 %, as did the average number of staff. The fixed salary increases due to collective agreements, namely in Germany, were compensated by the omission of the previous year's one-off costs and the lower variable salary components. At the balance sheet date, the headcount had dropped from 1'436 full-time equivalents at the beginning

of 2016 to 1'428 at the end of the year; including the Bresc B.V. acquisition, the Group headcount increased to a total 1'496 FTEs (+4.2 %). On a comparable basis, other operating expenses rose by +2.3 % at constant currency exchange rates. Cost increases occurred in production, IT, development and quality management.

Depreciation stands slightly above the previous year's figure. The large item "under construction" in Radolfzell (CHF 33 million) will start to be depreciated when the mixing plant goes into operation in March 2017. Amortisation comprises an unbudgeted amortisation of brands no longer in use for CHF 0.15 million.

## Lack of sales depresses earnings

Reported EBIT dropped by –6.4 % from CHF 30.6 million in the previous year to CHF 28.6 million. The EBIT margin declined from 8.1 % in the previous year to 7.4 % in 2016.

Interest expenses correspond to the previous year's level because the higher debt was compensated by a lower average interest rate of 1.1 % (previous year: 1.3 %).

The other financial result mainly includes devaluation losses from GBP receivables.

The reported tax rate stood at 18.2 % in 2016, and as in the previous year (20.6 %), it was influenced by positive one-off effects. Overall, these comprise the revaluation of loss carry forwards in Italy, due to the successful turnaround and a positive outlook, as well as tax income from other periods.

Consolidated profits declined on the whole, by CHF –1.0 million or –4.6 % to CHF 22.3 million.

The earnings per share decreased after the deduction of minority shares by –5.7 %.

## Strong balance sheet despite intensive investment activities

A remarkable impact on non-current assets was exerted by the balance sheet item under construction that soared to CHF 33.8 million. Relating to the new plant in Radolfzell (mixing plant and high-bay storage), it will be transferred to the corresponding balance sheet positions (around 60 % to buildings, 40 % to technical equipment/machinery) when the plant goes into production in March 2017. The reduction of intangible assets results from the amortisation of CHF 2.5 million and lower expenditures for software. After adjustment, accounts receivables stood CHF –1.3 million below the previous year's level, the days of sales outstanding calculated on this basis were almost level with the previous year (48 days). Inventories saw a slight net increase by CHF +0.9 million, including an augmentation of own products and a reduction of trade goods inventories.

The acquisition costs for 80 % of Bresc capital shares amount to CHF 9.3 million. The thereby acquired net assets total CHF 1.7 million, generating a goodwill of CHF 7.6 million that was recognised in equity in 2016.

A restatement was carried out retroactive to 2015 in the deferred tax liabilities balance sheet item based on an amendment of accounting principles (now in accordance with "IFRS for SMEs" instead of "IFRS"). Liabilities (deferred taxes) were reclassified to equity. Detailed information on this restatement can be found in the corresponding note 26 in the notes to the consolidated financial statements.

There was a negative currency translation difference of CHF –3.3 million in equity, mainly owing to equity-like Group loans in foreign currencies. In addition, the value of interest rate swaps (cash flow hedging) was further diminished by CHF –0.9 million after taxes by the continuously declining long-term interest rates of the capital market. The recognition of the 80 % goodwill Bresc of CHF –7.6 million in 2016 depresses the equity ratio with –1.2 % points. The equity ratio declined correspondingly from 54.8 % (restated, 54.1 % were reported in the previous year's report) to 53.7 %. Net debt was up by CHF 8.4 million to a total of CHF 75.4 million. The net debt to EBITDA ratio increased from 1.5x to 1.8x.

## Operating cash flow covers large investments

The operating cash flow before the change of net assets marginally decreased by CHF –0.9 million, or –1.9 %, respectively, to CHF 43.5 million. At the

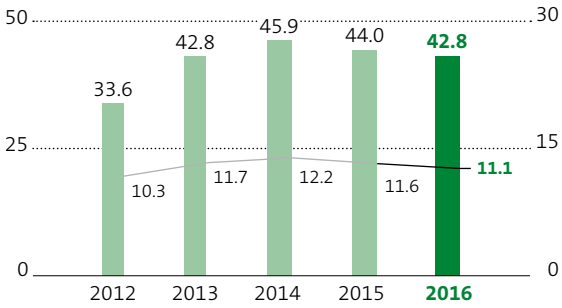
same time, the net working capital declined by CHF –1.3 million (CHF –2.2 million in the previous year) and the taxes paid were CHF 1.0 million higher year-on-year. This resulted in a decrease of cash flow from operating activities 2016 by CHF –2.8 million, or –6.8 % respectively. Investments in non-current assets still totalled a high CHF 29.6 million after the previous year's record figure of 34.1 million. Net CHF 9.1 million were additionally spent on the acquisition (previous year: CHF 14.5 million). The free cash flow thus came to stand close to zero in 2016 (CHF –0.3 million); in the previous year it had been negative with CHF –4.9 million.

## Solid profitability

The return on invested capital (ROIC) dropped from 10.8 % in the previous year to 9.6 % in 2016, chiefly because the average invested capital of CHF 224 million in the previous year had considerably increased to CHF 245 million. Measured against the weighted average cost of capital (WACC) of 7.0 %, a solid market value added of +2.6 % was achieved in the financial year. The return on equity (ROE) dropped from 16.4 % to 14.2 % in 2016.

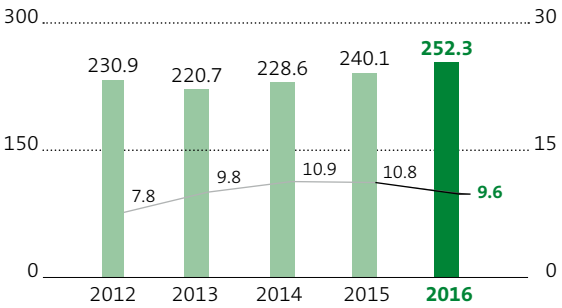
**EBITDA/EBITDA-margin 2012–2016**

in million CHF/in% (● EBITDA/—EBITDA-margin)




**NOA/ROIC 2012–2016**

in million CHF/in% (● NOA/—ROIC)




[1] NOA = Net Operating Assets: Net working capital and tangible and intangible assets as at balance sheet date

[2] ROIC = Return on Invested Capital: NOPAT (EBIT × (1 – actual tax rate))/average NOA

## Currency situation, presentation of market performance in EUR

Hügli's consolidated financial statements are stated in Swiss Francs, taking the perspective of the majority of larger stakeholders into account. This is done in view of the knowledge that more than 80 % of revenues/costs are not attained in CHF, and that more than 80 % of the invested capital is invested in currencies other than CHF, mostly in EUR. The EUR thus constitutes the currency of Hügli's primary business activities (functional currency). The achieved Group market performance is therefore best presented in EUR.

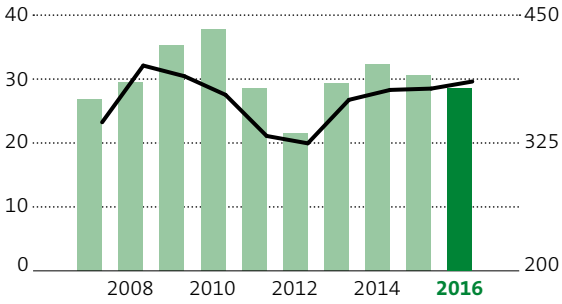
Particularly in the period 2008 to 2011, the EUR had been devalued against the CHF by –27 %, a further devaluation of –12 % occurred in 2015. The development of sales and EBIT in the course of the past 10 years are displayed in Swiss Francs and in Euro in the previous presentations. They show how profoundly the operating development in CHF was distorted by currency losses while a good market performance was achieved in EUR over this period.

## EBITDA as new strategic target figure

The Board of Directors has decided to replace the hitherto used strategic target figure EBIT by EBITDA (operating profit before depreciation and amortisation). EBITDA is a relevant economic key figure that represents an approximation of operating cash flow from operating activities before the change of net working capital and is often used as a reference for other key figures and multiples, respectively. Moreover, EBITDA allows for more meaningful comparisons of companies. This applies to the foodstuffs corporations in Switzerland in particular, because the differing interpretations of amortisations by the various accounting standards do not distort the comparison. In the medium term, the EBITDA margin should range within a target corridor of 11.5 % to 13.0 %.

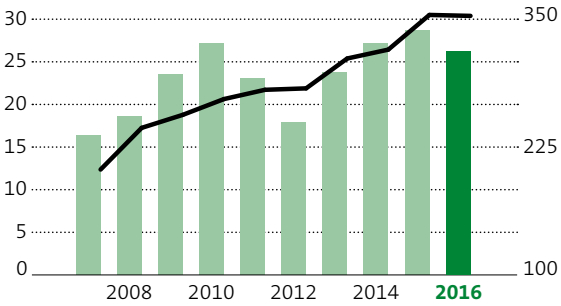
**Sales/EBIT 2007–2016 in CHF**

in Mio. CHF (● EBIT/— Sales)




**Sales/EBIT 2007–2016 in EUR**

in Mio. EUR (● EBIT/— Sales)



## Outlook 2017

We anticipate that the economic environment will continue to be demanding in 2017 due for the most part to a stagnant market and heightened competition. Our main objective is to outdo our competitors in meeting the quality demands of our customers thanks to innovative products manufactured at cutting-edge automated production plants. Raw material prices show signs of slight augmentation that will have to be compensated by an increase of sales prices. Maintaining a consistent cost management in all business areas is essential for the improvement of both earnings and free cash flow. In the financial year 2017, we expect a moderate organic sales growth of 0 %–2 %, combined with an increase of the EBTIDA margin above 11.1 %, the value reported in 2016.

# Consolidated Income Statement

| | Explanations | 2016 | | 2015 | |
|---|---|---|---|---|---|
| | Note | in CHF 1'000 | in % | in CHF 1'000 | in % |
| **Sales** | 18 | **385'158** | **100.0** | **378'346** | **100.0** |
| Sales deductions | | –7'366 | –1.9 | –7'751 | –2.0 |
| **Net sales** | | **377'792** | **98.1** | **370'595** | **98.0** |
| Change in inventory of finished and semi-finished goods | | 1'696 | 0.4 | –858 | –0.2 |
| **Operating revenue** | | **379'488** | **98.5** | **369'737** | **97.7** |
| Material expenses | | –177'925 | –46.2 | –176'186 | –46.6 |
| Personnel expenses | 19 | –92'129 | –23.9 | –87'571 | –23.1 |
| Other operating expenses, net | 20 | –66'598 | –17.3 | –61'988 | –16.4 |
| **Operating profit before depreciation and amortisation (EBITDA)** | | **42'836** | **11.1** | **43'992** | **11.6** |
| Depreciation tangible fixed assets | 6 | –11'742 | –3.0 | –11'191 | –3.0 |
| Amortisation intangible assets | 7 | –2'487 | –0.6 | –2'233 | –0.6 |
| **Operating profit (EBIT)** | | **28'607** | **7.4** | **30'568** | **8.1** |
| Interest expenses | 22 | –945 | –0.2 | –946 | –0.3 |
| Interest income | 22 | 28 | 0.0 | 12 | 0.0 |
| Other financial result | 22 | –485 | –0.1 | –223 | –0.1 |
| **Profit before taxes** | | **27'204** | **7.1** | **29'411** | **7.8** |
| Income taxes | 23 | –4'942 | –1.3 | –6'068 | –1.6 |
| **Net Group profit** | | **22'262** | **5.8** | **23'343** | **6.2** |
| thereof Shareholders of Hügli Holding AG | | 22'052 | 5.7 | 23'343 | 6.2 |
| thereof minority interests | | 210 | 0.1 | 0 | 0.0 |
| Earnings per bearer share (in CHF) (not diluted and diluted) | 25 | 45.73 | | 48.49 | |

# Consolidated Cash Flow Statement

| in CHF 1'000 | Explanations Note | 2016 | 2015 |
|---|---|---|---|
| Net Group profit | | 22'262 | 23'343 |
| Income taxes | 23 | 4'942 | 6'068 |
| Interest expenses/Interest income | 22 | 917 | 934 |
| Depreciation/Amortisation | 6/7 | 14'229 | 13'424 |
| Increase/(Decrease) in provisions for employee benefits | | 123 | 41 |
| Loss/(Profit) from disposal of non-current assets | 20 | 25 | –71 |
| Other non-cash result | | 1'044 | 666 |
| **Operating cash flow before the change of net working capital** | | **43'543** | **44'405** |
| Change in net working capital | | | |
| (Increase)/Decrease in receivables | | 2'120 | –1'081 |
| (Increase)/Decrease in inventories | | –931 | –671 |
| Increase/(Decrease) in liabilities | | 118 | 3'939 |
| Income taxes paid | | –6'486 | –5'437 |
| **Cash flow from operating activities** | | **38'364** | **41'155** |
| Investments tangible fixed assets | 6 | –29'063 | –32'286 |
| Investments intangible assets | 7 | –568 | –1'792 |
| Acquisitions (net cash) | 1 | –9'086 | –14'515 |
| Disposals of tangible assets/intangible assets | | 42 | 2'531 |
| Disposals of financial assets | | –6 | 1 |
| Interest received | | 28 | 12 |
| **Cash flow from investing activities** | | **–38'653** | **–46'049** |
| Increase/(Repayment) of short-term financial liabilities | | 9'371 | 7'357 |
| Repayment of long-term financial liabilities | | –10'000 | –10'210 |
| Increase of long-term financial liabilities | | 10'000 | 15'628 |
| Dividend payments to shareholders of Hügli Holding AG | | –7'715 | –7'704 |
| Dividend payments to minority interests | | –98 | 0 |
| Interest paid | | –758 | –839 |
| Sale of own shares (stock ownership plans) | | 729 | 611 |
| **Cash flow from financing activities** | | **1'528** | **4'843** |
| **Total cash flow** | | **1'240** | **–51** |
| Translation adjustments on cash and cash equivalents | | –498 | –1'004 |
| **Change in cash and cash equivalents** | | **742** | **–1'055** |
| Cash and cash equivalents at 01.01. | | 12'012 | 13'067 |
| Cash and cash equivalents at 31.12. | | 12'754 | 12'012 |

# Consolidated Balance Sheet

| | Explanations | 31.12.2016 | | 31.12.2015 | |
|---|---|---|---|---|---|
| | Note | in CHF 1'000 | in % | in CHF 1'000 | in % |
| | 26 | | | restated | |
| **Assets** | | | | | |
| Cash and cash equivalents | 2 | 12'754 | | 12'012 | |
| Trade accounts receivable | 3 | 49'019 | | 50'311 | |
| Other current receivables | | 4'090 | | 5'260 | |
| Inventories | 4 | 63'755 | | 62'991 | |
| Accrued income and prepaid expenses | 5 | 2'301 | | 1'878 | |
| **Current assets** | | **131'919** | **45.0** | **132'452** | **47.3** |
| Land and buildings | 6 | 64'920 | | 63'683 | |
| Technical equipment and machinery | 6 | 43'737 | | 43'922 | |
| Other tangible fixed assets | 6 | 6'231 | | 9'355 | |
| Under construction | 6 | 33'772 | | 15'995 | |
| Intangible assets | 7 | 11'456 | | 13'431 | |
| Financial assets | 8 | 47 | | 20 | |
| Deferred tax assets | 11 | 1'058 | | 1'426 | |
| **Non-current assets** | | **161'221** | **55.0** | **147'832** | **52.7** |
| **Assets** | | **293'140** | **100.0** | **280'284** | **100.0** |
| | | | | | |
| **Liabilities and shareholders' equity** | | | | | |
| Short-term financial liabilities | 9 | 45'478 | | 36'108 | |
| Trade accounts payable | | 21'377 | | 21'026 | |
| Other current liabilities | | 1'051 | | 1'391 | |
| Accrued expenses and deferred income | 10 | 17'279 | | 16'343 | |
| **Current liabilities** | | **85'185** | **29.1** | **74'868** | **26.7** |
| Long-term financial liabilities | 9 | 42'721 | | 42'870 | |
| Deferred tax liabilities | 11/26 | 6'267 | | 7'580 | |
| Provisions for employee benefits | 12 | 1'486 | | 1'384 | |
| **Non-current liabilities** | | **50'474** | **17.2** | **51'834** | **18.5** |
| **Liabilities** | | **135'659** | **46.3** | **126'703** | **45.2** |
| Share capital | 17 | 485 | | 485 | |
| Capital reserves | 17 | 19'971 | | 19'891 | |
| Own shares | 17 | –799 | | –1'448 | |
| Retained earnings | 17/26 | 137'298 | | 134'654 | |
| **Equity attributable to shareholders of Hügli Holding AG** | | **156'955** | **53.5** | **153'582** | **54.8** |
| Minority interests | | 526 | 0.2 | 0 | 0.0 |
| **Equity** | | **157'481** | **53.7** | **153'582** | **54.8** |
| **Liabilities and shareholders' equity** | | **293'140** | **100.0** | **280'284** | **100.0** |

# Consolidated Statement of Changes in Equity

| in CHF 1'000 | Explanations | Share capital | Capital reserves | Own shares | Retained earnings: Goodwill offset | Retained earnings: Cash flow hedging | Retained earnings: Translation differences | Retained earnings: Other retained earnings | Retained earnings: Total | Equity shareholders Hügli Holding AG | Minority interests | Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01.01.2015** | | **485** | **19'893** | **–2'061** | –37'118 | –1'089 | –22'222 | 192'267 | **131'838** | **150'155** | 0 | **150'155** |
| Restatement | 26 | | | | | | 1'110 | | **1'110** | **1'110** | 0 | **1'110** |
| **Balance at 01.01.2015 restated** | | **485** | **19'893** | **–2'061** | –37'118 | –1'089 | –21'112 | 192'267 | **132'948** | **151'265** | 0 | **151'265** |
| Goodwill offset | 1 | | | | –597 | | | | **–597** | **–597** | | **–597** |
| Stock ownership plans | | | | | | | | | | | | |
| Sale of own shares | 19 | | **–2** | **613** | | | | | | **611** | | **611** |
| Recognition of share-based payments | 19 | | | | | | | 100 | **100** | **100** | | **100** |
| Valuation of cash flow hedges | 17 | | | | | –743 | | | **–743** | **–743** | | **–743** |
| Net Group profit | | | | | | | | 23'343 | **23'343** | **23'343** | | **23'343** |
| Dividend | 17 | | | | | | | –7'704 | **–7'704** | **–7'704** | | **–7'704** |
| Translation differences | | | | | | | –12'692 | | **–12'692** | **–12'692** | | **–12'692** |
| **Balance at 31.12.2015** | | **485** | **19'891** | **–1'448** | –37'715 | –1'832 | –33'804 | 208'006 | **134'655** | **153'582** | 0 | **153'582** |
| Change in scope of consolidation | 1 | | | | | | | | | | 420 | **420** |
| Goodwill offset | 1 | | | | –7'569 | | | | **–7'569** | **–7'569** | | **–7'569** |
| Stock ownership plans | | | | | | | | | | | | |
| Sale of own shares | 19 | | **80** | **649** | | | | | | **729** | | **729** |
| Recognition of share-based payments | 19 | | | | | | | 57 | **57** | **57** | | **57** |
| Valuation of cash flow hedges | 17 | | | | | –931 | | | **–931** | **–931** | | **–931** |
| Net Group profit | | | | | | | | 22'052 | **22'052** | **22'052** | 210 | **22'262** |
| Dividend | 17 | | | | | | | –7'715 | **–7'715** | **–7'715** | –98 | **–7'813** |
| Translation differences | | | | | | | –3'251 | | **–3'251** | **–3'251** | –6 | **–3'257** |
| **Balance at 31.12.2016** | | **485** | **19'971** | **–799** | –45'284 | –2'763 | –37'055 | 222'400 | **137'298** | **156'955** | 526 | **157'481** |

# Notes to the Consolidated Financial Statements

## SEGMENT REPORTING

| 2016 | | Germany | Switzerland/Rest of Western Europe | Eastern Europe | Elimination/ Not allocated | | Total Group |
|---|---|---|---|---|---|---|---|
| in CHF 1'000 | | | | | | | |
| **Sales to third parties** | | **224'746** | **130'084** | **30'328** | | | **385'158** |
| Inter-segment sales | | 7'388 | 27'054 | 9'233 | | | |
| Total sales | | 232'135 | 157'138 | 39'561 | –43'676 | | |
| **EBITDA** | | **19'857** | **18'822** | **4'157** | | | **42'836** |
| Depreciation | | –5'286 | –5'212 | –1'244 | | | –11'742 |
| Amortisation | | –1'965 | –447 | –75 | | | –2'487 |
| **EBIT** | | **12'605** | **13'163** | **2'838** | | | **28'607** |
| EBIT margin group (third party) | | 5.6 % | 10.1 % | 9.4 % | | | 7.4 % |
| EBIT margin segment (total) | | 5.4 % | 8.4 % | 7.2 % | | | |
| Financial result, net | | | | | | | –1'402 |
| Income taxes | | | | | | | –4'942 |
| **Net Group profit** | | | | | | | **22'262** |
| Investments | | 23'820 | 5'090 | 721 | | | 29'631 |
| Acquisition | | 0 | 9'086 | 0 | | | 9'086 |
| Assets | | 165'131 | 109'696 | 27'029 | –8'717 | | 293'140 |
| Liabilities | | 21'380 | 23'252 | 5'145 | 85'882 | | 135'659 |
| Personnel (full-time positions) | | 733 | 497 | 266 | | | 1'496 |
| | **Food Service** | **Private Label** | **Brand Solutions** | **Food Industry** | **Consumer Brands** | **Others** | **Total Group** |
| **Sales** | **151'024** | **76'799** | **51'678** | **34'077** | **57'426** | **14'154** | **385'158** |

| 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Sales to third parties** | | **233'409** | **117'196** | **27'741** | | | **378'346** |
| Inter-segment sales | | 7'176 | 28'111 | 8'140 | | | |
| Total sales | | 240'585 | 145'306 | 35'881 | –43'426 | | |
| **EBITDA** | | **23'781** | **16'780** | **3'431** | | | **43'992** |
| Depreciation | | –5'012 | –5'071 | –1'107 | | | –11'191 |
| Amortisation | | –1'696 | –400 | –137 | | | –2'233 |
| **EBIT** | | **17'073** | **11'308** | **2'187** | | | **30'568** |
| EBIT margin group (third party) | | 7.3 % | 9.6 % | 7.9 % | | | 8.1 % |
| EBIT margin segment (total) | | 7.1 % | 7.8 % | 6.1 % | | | |
| Financial result, net | | | | | | | –1'157 |
| Income taxes | | | | | | | –6'068 |
| **Net Group profit** | | | | | | | **23'343** |
| Investments | | 22'758 | 8'310 | 3'009 | | | 34'077 |
| Acquisition | | 9'921 | 6'732 | 0 | | | 16'654 |
| Assets | | 154'125 | 107'128 | 26'734 | –7'704 | | 280'284 |
| Liabilities | | 21'981 | 19'808 | 4'109 | 80'805 | | 126'703 |
| Personnel (full-time positions) | | 747 | 424 | 265 | | | 1'436 |
| | **Food Service** | **Private Label** | **Brand Solutions** | **Food Industry** | **Consumer Brands** | **Others** | **Total Group** |
| **Sales** | **148'970** | **78'484** | **55'521** | **32'730** | **62'154** | **487** | **378'346** |

# CORPORATE ACCOUNTING PRINCIPLES

## General

The consolidated financial statements of Hügli Group are prepared in accordance with all directives of the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER). The new rules on sales recognition (Swiss GAAP FER Conceptual Framework, FER 3 and FER 6), which came into force on 1 January 2016, had no influence on the accounting of the Group and did not entail any adjustments. The consolidated financial statements comply with Swiss corporate law and the SIX Swiss Exchange Listing Rules. In the financial year 2016, an accounting principle was amended, which led to a restatement in the opening balance sheet as per 01. 01. 2015. It consists in a marginal transfer from liabilities (deferred tax liabilities) to equity (retained earnings). The income statement remains unchanged. The detailed disclosure of the restatement is presented in note 26. The consolidated financial statements are based on the audited financial statements of the Hügli corporate subsidiaries for the year ended 31 December, prepared in accordance with uniform corporate accounting principles. The consolidated financial statements are based on historical cost, with the exception of derivative financial instruments that are stated at fair value.

The consolidated financial statements 2016 were approved and released from the Board of Directors of Hügli Holding AG on 23 March 2017. They must also be approved at the Annual General Meeting on 17 May 2017.

## Management Assumptions and Estimates

The preparation of the consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of assets, liabilities, expenses, revenues and contingent liabilities at the date of the consolidated financial statements. Actual results may differ from these estimates.

Material assumptions, which influence the consolidated financial statements of the Hügli Group, include particularly the evaluation of impairments of fixed assets and the measurement of tax liabilities.

The estimated useful life of tangible fixed assets can be shortened through altered use of property, plant and equipment. The recoverable amount of intangible assets (mostly brands) is based on assumptions of future revenues, margins and discount rates. If these assumptions change, future results may vary considerably from current calculations. The carrying amounts of such assets are disclosed in notes 6 and 7.

The valuation of tax liabilities is subject to the interpretation of tax laws in the respective jurisdictions, who appraise their adequacy through final assessment and audits by the tax authorities. This can result in material changes to tax expense. Furthermore, in order to determine whether tax loss carryforwards may be capitalized, one must first critically assess the probability that there will be future taxable profit against which to offset them. The budgeted assets may not be achieved, due to a variety of influencing factors and developments. The book values are explained in note 11.

In the course of their ordinary operating activities, corporate subsidiaries can become involved in litigation. Depending on the estimate on the part of the Executive Committee, this can cause specific provisions. The outcome of these proceedings may result in claims against the Group that cannot be met at all or in full through provisions or insurance cover.

## Scope and Principles of Consolidation

The scope of consolidation includes Hügli Holding AG and all Swiss and foreign subsidiaries which the parent company, directly or indirectly, controls either by holding more than 50 % of the voting rights or by having otherwise the power to govern their operating and financial policies. Complying with the method of full consolidation, assets, liabilities, income and expenses are fully incorpo-

rated in the consolidated accounts. Intercompany balances and transactions (accounts receivable, accounts payable, income and expenses) are eliminated upon consolidation.

Minority interests in the equity and net income of consolidated companies are presented separately. Gains arising from intercompany transactions are eliminated in full. Capital consolidation is based on the purchase method, whereby the fair value of assets and liabilities of the acquired subsidiary is cleared against the acquisition cost at the time of acquisition. The resulting goodwill will be recognised in equity. Companies acquired in the course of the financial year are consolidated from the date on which control is obtained. The date to obtain control of the acquiree can take place before the legal closing date, if the date, at which the purchaser receives the assets and takes over the liabilities, was contractually agreed by a written agreement to lie before the closing date. Companies sold are excluded from the scope of consolidation as of the date on which control is given up, with any gain or loss recognised in income.

Companies in which Hügli Holding AG has a minority interest of at least 20 % but less than 50 %, or over which it otherwise has significant influence, are determined by using the equity method of accounting and presented separately in the consolidated balance sheet. The share in profit or loss is recognised and presented separately in the consolidated income statement.

Investments less than 20 % are stated at acquisition value and presented under other financial assets. An overview of the consolidated group of companies is provided on page 104.

>> see page 104

## Foreign Currency Translation

The reporting currency is the Swiss Franc (CHF). If not stated otherwise, all figures presented in these financial statements are rounded to CHF 1'000 and reported in Thousand Swiss Francs (TCHF). Group companies prepare their financial statements in local currency. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities held in foreign currencies are translated at the spot rate on the balance sheet date. The resulting foreign currency gains and losses are recognised in the consolidated income statement. The fair value fluctuations of derivative financial instruments used to hedge such balance sheet items are also recognised in the consolidated income statement.

Operating currency differences from the sale and purchase of materials are stated, along with the corresponding underlying transaction, as part of gross profit (sales deductions, and material expenses, respectively). Exchange rate differences from financing and further non-operating activities are recognised as other financial result.

For consolidation purposes, the financial statements of the foreign entities with a functional currency that differs from the reporting currency are translated into Swiss francs as follows: balance sheets at year-end rates, income and cash flow statements at average rates for the year under review (except for cases, in which the average rate does not correspond to an adequate approximation to the rates valid on the dates of transaction). Any translation adjustment resulting from the differing translation of balance sheets and income statements are recognised taking the effect of deferred taxes into consideration directly in equity at balance sheet date. Foreign currency translation effects on long-term not currency congruent financed equity-like corporate loans, which are defined as a component of net investments in a subsidiary, are recognised directly in equity. In the case of the sale of a foreign subsidiary, these accumulated currency translation differences are recognised directly in equity and transferred from translation differences to other retained earnings. The transaction-related recognition in the income statement (recycling) of currency translation differences already recognised in equity is forgone.

## ACCOUNTING POLICIES

### Hedge Transactions and Derivative Financial Instruments

To hedge the foreign currency and interest risks, Hügli occasionally makes use of forward currency contracts, option contracts and swaps, and thereby aims to reduce volatility in the income statement. When hedges that qualify for hedge accounting treatment are initially recognised, they are classified either as hedging the fair value of a specific asset or liability (Fair Value Hedge), as hedging of future highly probable cash flows arising from an expected future transaction (Cash Flow Hedge), or hedging a net investment in a foreign subsidiary.

Fluctuations in the market values of reported financial instruments or firm commitments are hedged selectively by means of fair value hedges. Within the scope of the hedged risk, a market valuation is made of both the underlying and the hedging transaction.

Fluctuations in the value of cash flow hedge items are recognised in accordance with the option in Swiss GAAP FER 27 in shareholders' equity. The value fluctuations recognised in shareholders' equity of instruments that are held for the purpose of hedging future expenses, sales, financial assets or liabilities are recognised in the consolidated income statement on the date of recognition, on which the corresponding underlying transaction is recognised. The value fluctuations recognised in shareholders' equity of instruments that are held for the purpose of hedging future non-financial balance sheet items are recognised as a corresponding balance sheet item on the date of recognition of the underlying transaction. The derivative financial statements that are to be stated are disclosed under the accrued income and prepaid expense.

### Cash and Cash Equivalents

Cash and Cash equivalents include cash and cash equivalents with an original maturity of up to 3 months. Cash and cash equivalents are stated at nominal value.

### Accounts Receivable

Accounts receivable are stated at nominal value less provisions for doubtful debts. Value adjustments for doubtful debts are established based on maturity structure and identifiable solvency risks. Besides individual values adjustments with respect to specific identifiable risks, value adjustments are also recognised based on statistically determined credit risks.

### Inventories

Raw materials and goods held for trading are generally stated at average cost, and internally manufactured products at manufacturing cost (materials used, direct and indirect labour including the respective depreciation). If the net realisable value, as the estimated sales price less the costs for the product completion and less the direct distribution costs is lower, value adjustments are made accordingly. In addition, valuation adjustments are made for inventories with an unsatisfying turnover, or for inventories that are difficult to sell, or based on statistically determined credit risks.

### Tangible Fixed Assets

Tangible fixed assets are stated at acquisition cost less accumulated straight-line depreciation and impairment allowances, if any. In the case of the operating land and buildings, the historical acquisition costs are partly based on replacement values, which were determined in 1992. These buildings are being depreciated over their remaining useful lives determined by an external real estate assessment prepared in 2004. Non-operating buildings are stated at fair value; the unrealised gains and losses resulting from periodic revaluations are recognised in the income statement.

The useful lives of buildings are 25 to 50 years, of infrastructure and interior work 10 to 20 years, of machinery and equipment 5 to 15 years, of furniture and vehicles 4 to 10 years and for EDP hardware 3 to 7 years. Repair and maintenance expense is directly recognised in the income statement.

## Leasing

Assets acquired under finance leases, where substantially all of the risks and rewards are transferred to the Group upon entering into the contract, are capitalised at the lower amount of minimum lease payments or the fair value. Assets are depreciated on a straight-line basis through their estimated useful life. The related outstanding lease liabilities are presented under current and non-current liabilities. Payments made under finance leases include amounts related to interest, which is recorded in the income statement, and amounts related to the repayment of the financial lease liabilities. The rent payments for contracts classified as operating leases are charged to the income statement as incurred.

## Intangible Assets

EDP software and acquired intangible assets, which yield a financial benefit such as licenses, trademarks, client lists and similar rights are usually capitalised and amortised over 5 years. In justified cases (ERP IT-System, established trademarks with an expected long useful life), these assets are amortised over 10 to 20 years at the most.

## Goodwill

Acquired goodwill, which represents the difference between the acquisition cost (incl. costs of transaction) and the fair value of the acquired net assets less the amount of minority interests, is recognised in equity at the time of acquisition. In case that the purchase price depends on future results, a best estimate of these is made at the date of purchase. If the calculation of the purchase price deviates from the estimated value, the recognised goodwill is adjusted correspondingly. For the purpose of disclosure, the effects of a theoretical capitalisation (acquisition value, residual value, useful life, amortisation) as well as a possible impairment are presented in note 7. In the event of the sale of a subsidiary, the goodwill that had previously been recognised in equity will be cancelled as part of the sales income at the initial costs, with any gain or loss recognised in income.

## Costs of Research and Development

All costs of research are recognised in the consolidated income statement as incurred. In general, the costs of development do not match the criteria defined by Swiss GAAP FER 10 for a capitalisation and they are therefore also recognised directly in the income statement.

## Financial Assets

Marketable securities and other financial assets are stated at acquisition cost. Own shares are stated at acquisition cost and recognised in equity. Realised gains and losses from the sale of own shares are recorded in share premium.

## Impairment

The recoverable amount of non-current assets is reviewed basically once a year. If there is any indication of impairment, an impairment test is performed. If the carrying amount exceeds the recoverable amount, an impairment is recognised in the income statement.

## Financial Liabilities

Financial liabilities, as a rule, are stated at nominal value. Financial liabilities are classified as current liabilities, except for cases, in which an unconditional right grants a deferment of the settlement of the debt by at least 12 months after the balance sheet date.

## Provisions

Provisions are recognised for any present legal or constructive obligation incurred as a result of a past event, if it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be estimated reliably. No provisions are made for possible future operating losses.

## Taxes

Current income taxes are calculated on taxable profits. Deferred taxes are calculated by applying the balance sheet liability method for all temporary differences between the carrying amount according to Swiss GAAP FER and tax base of as-

sets and liabilities. The calculation of deferred taxes is based on the country-specific tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets on tax loss carry forwards are recognised in the consolidated balance sheet in the event that future taxable profits are probable, against which the assets can be utilised. Provisions for withholding taxes on undistributed profits in foreign subsidiaries are recorded only if the Group intends to make dividend payments in the near future.

## Employee Benefits

Swiss Group companies sponsor a legally independent benefit plan according to Swiss legislation. This foundation provides services in case of retirement, death and disability. Generally, it is funded by employer and employee contributions. Besides these funding obligations, there are no further financial obligations to the Group. The economic effects of benefit plans are recognised in the consolidated financial statements. In order to determine whether this results in economic benefit or liabilities for the Group, the effects of benefit plans are assessed annually. The assessment is based on the financial statements according to Swiss GAAP FER 26. Employer contribution reserves, if any, are recognised as an asset. The differences between stated values and corresponding values of the same period in the previous year are recognised as personnel expense in the consolidated income statement. The obligatory contributions to benefit plans are also charged to personnel expense.

The other Group companies have no relevant independent pension plan. Pension provisions for retired individuals and other employee benefit obligations are actuarially calculated and recorded in the provisions.

The relating social security plans provided by the government do not include any future financial commitments of the Hügli Group. The funding of such plans is usually based on fixed percentages of the insured salaries. The employer contributions paid into these plans are recognised directly in the income statement.

## Stock Ownership Program/Share-based Payment to the Board of Directors

A stock ownership program allows members of senior management to use a limited amount to acquire Group shares at 75 % of the market value. In addition, due to regulations on the optional share-based payment to the Board of Directors, its members can obtain Group shares at 75 % of the market value instead of a cash compensation. The enactment of both share programs is subject to a retention period of 3 years and during that time remains in the custody of Hügli Holding AG. The difference between market value and the preferential price granted by the stock ownership program is recognised as personnel expense.

## Segment Reporting

The Hügli Group consists of one single business unit with a uniform strategy defined by the Board of Directors that focuses on the development, production and distribution of Hügli's core product line (soups, sauces, bouillons and further dry blended products).

The management of all Group subsidiaries is centralised and performed by the Board of Directors and the CEO based on the designated Group strategy. This central decision-making body makes decisions about investments and other relevant decisions relating to subsidiaries' and sales divisions' resources. The operating resources of each Group subsidiary are used by all distribution channels (sales divisions), as a rule. Group functions have been established and put under the supervision of the CEO (Head of Manufacturing, Group Functions Research & Development/Supply Chain Management/Information Technology) to facilitate Group-wide coordination and optimisation of key task areas. Neither the subsidiaries nor the sales divisions have autonomy. Group Executive Management chaired by the CEO makes all relevant decisions. Group Executive Management is the only management body with overall responsibility for the consolidated income statement. To supervise the areas of responsibility of the heads of specialised units, profit responsibility has been broken down to sections of the value chain (responsibility

for contribution margin and costs).

Striving for transparent information, the Hügli Group discretionally exceeds the requirements defined by Swiss GAAP FER 31. The present segment reporting in the Notes to the Consolidated Financial Statements reflects the operational and production-based structure of the Hügli Group. This structure is broken down to production sites including associated sales companies (country clusters based on the location of assets), and represents the decisive element of corporate and risk controlling and of the return on invested capital. Segment reporting is therefore performed in line with geographical criteria and based on the legal international subsidiaries. The segment "Germany" comprises every active Group company in the country; the segment "Switzerland/Rest of Western Europe" consists of companies in Switzerland (including non-significant Group functions), Austria, United Kingdom, Italy and the Netherlands. The "Eastern Europe" segment includes the Czech Republic, the Slovak Republic, Poland and Hungary. The allocation of segment assets and segment liabilities costs based on geographical criteria does not include the financial liabilities, tax liabilities and tax assets. The segment result before interest and taxes (EBIT) can therefore be associated with operative net assets.

Taking into account the different sales channels with their specific economic cycles and elasticities of demand, an additional break down of sales figures is stated based on cross-country customer segments (sales divisions). This additional information supports the valuation of sales development subject to market indicators of the individual customer segments, in particular gastronomy (out of home market), the food industry and food retail trade (key account business) as well as the health food specialist trade (brand business).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Changes in Scope of Consolidation

Hügli Holding AG acquired a majority stake of 80 % in the Dutch Bresc B. V., Sleeuwijk as of 1 January 2016, as part of a succession plan. The acquisition includes an option to acquire the remaining capital shares as of 2021. Bresc has been a successful company specialising in the development, production and sales of chilled garlic and herb products for the European gastronomy for 25 years with around 70 employees. The current Bresc management's stake of 20 % will remain unchanged and going further and ensure the continuity.

The acquisition contributed CHF 13.7 million to sales in the accounting period 2016.

The following table discloses assets and liabilities acquired at fair value at acquisition date and the goodwill resulting from the transaction. The conversion of Euro into Swiss francs took place at the transaction rate.

| 2016<br>in CHF 1'000 | Book values before acquisition | Revaluation | Acquisition values |
|---|---|---|---|
| Cash and cash equivalents | 165 | 0 | 165 |
| Accounts receivable | 1'591 | 0 | 1'591 |
| Inventories | 1'428 | 0 | 1'428 |
| Tangible assets | 648 | 157 | 806 |
| Intangible assets | 103 | 0 | 103 |
| Financial assets | 21 | 0 | 21 |
| Operating liabilities | –1'038 | 0 | –1'038 |
| Financial liabilities | –934 | 0 | –934 |
| Deferred tax liablities | 0 | –39 | –39 |
| **Net operating assets** | **1'984** | **118** | **2'102** |
| ./. Minority interests (20 %) | –397 | –24 | –420 |
| **Net operating assets (80 %)** | **1'587** | **95** | **1'682** |
| Goodwill | | | 7'569 |
| **Acquisition value** | | | **9'251** |
| ./. Acquired cash and cash equivalents | | | –165 |
| **Cash flow acquisition, net** | | | **9'086** |
| Thereof capitalised transaction costs | | | 129 |

On 1 January 2015, the Hügli Group acquired assets of primaVita GmbH in Heimertingen, Germany. The asset deal was carried out by Hügli subsidiary Heirler Cenovis GmbH in Radolfzell. The acquisition mainly comprised the "EDEN" and "granoVita" brands as well as the product inventory. In the course of this transaction, shares of Granovita UK Ltd., Wellingborough, in England, and of Granovita S.A., La Vall d'Uixó (Castellón), in Spain, were acquired through share deals. Granovita Spain operates its own production and distributes a siginificant share of its products to the Granovita organisations in Germany and the UK. Granovita UK sells the "EDEN" and "granoVita" brands in England. Overall, trademark rights amounting to CHF 4.2 million (amortisation over 15 years), inventories of CHF 7.0 million, tangible fixed assets of CHF 2.4 million, cash and cash equivalents of CHF 2.1 million as well as further net assets of CHF 0.4 million were capitalised as a result of these acquisitions.
Goodwill in the amount of CHF 0.6 million was recognised directly in equity. The acquisitions contributed CHF 25.3 million to sales in the accounting period 2015.

| **2015**<br>in CHF 1'000 | **Book values before acquisition** | **Revaluation** | **Acquisition values** |
|---|---|---|---|
| Cash and cash equivalents | 2'054 | 0 | 2'054 |
| Accounts receivable | 1'354 | 0 | 1'354 |
| Inventories | 6'962 | 0 | 6'962 |
| Tangible assets | 1'167 | 1'193 | 2'360 |
| Intangible assets | 0 | 4'233 | 4'233 |
| Operating liabilities | –860 | 0 | –860 |
| Financial liabilities | –46 | 0 | –46 |
| **Net operating assets** | **10'630** | **5'427** | **16'057** |
| Goodwill | | | 597 |
| **Acquisitions values** | | | **16'654** |
| ./. Acquired cash and cash equivalents | | | –2'054 |
| ./. Deferred part of purchase price | | | –84 |
| **Cash flow acquisitions, net** | | | **14'515** |
| Thereof capitalised transaction costs | | | 159 |

## 2. Cash and Cash Equivalents

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| **Bank accounts and cash on hand** | **12'754** | **12'012** |

The bank and postal accounts are current accounts. There were no call assets or fixed investments.

## 3. Trade Accounts Receivable

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Trade accounts receivable, gross | 49'903 | 51'322 |
| ./. Valuation allowance | –884 | –1'011 |
| **Total** | **49'019** | **50'311** |

The ageing structure of trade accounts receivable was at balance sheet date as follows:

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Not due | 37'320 | 39'083 |
| Overdue within 1 month | 8'574 | 7'633 |
| Overdue between 1 to 3 months | 1'756 | 2'004 |
| More than 3 months overdue | 2'252 | 2'602 |
| ./. Valuation allowance | –884 | –1'011 |
| **Total** | **49'019** | **50'311** |

Value adjustments on trade accounts receivable have changed as follows:

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| At 01.01. | 1'011 | 1'226 |
| Increase | 375 | 425 |
| Decrease/Utilisation | –498 | –541 |
| Change Scope of Consolidation | 11 | 0 |
| Exchange differences | –15 | –99 |
| **At 31.12.** | **884** | **1'011** |

The trade accounts receivable, which are not due, mainly arise from long-standing and well-diversified customer relationships. Based on experience, Hügli does not anticipate any significant defaults.

## 4. Inventories

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Raw materials (incl. packaging material) | 22'751 | 21'683 |
| Manufactured products | 29'920 | 28'030 |
| Trade goods | 11'683 | 13'850 |
| ./. Valuation allowance | –599 | –572 |
| **Total** | **63'755** | **62'991** |

## 5. Accrued Income and Prepaid Expenses

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Tax receivables | 142 | 120 |
| Derivative financial instruments | 0 | 17 |
| Other accrued income/prepaid expenses | 2'159 | 1'741 |
| **Total** | **2'301** | **1'878** |

## 6. Tangible Fixed Assets

| 2016<br>in CHF 1'000 | Land and Buildings | Tech. Equip./ Machinery | Other tangible assets | Under construction/ Advance payments | Total |
|---|---|---|---|---|---|
| **Gross amount as of 01.01.** | 97'643 | 106'404 | 38'542 | 15'995 | 258'585 |
| Additions | 1'239 | 4'748 | 1'956 | 21'120 | 29'063 |
| Disposals | –199 | –503 | –1'120 | 0 | –1'823 |
| Transfers | 3'060 | 2'799 | –3'025 | –2'816 | 17 |
| Changes in Scope of Consolidation | 103 | 497 | 205 | 0 | 806 |
| Translation differences | –1'046 | –1'893 | –382 | –527 | –3'847 |
| **Gross amount as of 31.12.** | **100'799** | **112'053** | **36'177** | **33'772** | **282'801** |
| **Accumulated depreciation as of 01.01.** | –33'960 | –62'483 | –29'187 | 0 | –125'630 |
| Planned depreciation | –2'521 | –7'074 | –2'147 | 0 | –11'743 |
| Disposals | 199 | 454 | 1'109 | 0 | 1'762 |
| Transfers | 0 | 0 | –14 | 0 | –14 |
| Translation differences | 403 | 787 | 294 | 0 | 1'484 |
| **Accumulated depreciation as of 31.12.** | **–35'879** | **–68'316** | **–29'946** | **0** | **–134'141** |
| Carrying values as of 01.01. | 63'683 | 43'922 | 9'355 | 15'995 | 132'955 |
| **Carrying values as of 31.12.** | **64'920** | **43'737** | **6'231** | **33'772** | **148'660** |
| **2015** | | | | | |
| **Gross amount as of 01.01.** | 97'861 | 106'635 | 36'404 | 4'062 | 244'963 |
| Additions | 3'404 | 8'176 | 5'887 | 14'819 | 32'286 |
| Disposals | –376 | –3'530 | –1'665 | –732 | –6'303 |
| Transfers | 926 | 2'182 | 327 | –2'002 | 1'433 |
| Changes in Scope of Consolidation | 1'829 | 466 | 65 | 0 | 2'361 |
| Translation differences | –6'002 | –7'524 | –2'476 | –153 | –16'156 |
| **Gross amount as of 31.12.** | **97'643** | **106'404** | **38'542** | **15'995** | **258'585** |
| **Accumulated depreciation as of 01.01.** | –33'483 | –61'191 | –30'752 | 0 | –125'426 |
| Planned depreciation | –2'451 | –6'581 | –2'156 | 0 | –11'191 |
| Disposals | 376 | 1'866 | 1'602 | 0 | 3'844 |
| Transfers | –550 | –709 | –30 | 0 | –1'289 |
| Translation differences | 2'148 | 4'131 | 2'147 | 0 | 8'427 |
| **Accumulated depreciation as of 31.12.** | **–33'960** | **–62'483** | **–29'187** | **0** | **–125'630** |
| Carrying values as of 01.01. | 64'379 | 45'444 | 5'652 | 4'062 | 119'537 |
| **Carrying values as of 31.12.** | **63'683** | **43'922** | **9'355** | **15'995** | **132'955** |

Investments in finance leases are disclosed under tangible fixed assets. Their net book value amounts to TCHF 89 (TCHF 187 in the previous year). There have been no non-cash additions to investments in finance leases.

There are no separable undeveloped lots of land. There are no pledged tangible fixed assets for financial liabilities.

## 7. Intangible Assets

### Brands and other intangible assets

| 2016<br>in CHF 1'000 | Software, Others | Brands, Intellectual property rights | Total |
|---|---|---|---|
| **Gross amount as of 01.01.** | 13'660 | 17'313 | 30'973 |
| Additions | 568 | 0 | 568 |
| Disposals | –147 | 0 | –147 |
| Transfers | 6 | 0 | 6 |
| Changes in Scope of Consolidation | 102 | 0 | 102 |
| Translation differences | –134 | –235 | –369 |
| **Gross amount as of 31.12.** | **14'055** | **17'078** | **31'132** |
| **Accumulated amortisation as of 01.01.** | –11'455 | –6'088 | –17'542 |
| Planned amortisation | –1'104 | –1'231 | –2'335 |
| Extraordinary depreciation | 0 | –153 | –153 |
| Disposals | 141 | 0 | 141 |
| Transfers | 101 | –109 | –8 |
| Translation differences | 115 | 106 | 220 |
| **Accumulated amortisation as of 31.12.** | **–12'202** | **–7'475** | **–19'675** |
| Carrying values as of 01.01. | 2'205 | 11'225 | 13'431 |
| **Carrying values as of 31.12.** | **1'853** | **9'603** | **11'456** |

| **2015** | | | |
|---|---|---|---|
| **Gross amount as of 01.01.** | 13'517 | 14'884 | 28'401 |
| Additions | 1'782 | 4'243 | 6'025 |
| Disposals | –628 | 0 | –628 |
| Transfers | –211 | 0 | –211 |
| Translation differences | –800 | –1'814 | –2'614 |
| **Gross amount as of 31.12.** | **13'660** | **17'313** | **30'973** |
| **Accumulated amortisation as of 01.01.** | –11'699 | –5'467 | –17'166 |
| Planned amortisation | –1'135 | –1'099 | –2'233 |
| Disposals | 627 | 0 | 627 |
| Transfers | 65 | 0 | 65 |
| Translation differences | 689 | 478 | 1'167 |
| **Accumulated Amortisation as of 31.12.** | **–11'455** | **–6'088** | **–17'542** |
| Carrying values as of 01.01. | 1'818 | 9'417 | 11'235 |
| **Carrying values as of 31.12.** | **2'205** | **11'225** | **13'431** |

**Non-capitalised goodwill**

Acquired goodwill, which represents the difference between the acquisition cost and the fair value of the acquired net assets, is recognised in equity at the time of acquisition.

**Overview of acquisitions, whose goodwill was recognised in equity according to Swiss GAAP FER:**

| | |
|---|---|
| **Bresc B. V., Netherlands** | |
| Activities | Production and sales of chilled garlic and herb products |
| Acquisition date | 01. 01. 2016 |
| Acquisition type | Direct acquisition of 80 % of the capital shares |
| **EDEN/Granovita, Germany/UK/Spain** | |
| Activities | Production and trade of natural food products under the brands “EDEN” and “granoVita” |
| Acquisition date | 01. 01. 2015 |
| Acquisition type | Acquisition of intangible assets (trademark rights, recipes) in Germany,<br>Direct acquisition of 100 % of the shares in the UK and in Spain |
| **Vogeley Nahrungsmittel GmbH, Hameln, Germany** | |
| Activities | Distribution of Instant-Desserts (Pudding, Crème, Mousse), soups, sauces and bouillon und seasonings |
| Acquisition date | 01. 01. 2013 |
| Acquisition type | Acquisition of intangible assets (trademark rights, recipes), Acquisition of sales department |
| **Contract Foods Ltd. (today: Huegli UK Ltd.), Redditch, UK** | |
| Activities | Manufacturing of dry blends in the functional foods domain, mainly food supplements |
| Acquisition date | 31. 01. 2008 |
| Acquisition type | Direct acquisition of 100 % of the shares |
| **Ali-Big Industria Alimentare s.r.l., Brivio, Italy** | |
| Activities | Production and distribution of liquid sauces and antipasti |
| Acquisition date | 30. 06. 2007 |
| Acquisition type | Direct acquisition of 100 % of the shares |
| **Supro-Nährmittel AG, St. Gallen/EPS Holding AG, Steinach, Switzerland** | |
| Activities | Production and distribution of dressings, soups, sauces and bouillons |
| Acquisition date | 01. 09. 2005 |
| Acquisition type | Direct acquisition (100 %) EPS Holding AG incl. subsidiary (100 %) Supro-Nährmittel AG |
| **Inter-Planing GmbH/OSCHO GmbH, Neuburg/Langenhaslach, Germany** | |
| Activities | Production and distribution of dressings, soups, sauces and bouillons |
| Acquisition date | 17. 08. 2005 |
| Acquisition type | Acquisition (100 %) of Inter-Planing GmbH Acquisition of assets/liabilities OSCHO |
| **Helva Ltd., UK** | |
| Activities | Distribution of soups, sauces, bouillons |
| Acquisition date | 01. 01. 1999 |
| Acquisition type | Direct acquisition of 100 % of the shares |

The effects of a theoretical capitalisation of goodwill and a linear depreciation over five years are presented separately in the following table.
The reported Group EBIT 2016 of TCHF 28'607 would thereby be reduced by planned amortisation of TCHF 2'966 to theoretical TCHF 25'641 (previous year: of reported TCHF 30'568 by TCHF 1'417 to theoretical TCHF 29'151). The reported EBIT margin 2016 of 7.4 % would fall to theoretical 6.7 % (previous year: of reported 8.1 % to theoretical 7.7 %).

Group equity of TCHF 157'481, reported as per 31.12.2016, would be increased by the net book value of goodwill of TCHF 7'638, after deferred taxes of TCHF 1'993, to theoretical TCHF 163'126 (previous year: of reported TCHF 153'582 by TCHF 3'126, after deferred taxes of TCHF 938 to theoretical TCHF 155'770). The reported equity ratio 2016 of 53.7 % of total assets would rise to theoretical 54.6 % (previous year: of reported 54.8 % to theoretical 55.2 %).

### Theoretical Goodwill

| 2016 | Helva | Inter-Planing/ Oscho | Supro/ EPS | Ali-Big | Contract Foods | Vogeley | Grano-vita | Bresc | Total |
|---|---|---|---|---|---|---|---|---|---|
| in CHF 1'000 | | | | | | | | | |
| **Gross amount as of 01.01.** | 265 | 8'319 | 4'670 | 7'441 | 5'387 | 6'608 | 605 | 0 | 33'294 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7'569 | 7'569 |
| Translation differences | –39 | –115 | 0 | –103 | –786 | –91 | –8 | –97 | –1'239 |
| **As of 31.12.** | **226** | **8'204** | **4'670** | **7'338** | **4'601** | **6'517** | **597** | **7'472** | **39'624** |
| **Accumulated amortisation** | | | | | | | | | |
| As of 01.01. | –265 | –8'319 | –4'670 | –7'441 | –5'387 | –3'965 | –121 | 0 | –30'168 |
| Planned amortisation | 0 | 0 | 0 | 0 | 0 | –1'325 | –121 | –1'519 | –2'966 |
| Translation differences | 39 | 115 | 0 | 103 | 786 | 77 | 4 | 25 | 1'148 |
| **As of 31.12.** | **–226** | **–8'204** | **–4'670** | **–7'338** | **–4'601** | **–5'214** | **–238** | **–1'494** | **–31'986** |
| Goodwill as of 01.01. | 0 | 0 | 0 | 0 | 0 | 2'643 | 484 | 0 | 3'126 |
| **Goodwill as of 31.12.** | **0** | **0** | **0** | **0** | **0** | **1'303** | **358** | **5'977** | **7'638** |
| **2015** | | | | | | | | | |
| **Gross amount as of 01.01.** | 278 | 9'207 | 4'670 | 8'235 | 5'639 | 7'313 | 0 | | 35'341 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 597 | | 597 |
| Translation differences | –12 | –888 | 0 | –794 | –252 | –705 | 8 | | –2'643 |
| **As of 31.12.** | **265** | **8'319** | **4'670** | **7'441** | **5'387** | **6'608** | **605** | | **33'294** |
| **Accumulated amortisation** | | | | | | | | | |
| As of 01.01. | –279 | –9'207 | –4'670 | –8'235 | –5'639 | –2'925 | 0 | | –30'954 |
| Planned amortisation | 0 | 0 | 0 | 0 | 0 | –1'298 | –119 | | –1'417 |
| Translation differences | 12 | 888 | 0 | 794 | 252 | 259 | –2 | | 2'203 |
| **As of 31.12.** | **–265** | **–8'319** | **–4'670** | **–7'441** | **–5'387** | **–3'965** | **–121** | | **–30'168** |
| Goodwill as of 01.01. | 0 | 0 | 0 | 0 | 0 | 4'388 | 0 | | 4'388 |
| **Goodwill as of 31.12.** | **0** | **0** | **0** | **0** | **0** | **2'643** | **484** | | **3'126** |

The goodwill equals the surplus of the acquisition cost over the fair values of the acquired net assets, and represents the expected future economic benefit of the acquired companies that cannot be identified and valued separately. The goodwill positions resulting from the acquisition mainly reflect the expected synergies, future products and the acquired employees.
The goodwill positions are assigned to the cash generating units (CGU) mentioned in the table, which consist either of Group units that comprise several companies, or of single Group companies. The goodwill positions, which are not fully amortised, are tested for impairment at least annually at the CGU level. The value in use is based on future projected discounted cash flows. Usually, the cash flows correspond to detailed financial plans that were approved by management and cover the period of the first 3 years. For the subsequent years, expected growth rates are taken into consideration and for years 11 and beyond, an infinite cash flow value is included in the calculation. The projections use expected EBITDA growth rates of 5 % based on the assessment of future economic developments. After a period of 10 years, zero growth is applied. The discount rate is between 7.5 % and 9.0 %, considering specific risk premiums on the base of the weighted average cost of capital (WACC) of Hügli Group of 7.0 %. Because the cash flow projections are determined after taxes, the established discount rates also allow for the specific tax effects.
Based on the impairment tests and sensitivity analyses as of closing date, the values of all goodwill positions are supported. No realistically possible changes are expected to affect the applied key assumptions (discount rate, growth rate) that may result in recoverable amounts of goodwill, which exceed the respective carrying amounts. This excludes unforeseen circumstances.

## 8. Financial Assets

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Securities | 47 | 20 |

The securities currently consist of marginal assets set aside with the legal requirement to allocate assets to cover provisions for employee benefits.

## 9. Financial Liabilities

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Current financial liabilities | 45'478 | 36'108 |
| Non-current financial liabilities | 42'721 | 42'870 |
| **Total** | **88'199** | **78'978** |
| Planned maturity | | |
| up to 1 year | 45'478 | 36'108 |
| up to 2 years | 35'721 | 0 |
| up to 3 years | 0 | 35'870 |
| up to 4 years | 7'000 | 0 |
| up to 5 years | 0 | 7'000 |
| Breakdown to currencies | | |
| CHF | 44'200 | 41'100 |
| EUR | 35'483 | 25'561 |
| CZK | 5'598 | 6'874 |
| GBP | 2'519 | 4'787 |
| HUF | 399 | 656 |

The financial liabilities primarily consist of fixed advances from banks. None are secured by mortgages. Non-current financial liabilities with maturity terms of 1 to 5 years are at fixed interest rates. The interest rates for current financial liabilities are adjusted to market level several times a year. The interest-bearing foreign capital has a number of financial covenants, which among other requisites, requires the observance of financial operating figures such as the net debt to EBITDA ratio (max. 3.0x) and the minimum equity to asset ratio (min. 35 %). These financial covenants were fulfilled at the balance sheet date (net debt to EBITDA ratio

1.8x, equity to asset ratio 53.7 %). For financial liabilities in total, the average interest rate amounted to 1.1 % (1.3 % in the previous year).

## 10. Accrued Expenses and Deferred Income

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Personnel/social securities | 5'039 | 3'593 |
| Accrued vacation and overtime | 2'052 | 1'730 |
| Customer related liabilities | 1'858 | 1'961 |
| Derivative financial instruments | 3'011 | 2'002 |
| Income tax liablities | 2'005 | 2'683 |
| Other accrued expenses/ deferred income | 3'314 | 4'374 |
| **Total** | **17'279** | **16'343** |

## 11. Deferred Tax Assets and Liabilities

The deferred tax assets and liabilities are allocated to the following balance sheet positions:

| in CHF 1'000 | 2016 | 2015 restated[1] |
|---|---|---|
| Inventories | 1'151 | 632 |
| Land and buildings | 3'999 | 4'073 |
| Other fixed assets | 847 | 1'038 |
| Provisions | 485 | 434 |
| Other balance sheet positions | 501 | 2'683 |
| **Total tax liabilities** | **6'983** | **8'860** |
| Inventories | 290 | 134 |
| Land and buildings | 10 | 3 |
| Other fixed assets | 380 | 1'096 |
| Provisions | 167 | 0 |
| Other balance sheet positions | 926 | 1'472 |
| **Total tax assets** | **1'774** | **2'706** |
| **Deferred tax liabilities, net** | **6'267** | **7'580** |
| **Deferred tax assets, net** | **1'058** | **1'426** |

[1] see explanation 26

Deferred tax liabilities and tax assets based on temporary valuation differences are recorded with their gross amounts. Appropriate netting of deferred tax liabilities and tax assets is performed in consolidation.

Deferred tax assets on loss carry-forwards are only capitalised if seems probably that they can be realised. In countries and subsidiaries, respectively, in which the utilisation of loss carry-forwards cannot be foreseen, capitalisation is foregone.

Detailed information to capitalised and not capitalised loss carry-forwards can be found in note 23.

## 12. Employee Benefit Provisions

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| As of 01.01. | 1'384 | 1'486 |
| Increase | 190 | 124 |
| Utilisation | –68 | –84 |
| Decrease | 0 | 0 |
| Exchange differences | –20 | –142 |
| **As of 31.12.** | **1'486** | **1'384** |

The employee benefit provisions for retired individuals as well as the partial retirement accounts payable in Germany, Austria and Italy are periodically calculated by an actuary.

## 13. Employee Benefits

**Economic benefit/economic provisions and employee benefit expenses:**

| | Surplus/-deficit according to Swiss GAAP FER | | Economical part of the Group | | Change to prior year recognised/ in the current result | Contributions concerning the business period | Pension benefit expenses within personnel expenses | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 2016 | 2016 | 2016 | 2015 |
| in CHF 1'000 | | | | | | | | |
| Pension institutions with surplus | 0 | 0 | 0 | 0 | 0 | 1'508 | 1'508 | 1'518 |
| **Total** | **0** | **0** | **0** | **0** | **0** | **1'508** | **1'508** | **1'518** |

Swiss Group companies sponsor a legally independent pension plan foundation according to Swiss legislation. The actuarially assumed surplus of the employee benefit foundation of Hügli Nährmittel AG amounts to CHF 11.7 million in the financial year (CHF 9.4 million in the previous year). This corresponds to a weighted coverage rate according to article 44 BVV2 of 128 %, based on an assumed interest rate of 2.0 % and BVG 2015 generation table (in the previous year: 123 %, assumed interest rate 2.5 %). As the reserve for value fluctuations that is being accumulated has not yet reached the target value of CHF 12.3 million or 23 % of assets, respectively, no positive dotation capital is stated in the balance sheet. No surplus can be determined as under Swiss GAAP FER 16, a surplus would require positive non-committed funds in the dotation capital.
The surplus is not at disposal of the Group for economic use in the form of reduction or repayment of contributions. The employee benefit costs included in the personnel costs related to the ordinary payment of contributions of the affiliated Group companies.

## 14. Financial Instruments and Financial Risk Management

### Financial Risk Management Principles

The international business activities of the Hügli Group are exposed to various financial risks, in particular credit risk, market risk (including currency, interest rate and price risk) and liquidity risk. The risk management principles are geared to identifying and analysing the risks to which the Group is exposed in a volatile market environment and to establish the appropriate control mechanisms. The Group's department of Finance and Controlling hedges certain defined risks in close cooperation with the divisions. The Board of Directors bears ultimate responsibility for risk management.

### Credit Risk

The credit risk is the Group's risk of suffering financial loss if a customer is unable or unwilling to meet contractual business obligations. The Hügli Group's main credit risks arise from trade accounts receivable. Such receivables are monitored continuously and systematically. The danger of cluster risks is limited due to the large number and wide geographical spread of customers. Hügli enters into bank transactions only with important financial institutions. The credit risk is mainly limited to current bank accounts, and secondarily to transactions involving derivative

financial instruments. The maximum credit risk is confined to the carrying amounts stated for the individual financial assets. Hügli has not entered into any guarantees or similar obligations.

**Currency Risk**

Hügli operates internationally and is therefore exposed to currency risks. These financial risks occur in connection with transactions, in particular the purchase and sale of goods, which are effected in currencies that differ from the functional currency (local currency). Such transactions are performed mainly in Swiss Francs (CHF), Euro (EUR), British Pounds (GBP), Czech Crowns (CZK), Polish Zloty (PLN) and Hungarian Forint (HUF). Hügli reduces currency risks considerably by purchasing and producing goods in the functional currency (natural hedging). Where this is not possible or only to a limited extent, currency exposure is generated, predominantly concerning the exchange rates CHF/GBP, CHF/EUR, EUR/GBP, CZK/PLN and CZK/HUF. We also restrict the Group's external financing where possible to currencies, in which medium-term free cash flows can be expected.

As per 31. 12. 2016 currency futures with a maturity of 1 to 12 months for the partial hedging of currency risks of future highly probable accruals of foreign currencies in PLN and HUF (EUR and GBP in the previous year additional) are outstanding. The open contract values (nominal values of hedge transactions) and the positive/negative replacement values (potential return on closure of contracts or unrealised profits/losses before taxes) are as follows:

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Contract value | 2'889 | 6'588 |
| Replacement value profits/(losses) | –53 | 70 |

**Interest-rate Risk**

The interest-rate risk is caused by changes in market interest rates and in the risk premiums of the capital markets, which relate to the Group's investments. The risk of fluctuating interest rates can be limited through the ratio of fixed-interest to variable interest liabilities and the ratio of short-term and long-term financial liabilities, which agrees with our risk policy. Due to financial liabilities being stated at par value, changes in interest rates have no impact on the income statement. A 1 %-point increase (or reduction) of the average interest rate for short-term variable interest advances would have increased (or reduced) group profit by CHF 0.4 million (CHF 0.4 million in the previous year).

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Contract value | 35'720 | 35'870 |
| Replacement value profits/(losses) | –2'958 | –2'055 |

In 2015, various forward interest rate swaps were used to hedge future periods with the aim to fix the interest rates for a highly probably basic funding of CHF 25 million and EUR 10 million and hedge it to offset future interest increases. The first tranche begins in 2018, the last ends in 2024. The weighted average of the fixed base rates amounts to 1.43 %. Due to decreasing capital market interest rates negative replacement values of TCHF –2'958 (previous year TCHF –2'055) have resulted and were recognised in equity.

**Price Risk**

Hügli is exposed to crucial price risks in the area of the purchasing of materials as these represent the largest cost factor of around 50 % of the sales volume of the Group. The purchasing prices of raw materials, in particular of important raw goods such as vegetables, dairy products, grain, vegetable oils and spices, depend on the interaction of supply and demand. Price shifts arise on the supply side, based on climate-related harvest failures or can be caused by the higher purchasing power of populous countries or the strong demand for organic products. Hügli limits the market price risks of the most important products through storage measures and through settled purchasing contracts with fixed maturities. Under certain circumstances, Hügli can hedge the raw materials price risk indirectly through the purchase of Agriculture Commodity Indices.

**Liquidity Risk**

The liquidity risk is the risk that Hügli will be unable to meet its financial obligations when they are due. Liquidity management consists in maintaining sufficient liquidity reserves to offset the usual liquidity fluctuations. At the same time, the Group has unused credit lines at its disposal that it can apply in the event of more serious fluctuations. The total amount of unused non-committed credit lines as per 31. 12. 2016 was CHF 61.0 million (CHF 70.9 million in the previous year). The credit lines are spread over several banks so that there is no excessive dependence on one financial institution only.

## 15. Operating Leases/Lease Contracts

The liabilities from operating leases and ongoing long-term lease contracts are due as follows:

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Due within 1 year | 3'558 | 3'074 |
| Due between 1 to 5 years | 6'068 | 6'575 |
| Due after 5 years | 2'457 | 3'002 |
| Total | **12'082** | **12'652** |

The leasing contracts predominantly consist of motor vehicles for the sales force. The long-term lease obligations comprise multi-year lease contracts at the production sites in Switzerland, Italy, UK and the Netherlands

## 16. Contingent Liabilities and Further Off-Balance Sheet Liabilities

Hügli has reached a shareholders' agreement relating to the acquisition of 80 % of Bresc B. V. shares with minority shareholders as per 01. 01. 2016. These are members of the company's management holding a total 20 % of shares. The buyout of minorities was settled with a call/put agreement, which as of 1 January 2021 grants either Hügli the right to purchase the minority shares (call), or the minority shareholders the right to sell them (put). Because this agreement qualifies as a synthetic forward contract it entails a payment obligation under a contract, which in accordance with Swiss GAAP FER 5/3 must not be recognised as a liability. The agreed purchase price is based on the reported EBITs of the two previous financial years 2019 and 2020, and from today's point of view therefore cannot yet be determined in absolute terms. Calculated on the basis of the current business plan, the purchase price would amount to CHF 4.4 million and induce a goodwill of CHF 4.1 million. Due to the recognition of only the acquired share of goodwill (partial goodwill method), this goodwill, which is to be acquired in 2021 based on the minority shares in the financial year 2021, is presented as equity transaction and recognised in equity.

As per 31 December 2015, there were no positions requiring disclosure.
The Group is currently involved in various legal cases that have arisen from normal business developments. For these ongoing legal cases, there are in justified cases short-term provisions to cover risks that the Group assumes to be foreseeable risks. Therefore, the effects neither in individual cases nor in total have a significant influence on the financial position and profitability.

## 17. Capital Management and Shareholders' Equity

Within capital management, the management of consolidated equity primarily aims at maintaining a solid balance sheet structure with an appropriate equity ratio (based on going concern), ensuring the necessary financial scope in order to be able to make investments and acquisitions in the future, and achieving a ROE (return on equity) appropriate for the risk.

The monitoring of equity is performed based on following ratios:

- Equity ratio: 53.7 %/54.8 % in the previous year (equity to total assets)
- Gearing: 0.48/in the previous year: 0.44 (interest bearing net debt to equity)
- Return on equity (ROE): 14.2 %/in the previous year: 16.4 % (group profit in percentage of average equity).

These ratios are reported to the Board of Directors at regular intervals by internal financial reporting. Based on strategic objectives, the medium target for the equity ratio is to maintain it over 40 % and to keep gearing below 1. The return on equity should be kept above 13 %.
Hügli pursues a results-oriented dividend policy with a payout-ratio of 30 % to 40 % of the Group's profit. The Board of Directors is proposing to the General Meeting of Shareholders on 17 May 2017 a dividend of CHF 16.00 (payout in the previous year: CHF 16.00) per bearer share and CHF 8.00 (payout in the previous year: CHF 8.00) per registered share, respectively. The payout aligns with 35 % (in the previous year: 33 %) of Group profit.
The shareholders' equity per balance sheet date consisted of the following:

| in CHF 1'000 | 2016 | 2015 restated[1] |
|---|---|---|
| Share capital consists of 280'000 bearer shares CHF 1.00 410'000 registered shares CHF 0.50 | 485 | 485 |
| Capital reserves | 19'971 | 19'891 |
| Bearer shares valued at average acquisition costs of CHF 509.19 (PY: CHF 509.19) | –799 | –1'448 |
| Retained earnings | 137'824 | 134'654 |
| **Total** | **157'481** | **153'582** |
| Own shares at 01.01. (in units) | 2'843 | 4'048 |
| Sales via stock ownership program | –1'274 | –1'205 |
| Purchase of own shares | 0 | 0 |
| Own shares at 31.12. (in units) | 1'569 | 2'843 |

[1] see explanation 26

Complying with Swiss GAAP FER, acquired goodwill of TCHF 7'569, was recognised in equity at the time of acquisition.
The capital reserves change by the result from the sale of own shares. The amount of TCHF 57 (TCHF 100 in the previous year) relating to the recognised costs of stock ownership plans was expensed in the income statement. The directly stated results in the retained earnings are mainly related to translation adjustments of net assets of Group companies and equity-like Group loans denominated in foreign currencies due to the valuation at the balance sheet date. In addition, due to hedge accounting, the valuation of cash flow hedges was recorded with the amount of TCHF –931 (TCHF –743 in the previous year) and the replacement value TCHF –1'026 (TCHF 800 in the previous year) minus deferred taxes of TCHF 95 (TCHF 57 in the previous year), respectively.

The fair value changes of cashflow hedges arose as follows:

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Withdrawal from reserve: Transferred to income statement | –53 | 28 |
| Appropriation to reserve: | –70 | 215 |
| Fair value adjustments | –903 | –1'043 |
| Deferred taxes on cashflow-hedges | 95 | 57 |
| **Total** | **–931** | **–743** |

Translation gains and losses recorded in equity arose as follows:

| in CHF 1'000 | 2016 | 2015 restated[1] |
|---|---|---|
| Translation gains/(losses) of net investments | 194 | –3'357 |
| Translation gains/(losses) of corporate loans, net | –3'451 | –9'335 |
| **Total** | **–3'257** | **–12'692** |

[1] see explanation 26

In order to maintain the stock ownership plans, it was decided to acquire further Hügli shares on the market. Neither in 2016 nor 2015 shares were acquired.
The consolidated reserves include legally required reserves of CHF 13.3 million (CHF 14.7 million in the previous year). Based on local law of the respective countries, the reserves cannot be paid out to shareholders.
There is no contingent or authorised capital. Furthermore, no conversion or option rights are outstanding.

## 18. Sales

The segment reporting is presented on page 66 of this annual report. >> see page 66

In addition, a breakdown of sales according to product groups and geographic markets (location of customers) is displayed on page 4.
>> see page 4

There is no single customer with sales exceeding 10 % of group sales

## 19. Personnel Expenses

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Salaries and wages | 76'748 | 73'577 |
| Social benefits | 14'043 | 13'261 |
| Other personnel costs | 1'337 | 732 |
| **Total** | **92'129** | **87'571** |

### Stock Ownership Plan

In accordance with a senior management participation program established by the Board of Directors, members of senior management are enabled to use a limited part of the bonus to acquire shares (owned by the company) at a preferential price of 75 % of the market value. Furthermore, based on regulations regarding the optional share-based payment to the Board of Directors shares were transferred to Board members.
In November of the financial year, the company transferred 758 (642 in the previous year) bearer shares to the members of the Board of Directors instead of a cash compensation, and it sold 516 (563 in the previous year) bearer shares to employees; in both instances at a purchase price of CHF 579.40 (in the previous year: employees CHF 478.50; members of the Board of Directors CHF 540.00). Since 2016, the acquisition period has been the same for the members of the Board of Directors and for employees; this being the reason for the newly equal purchase price. The enactment of both share programs is subject to

a retention period of 3 years and during that time remains in the custody of Hügli Holding AG.
The difference between market value and the discount granted on the basis of the share participation plan is recognised as personnel expense (with an offsetting entry in equity) in the income statement, with any gain or loss recognised in income. The costs in the financial year amount to TCHF 57 (TCHF 100 in the previous year).

## 20. Other Operating Expenses, net

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| External logistics | 18'286 | 18'514 |
| Distribution costs | 19'885 | 17'922 |
| Production costs | 7'511 | 7'054 |
| Management Services, Others | 22'154 | 19'875 |
| ./. Other operating income | –1'237 | –1'377 |
| **Total** | **66'598** | **61'988** |

Other operating income primarily contains expense credits, through cost transfers of packaging/postage and discounts, income from other periods as well as rental incomes, among others. Losses in the amount of TCHF –25 resulted from the disposal of fixed assets (gains of TCHF 71 in the previous year).

## 21. Development Costs

Development costs of TCHF 3'131 (TCHF 2'904 in the previous year) were recognised in 2016. Development serves mainly the creation of new products and improvement of the existing product range and is included in the personnel and other operating costs and depreciation. No development costs were capitalised.

## 22. Financial Results

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Interest expenses | 945 | 946 |
| Other financial expenses | 533 | 223 |
| **Financial expenses** | **1'478** | **1'169** |
| Interest income | –28 | –12 |
| Other financial income | –47 | 0 |
| **Financial income** | **–75** | **–12** |
| **Financial expenses, net** | **1'403** | **1'157** |

The financial expenses decreased due to lower short-term interest rates of the capital market in spite of a higher average level of debt, which increased by CHF 9 million. Overall, the average interest rate on financial liabilities resulted in 1.1 % (1.3 % in the previous year).

## 23. Income Taxes

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Current income taxes | 6'237 | 5'364 |
| Deferred income taxes | –1'295 | 704 |
| **Total** | **4'942** | **6'068** |

The variance between the expected income tax expense, based on the expected income tax rate, and the effective income tax expense recorded in the consolidated income statement depends on the following determining factors. The Group's expected income tax rate is based on the ordinary profit/loss before taxes and the tax rate pertaining to each individual subsidiary in the fiscal year.

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Profit before taxes | 27'204 | 29'411 |
| Expected income tax rate | 20.8 % | 23.6 % |
| **Expected income tax expense** | **5'669** | **6'941** |
| Effect of non-recognition of tax loss carry-forwards in the financial year | 11 | 30 |
| Use of unrecognised tax loss carry-forwards | –26 | –46 |
| Recognition (reassessment) of loss carry-forwards of previous years | –217 | –982 |
| Derecognition (reassessment) of recognised loss carry-forwards | 0 | 0 |
| Effect of tax rate changes on deferred taxes | 43 | 19 |
| Effect of non-deductible expenses | 297 | 103 |
| Tax result of previous periods | –834 | 3 |
| **Effective tax expenses** | **4'942** | **6'068** |
| Effective income tax rate | 18.2 % | 20.6 % |

Tax loss carry-forwards are only recognised if they are expected to be used in the five years ahead depending on the profitability of the company, or the fiscal unity, respectively. This recognition is subject to annual reassessment based on current estimates of management. Tax loss carry-forwards of a subsidiary are not recognised if is not foreseeable that they can be offset with future profits.

As per 31.12.2016, tax loss carry-forwards of CHF 3.7 million (previous year: CHF 4.3 million) were recognised based on current estimates, generating deferred tax assets of CHF 0.9 million (previous year: CHF 1.2 million). The non-recognised loss carry-forwards amounted to CHF 3.4 million (previous year: CHF 4.3 million) as per 31.12.2016, with non-recognised positive tax effects of CHF 0.8 million (previous year: CHF 1.2 million). Of these non-recognised loss carry-forwards, CHF 0.1 million (previous year: CHF 0.2 million) will expire within 5 years, while CHF 3.3 million (previous year: CHF 4.1 million) are not subject to expiry according to current tax law.

Deferred income taxes of TCHF –95 (previous year: TCHF –57) and the related underlying transactions were recognised directly in equity.

## 24. Transactions with Related Parties

Related parties include the Board of Directors, members of the Group Executive Management, the pension fund and important shareholders as well as companies under the control of these persons, or decisively influenced by them. Transactions with related parties are generally conducted at arm's length.

The members of the Board of Directors (6 members) are remunerated with a fixed salary or optionally with own shares at a price of 25 % below market value. The Chairman of the Board of Directors receives additional compensation based on earnings. The members of Group Executive Management (7 members), receive a fixed salary, additional compensation based on earnings and furthermore the possibility to purchase own shares with a retention period of 3 years at a price of 25 % below market value with a portion of the earnings based compensation. All compensation elements are included in the personnel expenses.

Total remuneration to the Board of Directors and Group Executive Management:

| in CHF 1'000 | 2016 | 2015 |
|---|---|---|
| Short-term benefits | 3'663 | 4'059 |
| Social expenses/ Benefit obligation | 714 | 727 |
| Stock ownership program | 59 | 151 |
| **Total** | **4'436** | **4'937** |

Social security and employee benefit contributions include the employees' and the employer's contributions as well as the obligatory state social insurance and the corporate pension plan.

The Swiss pension fund was administrated by the Hügli Group and the Group was compensated with TCHF 26 (TCHF 26 in the previous year). Furthermore, as in the previous year, there were neither accounts receivable nor accounts payable to

related parties. No other considerable transactions with related parties were effected.

## 25. Earnings per Bearer Share

| in CHF | 2016 | 2015 |
|---|---|---|
| Group profit shareholders of Hügli Holding AG | 22'052'000 | 23'343'000 |
| Average number of bearer shares with par value of CHF 1.00 | 277'263 | 276'381 |
| Average number of registered shares with par value of CHF 0.50 | 410'000 | 410'000 |
| Total bearer shares equivalents | 482'263 | 481'381 |
| **Profit per bearer share (in CHF)** | **45.73** | **48.49** |

The average number of outstanding bearer shares is based on the number of the issued shares less the weighted average number of own shares. Since neither conversion nor option rights are outstanding, the earnings per share are not diluted.

## 26. Restatement

Swiss GAAP FER does not provide any regulation on whether and, if applicable, when currency translation differences recognised in equity must be transferred to the income statement. In the case of the sale of a foreign subsidiary, the accounting principles presented in the consolidated financial statements (section Foreign Currency Translation) had until 2015, in accordance with the International Financial Reporting Standards (IFRS), intended to derecognise accumulated currency translation differences from equity-like group loans in the income statement as part of the sales net result. In 2016, it was newly established that based on the accounting principles "IFRS for small and medium-sized entities" (IFRS for SMEs) the transaction-related recognition of currency translation differences already recognised in equity in the income statement (recycling) is forgone. Hügli believes that forgoing recycling will lead to a more meaningful representation of the sales transactions in question.

As a consequence of this amendment to the accounting principle, the accumulated tax effects on currency translation differences from equity-like group loans of TCHF 1'110 were reclassified from deferred tax liabilities to equity (Retained earnings, column "Translation differences") in the opening balance sheet of the previous year's period as per 01.01.2015 (restatement: reclassification from liabilities to equity). Through the retroactive application, the expenses resulting from the increase of this tax effect of TCHF 812 were recorded directly in retained earnings in the consolidated financial statements 2015. The new accounting principle has no impact on the Income Statements presented in this Annual Report or on the Cash Flow Statements. The restatement effect in the opening balance sheet as per 01.01.2015 augments equity marginally by +0.7%, and the equity ratio from 56.8% to 57.2%, respectively. The equity ratio as per 31.12.2015 thus slightly increases from 54.1% to 54.8%.

## 27. Foreign exchange rates

### Foreign exchange rates

| | Income Statement | | Balance Sheet | |
|---|---|---|---|---|
| | 2016 | 2015 | 31.12.2016 | 31.12.2015 |
| EUR (1) | 1.090 | 1.068 | 1.072 | 1.087 |
| GBP (1) | 1.335 | 1.471 | 1.258 | 1.473 |
| CZK (100) | 4.030 | 3.910 | 3.970 | 4.020 |
| PLN (100) | 24.990 | 25.540 | 24.300 | 25.490 |
| HUF (100) | 0.350 | 0.345 | 0.346 | 0.344 |

## 28. Subsequent Events after Balance Sheet Date

The consolidated financial statements were approved and released for publication by the Board of Directors on 23 March 2017. They are furthermore subject to approval at the Annual General Meeting on 17 May 2017.
No further events occurred between 31 December 2016 and the approval of the consolidated financial statements by the Board of Directors that would have caused an adjustment of the book values of assets and liabilities of the Group or which would have to be disclosed in this position.

OBT

# Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Hügli Holding AG, which comprise the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity, consolidated statement of cash flows and notes (pages 62 to 90) to the consolidated financial statements for the year ended December 31, 2016.

## Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these 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 accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2016, give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

## REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

Key audit matters are those matters that, in our professional judgement, 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.

## INVENTORY QUANTITIES AND VALUATION

### Audit issue

Inventories represent a significant part of current assets of the Hügli Group. They comprise raw and packaging materials, trade goods and manufactured products. The valuation policies are presented the accounting policies in the notes to the financial statements.

### Audit approach

We obtained an understanding of the inventory valuation process and tested the underlying internal controls. Furthermore, we tested the valuation of the inventory through representative samples. A further audit focus was the compliance with the best-before dates of the products. To ensure the existence of the inventories we performed test counts during the inventory count.

## VALUATION OF INTANGIBLE ASSETS

### Audit issue

Intangible assets represent a significant part of the non-current assets of the Hügli Group. They comprise mainly purchased brands and recipes as well as software. The purchased intangible assets are capitalised only when they yield a financial benefit. The assets are amortised over 5 years and in justified cases over 10 up to 20 years.

### Audit approach

We audited the consistent application of the amortisation and the appropriateness of the amortisation period based on the expected useful lives as well as the valuation of the net book value. Furthermore, we assessed executive management's assumptions and the valuations of the individual brands and recipes.

## 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 Code of Obligations (CO) and article 11 AOA [11]) and that there are no circumstances incompatible with our independence.

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

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

St. Gallen, March 23, 2017
OBT AG

Stefan Traber
Licensed Audit Expert
Auditor in Charge

Beat Willi
Licensed Audit Expert

# Balance Sheet of Hügli Holding AG

| in CHF | Explanations Note | 31.12.2016 | 31.12.2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 2.1 | 207'548 | 158'932 |
| Other accounts receivable from third parties | | 12'462 | 44'118 |
| Other accounts receivable from subsidiaries | 2.2 | 3'808'717 | 4'111'657 |
| Accrued income and prepaid expenses | 2.3 | 140'000 | 168'000 |
| **Current assets** | | **4'168'728** | **4'482'707** |
| Loans to subsidiaries | 2.4 | 191'241'059 | 175'584'060 |
| Investments in subsidiaries | 2.5 | 81'113'503 | 71'862'238 |
| Intangible assets | | 1 | 1 |
| **Non-current assets** | | **272'354'564** | **247'446'299** |
| **Total assets** | | **276'523'291** | **251'929'006** |
| **Liabilities and shareholders' equity** | | | |
| Short-term financial liabilities to third parties | 2.6 | 39'479'200 | 28'561'750 |
| Short-term financial liabilities to subsidiaries | | 321'600 | 0 |
| Short-term accounts payable to third parties | | 45'563 | 56'762 |
| Short-term accounts payable to subsidiaries | | 143'753 | 56'821 |
| Short-term provisions | 2.7 | 2'000'000 | 4'000'000 |
| Accrued expenses and deferred income | 2.8 | 698'000 | 1'064'000 |
| **Short-term liabilities** | | **42'688'117** | **33'739'333** |
| Long-term financial liabilities | 2.6 | 42'720'000 | 42'870'000 |
| **Long-term liabilities** | | **42'720'000** | **42'870'000** |
| **Liabilities** | | **85'408'117** | **76'609'333** |
| Share capital | 2.9 | 485'000 | 485'000 |
| Legal capital reserves | | | |
| Capital reserves | 2.10 | 10'860'000 | 10'860'000 |
| Legal reserves | | | |
| General legal reserves | | 240'000 | 240'000 |
| Free reserves | | | |
| General free reserves | | 145'000'000 | 125'000'000 |
| Retained earnings | | | |
| Profit brought forward | | 12'467'778 | 16'418'566 |
| Net profit for the year | | 22'861'311 | 23'763'724 |
| Own shares | 2.11 | –798'914 | –1'447'617 |
| **Shareholders' equity** | | **191'115'175** | **175'319'673** |
| **Total liabilities and shareholders' equity** | | **276'523'291** | **251'929'006** |

# Income Statement of Hügli Holding AG

| in CHF | Explanations Note | 2016 | 2015 |
|---|---|---|---|
| Income from investments | 2.12 | 19'062'626 | 18'460'000 |
| Financial income | 2.13 | 5'312'436 | 5'485'464 |
| Other income | 2.14 | 4'195'111 | 4'098'629 |
| **Total income** | | **28'570'173** | **28'044'093** |
| Financial expenses | 2.15 | –4'826'503 | –11'177'230 |
| Personnel expenses | | –2'178'510 | –2'070'374 |
| Other operating expenses | 2.16 | –654'953 | –536'072 |
| **Ordinary result before taxes** | | **20'910'207** | **14'260'417** |
| Extraordinary, one-off and out-of-period income | 2.17 | 2'000'000 | 10'000'000 |
| **Profit before taxes** | | **22'910'207** | **24'260'417** |
| Taxes | 2.18 | –48'896 | –496'693 |
| **Net profit for the year** | | **22'861'311** | **23'763'724** |

# Proposed Appropriation of Retained Earnings

| in CHF | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Profit carried forward | 12'422'290 | 14'301'619 |
| Net profit of the year | 22'861'311 | 23'763'724 |
| Increase/Decrease of reserve for own shares/Dividends on own shares | 45'487 | 2'116'947 |
| **Retained earnings** | **35'329'088** | **40'182'290** |
| **The Board of Directors proposes the following appropriation of the retained earnings to the General Meeting:** | | |
| Appropriation to the free reserves | 15'000'000 | 20'000'000 |
| Dividend payment [1] | 7'760'000 | 7'760'000 |
| 280'000 bearer shares (par value: CHF 1.00): | | |
| CHF 16.00 dividend payment per share (PY: CHF 16.00 per share) | | |
| 410'000 registred shares (par value: CHF 0.50): | | |
| CHF 8.00 dividend payment per share (PY: CHF 8.00 per share) | | |
| Balance to be carried forward | 12'569'088 | 12'422'290 |
| **Total** | **35'329'088** | **40'182'290** |

[1] The dividend is based on the total of share capital. No dividend payments for own shares.

# Payment per Bearer Share

| **Bearer share (par value CHF 1.00)** | 2016 | 2015 |
|---|---|---|
| in CHF | | |
| Dividend, gross | 16.00 | 16.00 |
| ./. Withholding tax 35 % | –5.60 | –5.60 |
| **Payment per bearer share, net** | **10.40** | **10.40** |

Subject to approval by the General Meeting on 17 May 2017 is the payment per bearer share of CHF 10.40 after a deduction of 35% withholding tax. The net payment will be effected from Tuesday 23 May 2017 with coupon no. 22 to all shareholders holding Hügli shares on Thursday 18 May 2017 at the close of the stock exchange. The bearer shares (security number 464 795) will be traded ex dividend at the SIX Swiss Exchange starting 19 May 2017.

# Notes to the Financial Statements of Hügli Holding AG

## 1. Principles

### 1.1 General

These financial statements were prepared under the provisions of the Swiss Financial Reporting Law (32nd title of the Swiss Code of Obligations). The essential accounting policies not prescribed by law are as follows.
Since Hügli Holding AG, headquartered in Steinach (Switzerland), prepares consolidated financial statements in accordance with the recognised financial reporting standard Swiss GAAP FER, and in compliance with the legal provisions stated in Art. 961d paragraph 1 of the Swiss Code of Obligations, it is not disclosing neither a management report nor a cash flow statement or additional information in the notes.

### 1.2 Loans to subsidiaries

Loans in foreign currencies are converted at the closing rate. Loans to group subsidiaries are recognised at nominal values, taking into consideration any value adjustments required. In addition, further flat-rate value adjustments can apply.

### 1.3 Investments in subsidiaries

Investments are stated at historical acquisition costs. The recoverable amount of shareholdings is reviewed annually and, when required, value-adjusted in accordance with the principle of individual valuation. In addition, further flat-rate value adjustments can apply.

### 1.4 Intangible assets

Current costs for the management and protection of brands are recognised as expenses.

### 1.5 Short-term and long-term financial liabilities

Interest-bearing liabilities are stated at nominal value. Loans in foreign currencies are converted at the closing rate.

### 1.6 Own shares

Own shares are recognised at the acquisition date at acquisition cost in equity as a negative position. The profit or loss arising from a sale is stated as financial income or financial expenses within income statement.

### 1.7 Share-based payment

When own shares are used for share-based payment to members of the Board of Directors, the shares' allocation value is recorded as personnel expense.

## 2. Information on balance sheet and income statement positions

### 2.1 Cash and cash equivalents

Cash and cash equivalents include bank accounts in Swiss Francs and foreign currencies.

### 2.2 Other accounts receivable from subsidiaries

These receivables include outstanding financial and other income from group subsidiaries.

### 2.3 Accrued income and prepaid expenses

This position includes the accrual of the payment made in December 2016 to non-executive members of the Board of Directors for the current term from June 2016 to May 2017.

### 2.4 Loans to subsidiaries

Business activities and acquisitions of group subsidiaries are financed through group loans instead of local bank loans whenever possible and suitable. The increase sustained year-on-year reflects an acquisition and high requirements for capital due to intensive investment activities abroad.

### 2.5 Investments in subsidiaries

The increase is based on the direct acquisition of 80 % of the capital shares of Bresc B. V. in the financial year. All other subisidaries are all directly or indirectly in a 100 % ownership of Hügli Holding AG. All are presented on the following page on group companies. >> see page 104

**2.6 Short-term and long-term financial liabilities to third parties**

The balance sheet positions include only unsecured bank loans in Swiss Francs and foreign currencies. Non-current financial liabilities with maturity terms of 1 to 5 years are at fixed interest rates. The interest rates for current financial liabilities are adjusted to market level several times a year.

The financial covenants underlying the bank loans were maintained at balance sheet date.

**2.7 Short-term provisions**

These provisions mainly relate to investments and group loans in foreign currencies.

**2.8 Accrued expenses and deferred income**

Accrued expenses and deferred income largely comprises the variable compensation for employees, deferred tax and interest expenses as well as further financial expenses.

**2.9 Share capital**

The share capital comprises 280'000 bearer shares listed on the Swiss Stock Exchange at a par value of CHF 1.00, and 410'000 privately held registered shares at a par value of CHF 0.50. There is no contingent or authorised capital.

**2.10 Legal capital reserves**

The reserves from capital contributions include the premium from the capital increases in 1986/87 and 1990.

**2.11 Own shares**

Own shares are used for shareholdings programmes offered to the Board of Directors and to employees. Both programmes are subject to the same conditions, which include a reduced purchase price 25 % below market value and a retention period of 3 years. In November, the company transferred 758 bearer shares (642 in the previous year) to the members of the Board of Directors instead of a cash compensation as well as 516 shares (563 in the previous year) to employees each at the reduced price of CHF 579.40 (previous year: members of the Board of Directors CHF 540.00; employees CHF 478.50). Since 2016 the acquisition period for the members of the Board of Directors and the employees is equal. For that reason for both shareholdings programmes the same acquisition price results.

In order to maintain the shareholding programmes over the medium-term, Hügli shares are periodically acquired on the market. In the financial year as well in the previous year, no further own shares were acquired. The amount of own shares was 1'569 bearer shares (2'843 in the previous year) at balance sheet date, the average purchase costs came to CHF 509.19 per share.

**2.12 Income from investments**

The income from investments comprises profit distribution in the form of dividends from investments.

**2.13 Financial income**

The financial income mainly includes interest income from group subsidiaries, and secondarily also the profit from the sale of own shares.

**2.14 Other income**

The other income primarily comprises license income of group subsidiaries for the use of managed registered brands, and Hügli's actual trademark rights, respectively, as well as allocated costs for the recognition of group functions.

**2.15 Financial expenses**

The financial expenses include the interest expenses for bank loans and foreign currency losses from loans to subsidiaries.

The decrease to previous year is based on the last year's high foreign currency losses due to significantly worsened currency relations after the Swiss National Bank's decision to discontinue the Euro minimum exchange rate. Interest expenses decreased slightly year-on-year.

**2.16 Other operating expenses**
The other operating expenses contain the Holding's management expenses for the organisation of the Annual General Meeting, the production of the Annual Report, external consultancy fees and expenses for brand management and protection.

**2.17 Extraordinary, one-off and out-of-period income**
The out-of-period income comprises the release of provisions for group loans relating to the high valuation losses from foreign currency loans.

**2.18 Taxes**
The ordinary tax expense 2016 is reduced by a tax result of previous periods in the amount of CHF 295'362.

## 3. Additional information

**3.1 Full-time positions**
In the financial year, the annual average of full-time positions stood below 10 as well as in the previous year.

**3.2 Securities provided for liabilities to third parties**
The group provided securities for CHF 23.9 million (CHF 24.9 million in the previous year). In essence, these secure the credit line contracts provided to group subsidiaries by banks.

**3.3 Major shareholders**
Dr A. Stoffel Holding AG/Dr A. Stoffel hold 410'000 registered shares (410'000 in the previous year) and 41'131 bearer shares (40'031 in the previous year) at balance sheet date. This is equivalent to 50.5 % of the share capital and 65.2 % of the voting rights in the financial as well as in the previous year.

**3.4 Net release of hidden reserves**
The release of lump-sum provisions for investments/group loans in the financial year resulted in a decrease of hidden reserves that was recorded in the out-of-period income.

**3.5 Subsequent events after balance sheet date**
The financial statements were approved and released for publication by the Board of Directors on 23 March 2017. They are furthermore subject to approval at the Annual General Meeting on 17 May 2017.
No further events occurred between 31 December 2016 and the approval of the financial statements by the Board of Directors that would have caused an adjustment of the book values of assets and liabilities of the company or which would have to be disclosed in this position.

### 3.6 Shareholdings of the Board of Directors, Group Executive Management and persons close to them
as of 31 December

| | Number of bearer shares | | Number of registered shares | | Voting rights | |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| | | | | | in % | in % |
| Dr Jean Gérard Villot, President | 1'672 | 1'414 | | | 0.2 | 0.2 |
| Dr Andreas Binder | 207 | 107 | | | <0.1 | <0.1 |
| Dr Ida Hardegger | 929 | 829 | | | 0.1 | 0.1 |
| Fritz Höchner (until May 2016) | | 1'967 | | | | 0.3 |
| Dr Christoph Lechner | 318 | 218 | | | <0.1 | <0.1 |
| Dr Ernst Lienhard | 876 | 776 | | | 0.1 | 0.1 |
| Dr Alexander Stoffel | 40'131 | 40'031 | 410'000 | 410'000 | 65.2 | 65.2 |
| **Total Board of Directors** | **44'133** | **45'342** | **410'000** | **410'000** | **65.8** | **66.0** |
| Thomas Bodenmann, CEO | 500 | 732 | | | 0.1 | 0.1 |
| Dirk Balzer | 308 | 330 | | | <0.1 | <0.1 |
| Endrik Dallmann | 122 | 255 | | | <0.1 | <0.1 |
| Frank von Glan (since November 2015) | 20 | 0 | | | <0.1 | 0.0 |
| Manfred Jablowski | 0 | 0 | | | 0.0 | 0.0 |
| Jörg Meyer | 309 | 270 | | | <0.1 | <0.1 |
| Andreas Seibold | 406 | 370 | | | 0.1 | 0.1 |
| **Total Group Executive Management** | **1'665** | **1'957** | | | **0.2** | **0.3** |

OBT

# Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Hügli Holding AG, which comprise the balance sheet, income statement and notes (pages 94 to 100 and 104) for the year ended December 31, 2016.

## Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these 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 accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements for the year ended December 31, 2016, comply with Swiss law and the company's articles of incorporation.

## REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

Key audit matters are those matters that, in our professional judgement, 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.

## VALUATION OF INVESTMENTS IN SUBSIDIARIES

### Audit issue

Hügli Holding AG holds directly or indirectly all investments in the subsidiaries of the Hügli Group. The assets of Hügli Holding AG comprise the investments in the subsidiary companies and represent a significant part of the assets of Hügli Holding AG.
A potential impairment can have a significant impact on the result and the shareholders' equity of Hügli Holding AG. The valuation of the investments is checked annually by the executive management by comparing the book values with the income and the asset values of the subsidiaries. The investments are presented on page 104 of the financial statements.

### Audit approach

We audited the valuation of the investments in subsidiaries based on the audited financial statements of the subsidiaries as well as the calculations of the income and asset values. We critically reviewed the assumptions used by executive management and discussed with them the strategy and prospects of the subsidiaries.

## COMPLETENESS, VALUATION AND PRESENTATION OF SHORT AND LONG-TERM INTEREST-BEARING LIABILITIES TOWARDS THIRD PARTIES

### Audit issue

Hügli Holding AG finances the operations of the Group and provides financing to the subsidiaries in the form of loans. For this purpose, Hügli Holding AG obtains fixed term loans from various banks. Some of these loans contain provisions regarding compliance with financial covenants.

### Audit approach

We audited the completeness of the short and long-term interest-bearing liabilities through requesting bank confirmations and checking the details with the information presented in financial statements. For liabilities denominated in foreign currencies we checked the translation with reference to year-end rates. For financing arrangements with terms of over one year, we checked that these were correctly presented as long-term liabilities. Furthermore, we checked whether the underlying financial covenants had been complied with at the balance sheet date.

## 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 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

St. Gallen, March 23, 2017

OBT AG

Stefan Traber
Licensed Audit Expert
Auditor in Charge

Beat Willi
Licensed Audit Expert

# Group Companies

| | Participation | | Nominal capital | |
|---|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | | 31.12.2016 |
| | in % | in % | Currency | in 1'000 |
| Hügli Holding AG Steinach, CH<br>Telephone +41 71 447 22 11, E-Mail: info@huegli.com | | | CHF | 485 |
| Hügli Nährmittel AG Steinach, CH<br>Telephone +41 71 447 22 11, E-Mail: info@huegli.com | 100 | 100 | CHF | 1'100 |
| Supro-Nährmittel AG, Steinach, CH<br>Telephone +41 71 314 64 74, E-Mail: info@supro.ch | 100 | 100 | CHF | 1'000 |
| EPS Holding AG, Steinach, CH<br>Telephone +41 71 447 22 11, E-Mail: info@huegli.com | 100 | 100 | CHF | 250 |
| Hügli Nährmittel-Erzeugung GmbH, Hard, AT<br>Telephone +43 5574 6940, E-Mail: huegli@huegli.com | 100 | 100 | EUR | 765 |
| Huegli UK Ltd., Redditch, GB<br>Telephone +44 1527 514 777, E-Mail: info@huegli.co.uk | 100 | 100 | GBP | 1 |
| Ali-Big Industria Alimentare s.r.l., Brivio, IT<br>Telephone +39 039 5320 555, E-Mail: alibig@ali-big.it | 100 | 100 | EUR | 94 |
| Ali-Big Export s.r.l., Brivio, IT<br>Telephone +39 039 5320 555, E-Mail: alibig@ali-big.it | 100 | 100 | EUR | 10 |
| Granovita UK Ltd., Wellingborough, GB<br>Telephone +44 1933 273 717, E-Mail: info@granovita.co.uk | 100 | 100 | GBP | 1 |
| Granovita S.A., La Vall d'Uixó (Castellón), ES<br>Telephone +34 964 697 910, E-Mail: gestion@granovita.com | 100 | 100 | EUR | 541 |
| Bresc B. V., Sleeuwijk, NL<br>Telephone +31 183 304 811, E-Mail: info@bresc.nl | 80 | 0 | EUR | 18 |
| Hügli Nahrungsmittel GmbH, Radolfzell, DE<br>Telephone +49 7732 8070, E-Mail: huegli@huegli.de | 100 | 100 | EUR | 25'500 |
| Heirler Cenovis GmbH, Radolfzell, DE<br>Telephone +49 7732 8071, E-Mail: info@heirler-cenovis.de | 100 | 100 | EUR | 2'929 |
| Vogeley Nahrungsmittel GmbH, Radolfzell, DE<br>Telephone +49 7732 8070, E-Mail: onlineservice@vogeley.de | 100 | 100 | EUR | 153 |
| Inter-Planing GmbH, Neuburg, DE<br>Telephone +49 8283 99 880, E-Mail: info@inter-planing.de | 100 | 100 | EUR | 260 |
| OSCHO GmbH, Neuburg, DE<br>Telephone +49 8283 99 860, E-Mail: info@oscho-versand.de | 100 | 100 | EUR | 26 |
| Hügli Food s.r.o., Zásmuky, CZ<br>Telephone +420 321 759 611, E-Mail: info@huegli.cz | 100 | 100 | CZK | 80'000 |
| Hügli Food Polska sp.z o.o., Lodz, PL<br>Telephone +48 42 611 00, E-Mail: robert.matysiak@huegli.com.pl | 100 | 100 | PLN | 50 |
| Hügli Food Slovakia s.r.o., Trnava, SK<br>Telephone +421 33 535 4773, E-Mail: maria.binovska@huegli.sk | 100 | 100 | EUR | 7 |
| Hügli Food Kft., Budapest, HU<br>Telephone +36 450 00 32, E-Mail: zoltan.molnar@huegli.hu | 100 | 100 | HUF | 3'000 |

# Key Figures 5-Year Summary

## SEGMENTS/DIVISIONS

| | Unit | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| **Key figures of geographic Segments** | | | | | | |
| **Sales Germany** | m. CHF | **224.7** | **233.4** | **229.0** | **216.0** | **172.6** |
| Change relative to previous year | % | –3.7 | 1.9 | 6.0 | 25.1 | –1.3 |
| Organic growth | % | –5.7 | 6.1 | 7.3 | 4.9 | 1.0 |
| **EBIT Germany** | m. CHF | **12.6** | **17.1** | **20.5** | **21.5** | **14.6** |
| As % of sales | % | 5.6 | 7.3 | 9.0 | 9.9 | 8.5 |
| Change relative to previous year | % | –26.2 | –16.9 | –4.3 | 46.8 | –21.1 |
| **Sales Switzerland/Rest of Western Europe** | m. CHF | **130.1** | **117.2** | **117.9** | **119.3** | **117.8** |
| Change relative to previous year | % | 11.0 | –0.6 | –1.2 | 1.3 | –2.4 |
| Organic growth | % | 1.2 | –1.6 | –1.9 | 1.4 | –2.8 |
| **EBIT Switzerland/Rest of Western Europe** | m. CHF | **13.2** | **11.3** | **10.4** | **7.0** | **5.9** |
| As % of sales | % | 10.1 | 9.6 | 8.8 | 5.9 | 5.0 |
| Change relative to previous year | % | 16.4 | 9.0 | 48.0 | 18.2 | –40.7 |
| **Sales Eastern Europe** | m. CHF | **30.3** | **27.7** | **30.1** | **32.0** | **34.4** |
| Change relative to previous year | % | 9.3 | –7.9 | –5.8 | –7.0 | –5.6 |
| Organic growth | % | 7.3 | 4.5 | –0.8 | –6.8 | –1.2 |
| **EBIT Eastern Europe** | m. CHF | **2.8** | **2.2** | **1.4** | **0.8** | **1.0** |
| As % of sales | % | 9.4 | 7.9 | 4.6 | 2.6 | 2.9 |
| Change relative to previous year | % | 29.8 | 56.3 | 65.5 | –14.3 | n.a |
| **Sales of Divisions** | | | | | | |
| **Food Service** | m. CHF | **151.0** | **149.0** | **161.6** | **163.7** | **133.3** |
| Change relative to previous year | % | 1.4 | –7.8 | –1.3 | 22.8 | –4.7 |
| Organic growth | % | –0.2 | 2.7 | 0.3 | 0.3 | –2.8 |
| **Private Label** | m. CHF | **76.8** | **78.5** | **77.4** | **70.9** | **70.9** |
| Change relative to previous year | % | –2.1 | 1.4 | 9.1 | 0.0 | 1.9 |
| Organic growth | % | –3.2 | 14.5 | 10.7 | –1.4 | 4.1 |
| **Brand Solutions** | m. CHF | **51.7** | **55.5** | **56.1** | **52.1** | **43.5** |
| Change relative to previous year | % | –6.9 | –1.1 | 7.7 | 19.8 | 7.7 |
| Organic growth | % | –5.6 | 8.0 | 7.1 | 17.8 | 8.0 |
| **Food Industry** | m. CHF | **34.1** | **32.7** | **36.7** | **36.2** | **35.8** |
| Change relative to previous year | % | 4.1 | –10.8 | 1.4 | 1.2 | –8.6 |
| Organic growth | % | 5.0 | –10.5 | 0.7 | –4.4 | –9.2 |
| **Consumer Brands** | m. CHF | **57.4** | **62.2** | **44.6** | **43.9** | **41.0** |
| Change relative to previous year | % | –7.6 | 39.5 | 1.4 | 7.3 | –4.6 |
| Organic growth | % | –9.2 | –5.9 | 2.8 | 5.0 | –2.0 |

# Key Figures 5-Year Summary

## GROUP

| | Unit | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| **Sales** | m. CHF | **385.2** | **378.3** | **377.0** | **367.3** | **324.8** |
| Change relative to previous year | % | 1.8 | 0.4 | 2.6 | 13.1 | –2.2 |
| Organic growth | % | –2.6 | 3.4 | 3.6 | 2.4 | –0.6 |
| **Operating profit before depreciation (EBITDA)** | m. CHF | **42.8** | **44.0** | **45.9** | **42.8** | **33.6** |
| As % of sales | % | 11.1 | 11.6 | 12.2 | 11.7 | 10.3 |
| Change relative to previous year | % | –2.6 | –4.1 | 7.1 | 27.7 | –15.8 |
| **Operating profit (EBIT)** | m. CHF | **28.6** | **30.6** | **32.3** | **29.3** | **21.5** |
| As % of sales | % | 7.4 | 8.1 | 8.6 | 8.0 | 6.6 |
| Change relative to previous year | % | –6.4 | –5.4 | 10.2 | 36.1 | –24.3 |
| **Net Group profit** | m. CHF | **22.3** | **23.3** | **23.4** | **20.8** | **15.0** |
| As % of sales | % | 5.8 | 6.2 | 6.2 | 5.7 | 4.6 |
| Change relative to previous year | % | –4.6 | –0.3 | 12.5 | 38.8 | –22.9 |
| **Cash flow from operating activities** | m. CHF | **38.4** | **41.2** | **31.9** | **40.2** | **23.8** |
| As % of sales | % | 10.0 | 10.9 | 8.5 | 10.9 | 7.3 |
| **Investments (tangible and intangible assets)** | m. CHF | **29.6** | **34.1** | **16.3** | **21.9** | **13.8** |
| **Number of employees** (FTEs at balance sheet date) | | **1'496** | **1'436** | **1'378** | **1'321** | **1'252** |
| **Invested capital (Net operating assets)** | m. CHF | **252.3** | **240.1** | **228.6** | **220.7** | **230.9** |
| Net working capital | m. CHF | 92.2 | 93.7 | 97.8 | 90.6 | 93.1 |
| Tangible and intangible assets | m. CHF | 160.2 | 146.4 | 130.8 | 130.1 | 137.8 |
| **Equity** | m. CHF | **157.5** | **153.6** | **150.2** | **136.9** | **125.5** |
| As % of total assets | % | 53.7 | 54.8 | 56.8 | 53.4 | 48.0 |
| **Net debt [1]** | m. CHF | **75.4** | **67.0** | **56.4** | **65.4** | **86.8** |
| Gearing (Ratio to equity) | | 0.48 | 0.44 | 0.38 | 0.48 | 0.69 |
| Net debt to EBITDA ratio | | 1.8 | 1.5 | 1.2 | 1.5 | 2.6 |
| Interest coverage ratio (EBIT/Interest expenses) | | 30.3 | 32.3 | 30.6 | 20.0 | 11.2 |
| **Return on invested capital (ROIC) [2]** | % | **9.6** | **10.8** | **10.9** | **9.8** | **7.8** |
| **Return on equity (ROE) [3]** | % | **14.2** | **16.4** | **16.6** | **16.3** | **12.2** |
| **Information per bearer share (security no. 464795)** | | | | | | |
| Net profit per bearer share | CHF | 45.73 | 48.49 | 48.79 | 43.41 | 31.18 |
| Dividend (proposal for 2016) | CHF | 16.00 | 16.00 | 16.00 | 14.00 | 12.00 |
| Payout ratio | % | 35 | 33 | 33 | 32 | 38 |
| Equity per bearer share | CHF | 325 | 317 | 310 | 282 | 259 |
| Market price 31.12. | CHF | 765 | 759 | 724 | 517 | 500 |
| Market price high | CHF | 866 | 789 | 739 | 550 | 670 |
| Market price low | CHF | 710 | 651 | 516 | 486 | 472 |
| Enterprise Value 31.12. | m. CHF | 446 | 435 | 407 | 316 | 329 |
| **Price/Earnings Ratio 31.12.** | | **16.7** | **15.7** | **14.8** | **11.9** | **16.0** |
| **Enterprise Value/EBITDA 31.12.** | | **10.4** | **9.9** | **8.9** | **7.4** | **9.8** |

Definitions

1 Net debt = Interest bearing financial debts – Cash and equivalents

2 Return on invested capital (ROIC) = NOPAT (EBIT × (1 – actual tax rate))/ NOA (Average Net working capital and Tangible and intangible assets)

3 Return on equity (ROE) = Net profit/Average equity

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**Agenda**
**11 April 2017/07.00 a. m.**
Media Release:
Annual Report 2016/Sales Q1 2017
**11 April 2017/10.30 a. m.**
Media and Analysts' Conference
Widder Hotel, Zurich
**17 May 2017/04.30 p. m.**
Annual General Meeting of Shareholders, Seeparksaal Arbon
**19 May 2017**
ex dividend date
**23 May 2017**
Dividend payment
**18 August 2017/07.00 a. m.**
Media Release:
Half-Year Report 2017

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Translation: The original of this Annual Report is written in German. In the case of inconsistencies between the German original and this English translation, the German version shall prevail.

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