

117th Annual Report 2012



Corporate Social Responsibility

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Corporate Social Responsibility or how the HOCHDORF Group sees its responsibility as a company. The HOCHDORF Group has been fulfilling its obligations in society and in its environmental responsibility since 1985. Various activities focused on sustainable business over the past two years in Switzerland are a testimony to our corporate social responsibility.

Our employees

The HOCHDORF Group employed a total of 381 members of staff as of 31.12.2012. The number of employees in Switzerland (334 as of 31.12.2012) has remained constant in a two-year comparison. We value the experience and commitment of our employees and reward just five years of service with a company loyalty gift.

Profit sharing and equal opportunities

In recent years, the current difficult economic climate has required levels of commitment, mobility and flexibility that have gone beyond what might normally be expected. We do not take this for granted and we are proud of our employees and the contributions they make towards their daily work. It is for this reason, that our employees share in the company's success. The HOCHDORF profit sharing model applies to all employees – from the apprentice to the CEO.

Men and women have the same opportunities in our company and the basic principle is: The same pay for the same work. A little over a quarter of our staff are women (28%). The proportion of women in middle and senior management positions increased in the past two years from 12% to 18%.

Shift regulations

All shift workers have the right to a paid half-hour break. This makes the actual working shift about 7.6 hours. The allowances for night shifts are – in addition to 10% time credit – 34% instead of the legally required 25%. This is further supplemented by a Sunday credit. HOCHDORF employees also have at least 24 days holidays per year.

Pension fund

Our pension fund has fared well in the face of the financial and economic crisis and remains robust. The cover ratio is 110.3% (as of 31.12.2012) and the savings balance earned interest of 2.25%. Employees have the flexibility to take their pension between the ages of 58 and 70.

Training

By the end of 2012 the HOCHDORF Group had trained 10 apprentices – 6 business administrators, 3 food technologists and a laboratory assistant. In 2012 we extended our apprenticeship programme. In summer 2013 we will be offering two apprenticeships in Sulgen as food technologists. We can offer the laboratory assistant training programme again in summer 2014.

By training new workers, we are playing an important role in investing in the future of young people and in maintaining the high quality of vocational training in Switzerland. However, the HOCHDORF Group goes beyond just providing training – we also try to make it easier for people to start a career. In the last two years we were able to give permanent contracts to three business administrators and two food technologists. This corresponds to a ratio of 50%.

Additional training

Life-long learning grows in importance as careers progress. It is not possible to develop and gain expertise without additional training. Yet, the HOCHDORF Group depends on experts. This is why we offered several internal management courses on topics such as recruitment and management communication. A total of 40 people took part in these courses. Hygiene is of particular importance in a foodstuffs enterprise. Our employees receive regular basic training; we also organise a hygiene day with external speakers every year.

HOCHDORF employees also have the opportunity to pass on their expertise to their fellow colleagues. There are detailed lunchtime information sessions on halal and kosher certificates, as well as the current status of the milk market, for example. These forums are received with great interest by the employees and will be offered at both Swiss sites, when possible.

Appraisal interviews

Each employee has at least one annual target-setting and performance appraisal interview. The interviews follow a clear pattern. All management staff attended an additional training course on appraisal interview techniques in 2011. These interviews form the basis for personal development and career planning.

Employee key figures

	2012	2010	2008
Total number of employees (as of 31.12.)	381	377	431
Number of full-time employees*	356	354	402
Employees by area**			
Administration and Marketing/Sales	61	85	121
Lab and Development	54	48	32
Production	192	176	209
Supply Chain and Technology	30	30	68
Employees by site			
Hochdorf	203	231	266
Sulgen	131	108	63
Steinhausen	0	0	101
Medeikiai, MGL Baltija UAB	44	38	0
HOCHDORF Deutschland GmbH	3	0	0
Trainees in apprenticeship	10	11	15
Proportion of women in total	28%	27%	28%
Proportion of women in middle and senior management positions	18%	12%	14%
Staff turnover***	5.09%	10.03%	10.00%
Illness levels as a % of all working days	1.36%	1.25%	0.60%
Accident levels as a % of all working days	0.40%	0.65%	0.20%
Ratio of lowest salary to average Group Management salary	1 : 4.6	1 : 4.5	1 : 4.0

* Apprentices are calculated as 50 % post.

** Not including MGL Baltija UAB.

*** Persons leaving voluntarily compared to the average number of employees per year.

Employee commission

The HOCHDORF Group has had an employee commission in place again since mid 2012. The commission comprises representatives from the production and administration areas. It aims to represent all HOCHDORF Group employees to the Group management, with the following objectives:

- to promote a relationship of trust and good understanding between the Group management and employees and to safeguard common interests,

- to foster the development and satisfaction of all employees in their work and
- to further strengthen the participation and joint responsibility of employees in the company.

The participation levels are set out in the commission regulations and can only be amended by mutual agreement.

Our energy sources and energy consumption

The HOCHDORF Group processes and refines natural raw materials to make valuable ingredients, mainly for further processing by foodstuffs producers and also for foodstuffs that can be supplied directly to the end consumer. The main process is powder production. Sub-processes include concentrating, drying, mixing and packaging the powders based on milk, whey and cereals. Milk and whey are seen as highly perishable raw materials. The process media must therefore be available at all times and the processes have to be robust and stable. Drying plants always need process heat and fresh water and as a consequence they produce waste heat, CO₂ and waste water. We are committed to using available resources carefully and in a way that protects the environment. We also make investments to ensure we achieve this objective.

Consumption per ton of product is important

What is striking about the key figures listed to the right is that the figures for energy and water consumption are rising per quantity of milk processed, but mainly falling for quantity produced in tons. This is related to the fact that, in addition to milk powders, we are increasingly producing products that are milk or whey-based only, the remaining ingredients being fat, proteins and sugar. This reduces the significance of resource consumption in comparison to the quantity of milk processed. The key figures in comparison to the product quantity produced will therefore grow in importance in the coming years.

Significant CO₂ reduction

Significant investment in thermal processes and the switch from oil to gas heating meant, that we were able to exceed the CO₂ target agreed with the Swiss Energy Agency for Industry (EnAW) in 2001. CO₂ emissions have been reduced by 20% and we now produce around 4,500 tons less of CO₂ per year compared to 2001.

Consumption of fresh water

After a fall in 2010, fresh water consumption has risen again in 2012. However, in relation to the products made, we managed to reduce water consumption slightly by 5.2% compared to 2008. The HOCHDORF Group mainly needs clean fresh water to rinse equipment after cleaning. Fresh water is required in large quantities for the newly-installed filtration lines. We are working on plans for turning process water into clean rinsing water.

Outlook

As a responsible producer of foodstuffs, we are reliant on the sustainable management of natural resources. An intact natural environment is a prerequisite for producing healthy foodstuffs or ingredients. Much depends on the availability and quality of our main ingredients, milk and whey. We are currently working on a new CO₂ commitment. The HOCHDORF Group is committing itself to reduce CO₂ emissions by another 15% by 2020 – based on the average emissions in 2010 and 2011. These are legal requirements.

The HOCHDORF Group can make cost savings by protecting natural resources. In Sulgen we are currently conducting a comprehensive energy management review with the support of the Thurgau canton. This will result in measures to significantly reduce our energy consumption.

Energy and environment key figures*

	Unit	2012	2010	2008	(2008–2012) %
Milk quantity	t	373,549.0	325,924.0	359,362.1	3.95
Fossil-based energy total	kWh	135,633,945	108,679,309	126,068,586	7.59
of which natural gas	kWh	135,111,352	108,477,447	121,144,611	11.53
of which heating oil	kWh	522,593	201,862	4,923,976	-89.39
Total electricity	kWh	24,607,287	20,419,914	20,836,077	18.10
Energy/milk (fossil-based)	kWh/kg	0.363	0.323	0.351	3.50
Energy/milk (electricity)	kWh/kg	0.066	0.063	0.058	13.61
Quantity of fresh water	m ³	655,799	554,635	620,177	5.74
Quantity of waste water	m ³	883,965	758,424	839,516	5.29
Fresh water	l/kg**	1.76	1.70	1.73	1.73
Waste water	l/kg**	2.37	2.33	2.34	1.30
Produced products	t	87,518	89,905	78,467	11.53
Energy/output (fossil-based)	kWh/t	1,549.8	1,208.8	1,606.6	-3.54
Energy/output (electricity)	kWh/t	281.2	227.1	265.5	5.90
Fresh water	l/t***	7,493.3	6,169.1	7,903.7	-5.19
Waste water	l/t***	10,100.4	8,435.8	10,699.0	-5.60

* Figures not including MGL Baltija UAB.

** Litres of (waste)water per kg milk.

*** Litres of (waste)water per kg produced products.

The HOCHDORF Group in society

The HOCHDORF Group is in regular contact with various stakeholders and target groups. Our customers, our employees and our shareholders are particularly important to us. However, we also maintain contacts with authorities, associations, with the local population near the sites and with other groups.

Our Hochdorf and Sulgen sites provide us with solid ground for economic success. We are a reliable partner for the Seetal and Sulgen/Weinfeldern region and hold a significant economic responsibility in Switzerland with our 334 employees. With salaries amounting to over CHF 32 million, we play an important role in terms of trade and taxation. We also ensure, that local traders benefit from our investment projects as far as possible.

We appreciate both the rural location yet central proximity of our sites. We have found employees, who value loyalty and reliability as well as the belief in common goals, just as we do. For our part, we provide them with opportunities and job security. This is our contribution towards creating a stable society.

Our economic and political role

The HOCHDORF Group companies are both customers and partners within the agricultural industry. Our production includes an annual output of over 420 million kg of milk and whey. This provides many farming families with a regular income.

The HOCHDORF Group is the largest Swiss dried milk producer. We also assume an important regulatory function: milk that cannot be sold as fresh milk or marketed for further processing by the food industry in months of surplus, has to be dried and sold on the global market. This is one way in which HOCHDORF helps to offset regional, seasonal and market-related quantity fluctuations and to stabilise the market.

HOCHDORF is committed to mutual cooperation in around 50 national industry organisations, interest groups, commissions of experts and working parties. These include our involvement in fial (Federation of Swiss Food Industries), the milk industry organisation (BOM), the Swiss milk industry association (VMI) and the "Swiss Folic Acid Offensive" foundation.

Communication is crucial

Effective and targeted communication is important for the HOCHDORF Group. Corporate Communications ensures that the communication service provided both internally and externally is current, open and meets the needs of the target groups. It is essential that all shareholders are provided with information that is as simultaneous as possible and is relevant to the target group's particular requirements. As a listed company, we adhere to the ad hoc publicity guidelines of the SIX Swiss Exchange.

Internal communication channels include the intranet, e-mail, telenews (on-screen information), a monthly information bulletin and the bi-annual company newspaper, as well as other notices. In addition, there are three employee information meetings per year at each of the Group's Swiss sites. Group and company management use these events to inform staff about business development, new products, new regulations and important projects. Where possible, answers are given to questions that have been raised previously by employees or to questions that arise spontaneously at the meetings. The internal information policy is defined in writing and guarantees that information reaches the appropriate level, top down from the Board of Directors to the production workers with no access to a computer. Employees also have the opportunity to give their input to their immediate line manager or to go straight to the CEO. Since mid-2012 there has also been the option of taking a request straight to Group management via the employee commission.

The annual report, a shareholder letter for the half-yearly statement, the bi-annual "HOCHDORF Kurier" newspaper and an e-newsletter all regularly inform the HOCHDORF Holding Ltd. shareholders about business and Group development, as well as market conditions. Media representatives and analysts are informed about the annual results as part of the annual media conference; they receive the half-yearly results in writing. The HOCHDORF Group provides ad hoc information about events or business developments in press releases. All the information is also continually updated at www.hochdorf.com.

Sponsoring and donations

Small-scale sponsoring and donations form part of the HOCHDORF Group's wider responsibility in society. The Group focuses its commitment on activities in the immediate vicinity of the sites as well as in the areas of sport and charitable work.

In recent years, the HOCHDORF Group has been the main sponsor for the Hochdorf football club (FCH) and has also sponsored the Seetal hockey club (HCS). We have supported various events near Sulgen and Hochdorf, such as the Amriswiler Easter show jumping event, the tri and duathlons in Baldegg, the Lake Baldegg run in Hitzkirch, the Seetal bike marathon and the first RMV Argovia Bike Cup in Hochdorf. The HOCHDORF Group is also actively involved in championing charities. We have supported the local first aid organisation at blood donor events over a number of years, providing Héliomalt and milk. For the last two years, we have supported the "Chenderhand Seetal" association. The association provides day care, enabling many women to combine family life with a career.

Of course, the HOCHDORF Group also plays a prominent role in its core operational area. So, for example, we are supporting the agricultural festival to mark the 150-year anniversary of the farmers' association for Rothenburg/Hochdorf and the surrounding area. The HOCHDORF Group sponsored the Miss Seetal title at the local Brown Swiss cattle show in Hochdorf/Seetal. We support other cattle shows with newspaper ads or advertising boards. For several years the HOCHDORF Group has also been a committed sponsor of further training courses in agriculture and home economics at the Berufsbildungszentrum Natur und Ernährung Landwirtschaft (vocational training centre for nature, food and agri-

culture) at Hohenrain. Our commitment helps to ensure, that advertising projects cover a wide area. In 2011, we also supported the internationally focused "Milk Conference 2011" which was run by the Society of Milk Science and took place in Bern.

With regard to donations, the HOCHDORF Group supported around 100 camps, associations and organisations in the 2011 and 2012 business years by providing them with products such as Héliomalt original, wheatgerm spreaders, VIOGERM® wellness crisps, Vérofit or Femtorp mousse. It is a commitment that is greatly appreciated by the associations and schools. In many cases this has made it possible to keep the costs down for staying at camps, for instance. We appreciate the many thank-you cards we receive as they show, that our commitment is valued. Instead of customer Christmas cards, the HOCHDORF Group has been making donations to the Zoodo Foundation Switzerland for the past two years, supporting an orphanage for babies in Burkina Faso (www.zoodo.ch).

The HOCHDORF Group and folsäure.ch (Swiss Folic Acid Offensive)

The World Health Organisation (WHO) and the "Swiss Nutrition Report" have identified a global shortage in folic acid provision. Closing the folic acid gap is currently one of the most important measures we can take to improve our health and quality of life. The HOCHDORF Group has made a commitment in this area since the "Swiss Folic Acid Offensive" foundation was created. Several cold-pressed VIOGERM® wheatgerm products appear under the folic acid label.



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