

119th Annual Report 2014



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Corporate Social Responsibility

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Corporate Social Responsibility, or how the HOCHDORF Group embraces its responsibility as a company. The HOCHDORF Group has been proving its worth in its social and ecological environment since 1895. This report describes several activities carried out in the past two years in Switzerland to implement sustainable business.

Our employees

As at 31 December 2014, the HOCHDORF Group has 390 employees in Switzerland, Germany, and Lithuania. The number of employees in Switzerland is 344, 10 more than two years ago. This increase is mainly attributable to growth in the Baby Care area. We value the experience and commitment of our employees and reward them for their loyalty after five years with a company loyalty gift.

Profit sharing for all

The employees of the HOCHDORF Group can share in the company's profit. The existing profit-sharing model has not been adjusted over the past two years and continues to apply. A new profit-sharing model was developed with members of management. Profit sharing is a way of saying thank you to the employees for thinking and acting in a cost-conscious manner in their daily work. Therefore, we are especially proud of our employees, and were able to disburse profit share to them in 2013 and 2014.

Equal opportunity and diversity at the workplace

In our company, men and women have equal opportunities and are provided with equal support. Also applicable is the principle of equal pay for equal work. The percentage figures have not changed in the last two years, with women continuing to make up 28% of Swiss staff. In addition, the share of women in middle- and upper-tier management has not changed, remaining at 18%.

People of various ages, nationalities, and social backgrounds work in the HOCHDORF Group. When new hires are made, the composition of the work teams is likewise taken into account alongside professional skills. For example, the HOCHDORF Group has 117 employees (34%) in Switzerland that come from other countries. In addition, in 2013 and 2014, 10% of new hires were older than 50.

Shift work and safety

Irregular working times are burdensome and stressful for the body. Therefore, night and weekend work, in particular, is subject to special compensation at HOCHDORF. In general, all employees who work shifts are entitled to a paid 30-minute break. As a result, actual working time amounts to about 7.6 hours. In addition to a 10% time credit, night bonuses amount to 34% instead of the statutorily mandated 25% and are moreover augmented with a Sunday bonus. HOCHDORF employees also receive at least 24 holiday days per year.

Safety management at the HOCHDORF Group comprises, inter alia, the areas of occupational safety, food safety, crisis management in the event of an accident, and data security. There is a coordinating officer, the "Safety Officer". In collaboration with SUVA (Swiss Accident Insurance Fund), an obligatory prevention directive "Tripping and Falling" was carried out at each of the Hochdorf and Sulgen locations. In-house paramedics also received advance training as part of the normal two-year cycle and passed the BLS/AED exam.

Commitment to basic and advanced training

In late 2014, the HOCHDORF Group trained 11 apprentices – seven management assistants, three food technologists, and one laboratory technician. The situation involving jobs for which we can offer training is regularly reviewed. Starting in 2015, we will therefore also offer apprenticeships in media-matics, machining, and logistics.

By training apprentices, we make an important contribution to the future of young people and the high quality of Swiss occupational training. But the HOCHDORF Group does more than just train. Where possible, we also try to make it easier to start a career. In the last two years, we were able to offer permanent employment contracts to three management assistants, two food technologists, and one laboratory technician after they finished their apprenticeships. That corresponds to a rate of 60%.

The longer that life-long learning continues, the more important it becomes. Without advanced training, progress and expertise are impossible. The HOCHDORF Group is dependent on experts and for this reason offers various options for advanced training. For example, production employees have to complete an online training course in hygiene. In addition, a hygiene day with outside speakers is held each year.

Work at the HOCHDORF Group is becoming increasingly international, and English is becoming increasingly important. In 2014, English courses at various levels of difficulty were offered to employees. These courses were attended by 23 employees.

Employee figures

| | 2014 | 2012 | 2010 |
|---|---------|---------|---------|
| Total number of employees (as at 31 December) | 390 | 381 | 377 |
| Number of full-time positions* | 364 | 356 | 354 |
| Employees by area** | | | |
| Administration and Marketing/Sales | 69 | 61 | 85 |
| Laboratory and Development | 52 | 54 | 48 |
| Production | 190 | 192 | 176 |
| Supply Chain and Technology | 35 | 30 | 30 |
| Employees by location | | | |
| Hochdorf | 193 | 203 | 231 |
| Sulgen | 151 | 131 | 108 |
| Medeikiai, UAB HOCHDORF Baltic Milk | 44 | 44 | 38 |
| HOCHDORF Deutschland GmbH | 2 | 3 | 0 |
| Trainees in occupational apprenticeships | 11 | 10 | 11 |
| Total share of women | 28% | 28% | 27% |
| Share of women in middle- and upper-tier management | 18% | 18% | 12% |
| Fluctuation*** | 6.65% | 5.09% | 10.03% |
| Sick rate, in % of all working days | 1.14% | 1.36% | 1.25% |
| Accident rate, in % of all working days | 0.66% | 0.4% | 0.65% |
| Lowest wage to average management salary | 1 : 7.1 | 1 : 4.6 | 1 : 4.5 |

* Apprentices are calculated at 50% of a position

** Not including UAB HOCHDORF Baltic Milk.

*** Voluntary departures in relation to the average number of employees per year.

But the HOCHDORF Group also encourages individual advanced training. For instance, it offered advanced training courses in the areas of sales director, logistics specialist, technical management assistant, packaging, and certified advanced food technologist.

Annual employee meetings

A targeted/performance and support meeting is held at least once a year with each employee. The meetings follow a defined pattern and form the basis for personal advanced training and career planning.

Employee Committee

The HOCHDORF Group has had an Employee Committee (Miko) in Switzerland since mid-2012. The Committee consists of representatives from

production and administration. The participatory levels are set down in the Miko Regulations and may be modified only by mutual agreement (management – Miko).

Healthy pension fund

HOCHDORF's pension fund performed well in the past two years and is on very solid footing. The pension fund is managed by a body composed of employer and employee representatives. The coverage ratio is 119% (as at 31 December 2014), and the assets accrued interest in 2014 at 2.75%. Employees have the flexibility of retiring between the ages of 58 and 70.

Our energy sources and energy consumption

The HOCHDORF Group processes and refines natural raw materials into valuable ingredients, mainly for downstream food producers as well as directly for end consumers. The main process consists of the manufacture of powders. Sub-processes comprise the concentrating, drying, mixing, and packaging of powders on the basis of milk, whey, and cereals. Milk and whey are considered highly sensitive raw materials. Therefore, the processing media must be sufficiently available at all times, and the processes must be robust and stable. Drying plants generally require process heat and fresh water. As a consequence, they produce waste heat, CO₂, and waste water. HOCHDORF is committed to handling available resources in an economical, environmentally compatible manner.

The figures and projects set forth in this Sustainability Report relate to the activities of the HOCHDORF Group in Switzerland. It is planned to expand the next Sustainability Report to include foreign plants.

Energy-intensive products

As mentioned in the previous Sustainability Report, the meaningfulness of resource consumption in relation to processed liquid volume (milk, whey, permeate) is limited. Baby food, whey powder, and also cocoa preparations require for their manufacture more energy and also more fresh water for cleaning than does the manufacture of sprayed or rolled whole milk powder. Moreover, the production of whey powder generates significantly more waste water. For this reason, our comparisons focus essentially on the quantity produced.

In 2014, 82,933 tonnes of product were manufactured in Switzerland – 11,663 tonnes more than in 2010 (+16.4%). By contrast, the consumption of fossil fuels rose by just 8% per tonne. Per-tonne energy use in the form of electricity rose over the same period by 12.5%. This shows that we are using energy more efficiently and that our investments in this area are having an effect. The consumption of fresh water and the emission of waste water are higher than the earlier ratio to produced product volume for the same period. The growing number of hygiene requirements, as well as product changes on the same equipment, leads to more frequent interim cleanings. Freshwater is used in the HOCHDORF Group, for example, for rinsing lines after a cleaning.

Investments in sustainability

In general, we ensure that all investments are environmentally friendly and sustainable for the HOCHDORF Group. In 2014, the ice-water plant was renovated. The increased efficiency as a result of the investment reduces power dissipation, and from a technological standpoint, considerably less ammonia is used. The risk of serious effects from an accident is thus substantially lowered to the point that it barely exists today.

In another project, HOCHDORF had Messer Schweiz AG install CO₂ recovery equipment at the Sulgen plant. This equipment processes the CO₂ emitted by burners for further use, specifically in the packaging of foods.

Until now, warehouse logistics at the Sulgen location had been outsourced to an external platform and led to corresponding factory traffic. The increase in volumes, particularly in the area of Baby Care, enabled a solution for handling warehouse logistics on site. As a result of the newly created logistics centre, lorry trips will fall by 15%, thereby creating less of a strain on the environment and neighbouring residents. An expansion of the logistics centre with high-bay racking is being planned.

In addition to investments in equipment, an analysis of the actual and potential state of energy consumption was carried out for the Hochdorf and Sulgen locations, and a total energy analysis was performed at the Sulgen location. The analyses gave good marks to the HOCHDORF Group, while identifying further opportunities for better use of energy (fossil and electric).

CO₂ Commitment 2013 – 2020

In May 2014, we signed a new CO₂ commitment with the Industrial Energy Agency (EnAW). The HOCHDORF Group undertakes to further reduce CO₂ by nearly 10% by 2020, which corresponds to 20,000 tonnes of CO₂ per year. Average CO₂ emissions for the years 2010 and 2011 form the database. These are absolute values. In addition, the HOCHDORF Group also has to offset added emissions of CO₂ resulting from growth.

Energy and environmental figures*

| | Unit | 2014 | 2012 | 2010 | (2010–2014) % |
|-----------------------------|----------------|-------------|-------------|-------------|---------------|
| Milk volume | t | 410,903 | 374,126 | 338,924 | 21.24 |
| Fossil energy (total) | kWh | 136,551,056 | 135,633,945 | 108,679,309 | 25.65 |
| thereof, natural gas | kWh | 135,646,797 | 135,111,352 | 108,477,447 | 25.05 |
| thereof, heating oil | kWh | 904,259 | 522,593 | 201,862 | 347.96 |
| Electricity (total) | kWh | 26,718,760 | 24,607,287 | 20,419,914 | 30.85 |
| Energy/milk (fossil) | kWh/kg | 0.333 | 0.363 | 0.323 | 2.46 |
| Energy/milk (electricity) | kWh/kg | 0.065 | 0.066 | 0.063 | 10.17 |
| Fresh-water volume | m ³ | 794,694 | 655,799 | 554,635 | 43.28 |
| Waste water volume | m ³ | 1,069,021 | 883,965 | 758,424 | 40.95 |
| Fresh water | l/kg** | 1.93 | 1.76 | 1.70 | 18.18 |
| Waste water | l/kg** | 2.60 | 2.37 | 2.33 | 16.26 |
| Produced products | t | 82,933 | 72,969 | 71,270 | 16.36 |
| Energy/output (fossil) | kWh/t | 1,646.5 | 1,858.8 | 1,524.9 | 7.98 |
| Energy/output (electricity) | kWh/t | 322.2 | 337.2 | 286.5 | 12.45 |
| Fresh water | l/t*** | 9,582.4 | 8,987.4 | 7,782.2 | 23.13 |
| Waste water | l/t*** | 12,890.2 | 12,114.3 | 10,641.6 | 21.13 |

* All figures exclude UAB HOCHDORF Baltic Milk

** All figures exclude UAB HOCHDORF Baltic Milk. Litres (waste) water per kilogramme milk.

*** Litres (waste) water per kilogramme produced products

The Federation moreover enables electricity-intensive companies to obtain a refund of the network charge (KEV). The HOCHDORF Group is taking part in this programme, and in 2014 it carried out an analysis of the actual and potential state of energy consumption at the Hochdorf and Sulgen locations. We also undertook to invest one third of reimbursed funds in electricity-reducing measures.

Outlook

As a user of agricultural raw materials, the HOCHDORF Group is dependent on an intact environment. As a first-level processor, we know that

high-quality raw materials like milk and wheat can be manufactured only in an intact environment. In 2015, we will begin to manufacture our own lactose and whey proteins for use in our baby food – and for outside sale. Both production processes are complex and require sophisticated water management. In the same context, waste-water management at the Sulgen location will be analysed and the necessary investments calculated. However, it is expected that water consumption and waste-water accumulation at the Sulgen location in relation to produced volume will continue to rise in the coming years, despite all the measures taken.

The HOCHDORF Group in society

The HOCHDORF Group has diverse contacts with various stakeholders and target groups. Our customers, employees, and shareholders are particularly important. But we also maintain contacts with authorities, associations, the residents at our locations, and other groups.

Our locations in Hochdorf and Sulgen offer fertile ground for being economically successful. We are a reliable partner for the region of Seetal and Sulgen/Weinfeld, and we bear a great macro-economic responsibility with the 344 jobs in Switzerland. With a payroll of nearly CHF 35 million, we are an important player in regional commerce and for the Treasury. Local trades also benefit as far as possible from our investment projects.

We value the rural environment of our locations, as well as their proximity to city centres. Here is where we find employees who value loyalty, dependability, and belief in common goals just as much as we do. For our part, we offer them prospects and job security. In this way, we are making a contribution to social stability.

Our role in the economy and politics

The companies of the HOCHDORF Group are both customers and partners of productive agriculture. Among other things, we process about 450–500 million kilogrammes of milk, whey, and permeate each year. In this way, we make it possible for many farming families to earn a steady income.

The HOCHDORF Group is Switzerland's largest producer of powdered milk. Among other things, we perform an important regulating function: Milk, which in heavy milk-producing months cannot be sold as fresh milk or marketed as fresh for the food processing industry, has to be dried and sold on the world market. In this way, HOCHDORF helps to smooth out regional, seasonal, and market-related volume fluctuations and to stabilise the market.

HOCHDORF takes part in some 50 national sector organisations, interest associations, expert commissions, and working groups and is committed to achieving good understanding, including in the Federation of Swiss Food Industries (fial), the Organisation for the Milk Sector (BOM), the Association of the Swiss Milk Industry (VMI), and the foundation "Switzerland Folic Acid Campaign".

Communication is important

Good, targeted communication is important to the HOCHDORF Group. In this regard, company communications ensure that internal and external information is current, open, and tailored to the target groups. Important here is that all stakeholder groups receive information that is as timely and as target group-oriented as possible. As an exchange-listed company, we comply with the directive on ad hoc publicity of the SIX Swiss Exchange. Internal communication channels include the CEO Newsletter, which appears monthly, the Intranet, email, tele-news (information broadcast on monitors), a monthly information sheet, and postings. In addition, two employee information meetings are held each year at all Swiss locations in the Group. At these meetings, Group management reports directly on the course of business, new products, new regulations, and important projects. An effort is made to answer questions asked in advance by employees, as well as spontaneous questions. The internal information policy is set down in writing and guarantees that information makes its way through every level, from the Board of Directors meeting at the top, to employees on the shop floor who lack computers. Employees too, however, have the ability to provide their input via their immediate superior or even directly to the CEO. Since mid-2012, it has also been possible to forward a concern directly to Group management via the Employee Committee.

Through the Annual Report, a shareholder letter accompanying the half-year financial statements, the customer magazine, HOCHDORF Inside, and various e-newsletters, shareholders and customers are kept regularly up to date about the course of business, developments in the Group, and the market environment. Media representatives and analysts are also informed about annual figures in connection with a balance-sheet media conference. The HOCHDORF Group reports about special events on an ad hoc basis by means of press releases. Furthermore, all information can currently be viewed at any time on our website, which was redesigned in 2014 (www.hochdorf.com).

Sponsoring and donations

For the HOCHDORF Group, small sponsoring and donations are a component of the social responsibility that it embraces. The Group concentrates its commitment in this regard particularly on activities in the vicinity of our locations, as well as on the areas of sport and charitable commitments. In terms of sport sponsoring, the HOCHDORF Group has in recent years supported, for example, the Hochdorf (FCH) football club as main sponsor. In addition, we have supported various events in the vicinity of Sulgen and Hochdorf, such as the Easter Show Jumping in Amriswil, the Lake Baldegg Run in Hitzkirch, and the RMV Argovia Bike Cup in Hochdorf. In the charitable area, the HOCHDORF Group has for a number of years supported the local Samaritan association with Héliomalt and milk during blood donation events. For more than four years, we have also been supporting the “Chenderhand Seetal” association, and since 2014, we have sponsored the advanced training of association members with a large contribution. The association arranges childcare and in this way makes it possible for many women to harmonise family and work responsibilities.

Furthermore, the HOCHDORF Group is by no means a stranger in its own core area. For instance, we support the Eastern Switzerland Food Forum and the regional Hochdorf/Seetal cattle shows, and for several years we have also acted as sponsor for advanced training in agricultural and domestic management at the Nature and Nutrition Training Centre in Hohenrain. In addition, in 2014 we supported the European Dairy Farmers Congress, which was held in Winterthur.

In the area of donations, the HOCHDORF Group supported about 100 camps, associations, and organisations in the 2013 and 2014 financial years with products such as Héliomalt original, wheat germ spreaders, VIOGERM® Wellness Crisps, and Femtorp® Mousse. The associations and schools value this commitment very highly.

Instead of giving gifts to customers at Christmas-time, the HOCHDORF Group has donated an amount to the Zoodo Switzerland Foundation for the past four years. With our contribution, we support a baby orphanage in Burkina Faso (www.zoodo.ch).

The HOCHDORF Group and folsäure.ch

The World Health Organisation (WHO) and the “Swiss Nutrition Report” have determined that there is a lack of sufficient folic acid worldwide. Closing the folic acid gap is today one of the most important measures for improving our health and quality of life. The HOCHDORF Group has been active in this area since the “Switzerland Folic Acid Campaign” foundation was established, and thanks to cold-pressed VIOGERM® wheat germ products, it manufactures numerous products under the Folsäure label.



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