HOCHDORF
BEST PARTNER

119th Annual Report 2014

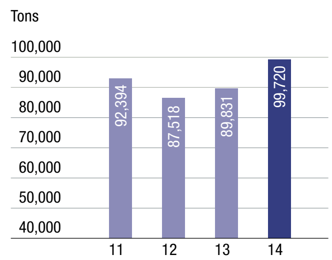
Contents

Overview 2014: Key figures

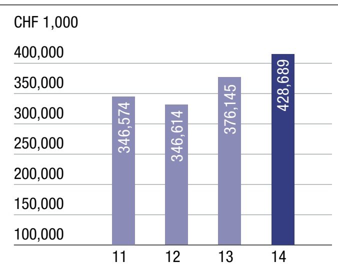
The HOCHDORF Group

The HOCHDORF Group, headquartered at Hochdorf in Lucerne, maintains two production sites in Switzerland and one in Lithuania (Medeikiai). In 2014 business year, HOCHDORF took over 100% of Marbach Öhlmühle (Germany). It holds a 60% stake in Uckermärker Milch GmbH in Prenzlau (Germany). HOCHDORF holds 26% of the shares in Ostmilch Handels GmbH in Berlin and its subsidiaries. The HOCHDORF Group generated consolidated gross sales revenue of CHF 428.7 million in 2014 with 390 employees and is one of the leading foodstuff companies in Switzerland. Made from the natural ingredients of milk, whey and cereals, HOCHDORF products have contributed to healthy living for young and old alike since 1895 and our customers include the global food and retail industries. Our products are sold in over 80 countries.

Quantities produced (including cream)



Turnover (gross sales revenue)



Our strategic objective

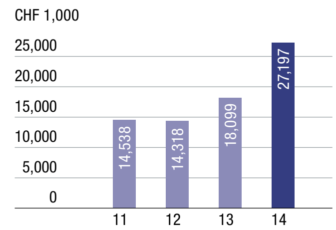
HOCHDORF as BEST PARTNER is a developer, manufacturer and marketer of high-quality, functional ingredients as well as milk, whey and cereal-based specialities for the food and retail industries. HOCHDORF products stand out due to their high levels of innovation and service quality. In the medium term, HOCHDORF is aiming for growth by offering value-added products, including higher-value whey products, infant formula and healthy children's foods. The Group is mainly seeking this growth abroad.

Top lines compared to last year

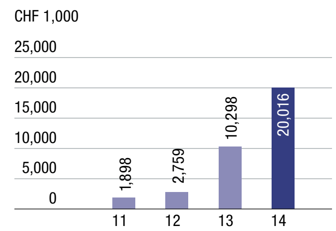
The HOCHDORF Group

- produced 99,720 tons of products (including cream) in its plants (+11.3%);
- processed a total of 507.0 million kg of milk, whey and permeate (+11.5%);
- earned gross sales revenues of CHF 428.7 million (+14.0%);
- achieved EBITDA of CHF 27.2 million (+50.3%);
- achieved EBIT of CHF 20.0 million (+94.4%);
- made a profit of CHF 16.1 million (+166.2%);
- generated a cash flow (earned capital) of CHF 25.3 million (previous year: CHF 18.3 million);
- has a level of equity financing of 43.2% (previous year 42.6%).

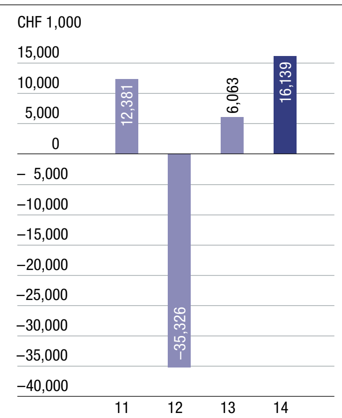
EBITDA



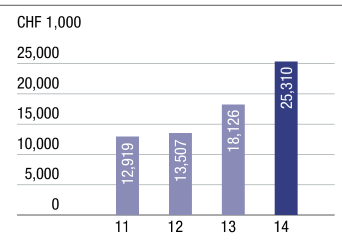
EBIT



Net profit



Earned capital (cash flow)



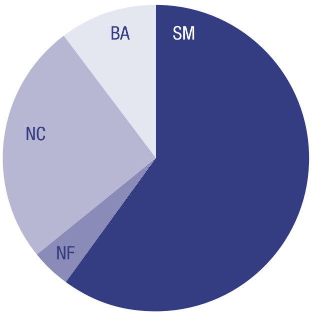
Sustainability key figures

Gross sales revenue for the sales companies

CHF 1,000

- HOCHDORF Swiss Milk Ltd (SM): 258,139 (60.0%)
- HOCHDORF Nutrifood Ltd (NF)*: 18,183 (4.2%)
- HOCHDORF Nutricare Ltd (NC): 110,031 (25.6%)
- HOCHDORF Baltic Milk UAB (BA): 43,589 (10.1%)

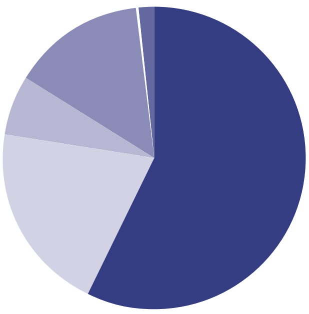
*HOCHDORF Deutschland GmbH included



Gross sales revenue by region

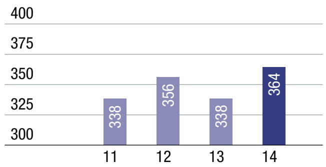
CHF 1,000

- Switzerland / Liechtenstein: 245,674 (57.3%)
- Europe: 87,170 (20.3%)
- Asia: 27,001 (6.3%)
- Middle East / Africa: 61,628 (14.4%)
- North and South America: 710 (0.2%)
- Others: 6,256 (1.5%)



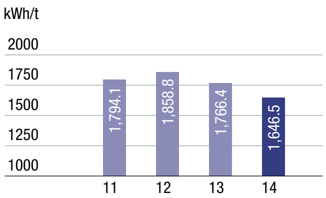
Every two years, the HOCHDORF Group publishes a sustainability report along with its annual report, covering the issues of employees, energy and society. You will find the comprehensive sustainability report from Page 95 onwards in this annual report. At this point the three key figures that we regard as the most important are published with a brief commentary.

Number of full-time employees as of 31.12.



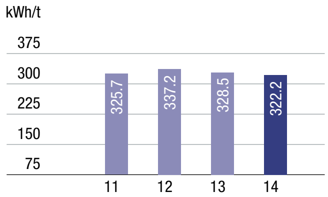
In 2014, the most jobs were created in production with 20 full-time employees. The increase in jobs is the result of the significantly higher processing volume and the volume growth in the Baby Care segment. The other additional posts are distributed over the sales companies and HOCHDORF Baltic Milk UAB.

Energy/output fossil-based
(Swiss plants only)



The once again slightly lower energy amount for each tonne of product (fossil and electric) can be attributed to the improved plant capacity utilisation. Quantity growth in the production of baby care and whey products however requires longer chains with energy-intensive processes, which has a disproportionate influence on the energy balance. This applies equally to the pressure on the infrastructure and emissions of waste water, CO_2 and drying air.

Energy/output electricity
(Swiss plants only)



In 2014, the boiler room and the ice water facility at the Sulgen plant were modernised. In addition, a current status and potential analysis for electricity was conducted for the Hochdorf and Sulgen sites as well as an all-round energy analysis in Sulgen. On this basis of these analyses we now need to decide which of the proposed optimisation measures to implement in the short, medium and long term.

Letter to the Shareholders

Dear Shareholders,

2014 was a groundbreaking year for the HOCHDORF Group. The acquisition of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH were two logical steps for implementing our internationalisation strategy and for developing the Baby Care and Cereals & Ingredients segments. Internally we worked intensively on preparing for the restructuring that we implemented at the beginning of 2015.

Earnings figures at record level

The plants of the HOCHDORF Group achieved good capacity utilisation over the year as a whole in 2014. We processed 507 million kg of milk, whey, milk permeate and buttermilk (+11.5% compared to the previous year). At our plant in Lithuania alone we processed 26.7 million kg more milk and whey protein than in the previous year (+38.5%). In Switzerland, we also dried 25.6 million kg more liquids than in the 2013 business year (+6.6%). In total we sold 121,152 tons of products, including the pure milk exchange deal in Lithuania. Excluding this milk exchange deal, we sold 99,155 tons of products, achieving gross sales revenues of CHF 428.7 million (+14% compared to the previous year).

Many of our earnings figures reached a record level. EBITDA grew by +50.3% to CHF 27.2 million and EBIT by +94.4% to CHF 20.0 million. The ordinary result also rose considerably to CHF 16.1 million (+166.25, previous year: CHF 6.1 million). A number of factors are responsible for these improvements, most importantly the internal projects for increasing efficiency combined with a big effort by all employees, the higher capacity utilisation in the area of infant formula, the positive performance of HOCHDORF Baltic Milk UAB and the generally favourable conditions on the market.

Ground-breaking projects

The 2014–2018 strategy devised and approved by the Board of Directors at the end of 2013 essentially includes five points:

1. Cost efficiency and cost control
2. Streamlining the product portfolio and product development in the area of higher-value whey products
3. Using the existing plants to capacity
4. International growth
5. Forward integration, i.e. closer to end consumers

In the area of cost efficiency and cost control we have been busy preparing for the restructuring. We were able to launch the renewed and revised inventory control system (ERP) on 01.01.2015. Thanks to the restructuring, we will now have higher cost transparency and be able to simplify numerous processes and structures. The business operations in Switzerland and out of Switzerland will be run under the new name HOCHDORF Swiss Nutrition Ltd. This company includes the three divisions Dairy Ingredients, Baby Care and Cereals & Ingredients.

In the last quarter of 2014, the KAPAMAX (capacity maximisation) project was also launched. It is not about blindly maximising the capacity of the plants, but rather running them at full capacity on a regular basis throughout the year with meaningful products. We also want to optimise production planning with this project.

More cost-effective warehouse logistics

Production at our Sulgen site has become more complex and increased in terms of volume as a result of growth in the infant formula segment. The integration of logistics, or part of it, is a logical step to take based on this development. Construction of the warehouse logistics building has enabled us to markedly cut logistics costs. A second positive factor related to this measure is the reduction of truck movements. They will decrease by around 15%.

Proprietary production of lactose and whey protein

Where possible, we want to develop and sell products with more added value in future. In the area of traditional milk derivatives we therefore intend to produce the lactose and whey proteins for our infant formula ourselves. Although the market situation for these products has deteriorated since the project started, we are still confident of being able to exploit the current trend (drop in prices particularly for lactose and strength of the franc) to sell the volumes that we do not use for infant formula profitably on the international market. The plants have been procured and the construction of the production building in Sulgen is progressing according to plan. Prices for lactose and whey proteins have recovered somewhat since the low in December 2014, although prices on the international market are subject to larger fluctuations than those in Switzerland.

Acquisitions for further growth

Internationalisation is our only possible growth engine. To promote growth in the Baby Care business area in the future too, we have acquired a 60% stake in Uckermärker Milch GmbH in Prenzlau (Germany). Now the aim is to convert the dried milk plant of Uckermärker Milch GmbH into an infant formula factory. The planning work has been started and we expect to be producing the first batches of infant formula in Prenzlau from mid 2016. We are planning to service the European and Central and South American markets with the infant formula from the Prenzlau production facility. In light of the lifting of the minimum exchange rate for the Swiss franc against the euro by the Swiss National Bank on 15 January 2015 we feel that our activities outside Switzerland are justified.

The acquisition of Marbacher Ölmühle GmbH in Marbach (Germany) will strengthen our Cereals & Ingredients division. Our product range includes new organic quality products. Thanks to the site in Germany, it will also be easier to gain new market shares outside Switzerland. The quality of our products was always undisputed. However, they could not compete in terms of exports because of the large price difference. The benefits of the longer shelf life and the fine taste could not make up for the price disadvantage.

Capital increase for financing Uckermärker Milch GmbH

On the occasion of the General Meeting of 9 May 2014, the shareholders approved a nominal capital increase of CHF 4.5 million, i.e. 450,000 registered shares with a nominal value of CHF 10.0. On 20 October 2014, we announced the capital increase in the ratio of 1:7. All the 131,529 shares were placed at a market price of CHF 135. The new shares have been traded on the SIX Swiss Exchange since 6 November 2014 and have a full dividend entitlement for the year 2014.

Dairy Ingredients: "Schoggi Law" is an ongoing issue

The milk business is an important cornerstone in the strategy of the HOCHDORF Group. Turnover grew in the last business year to CHF 258.1 million (+10.9% compared to the previous year). This is thanks to the significantly higher liquid volume (milk, whey, milk permeate, buttermilk) and the higher milk prices, which could largely implemented in the market with higher selling prices. Overall, the volume sold rose by +6.4% to 63,001 tons.

In its key business area, the sale of roller-dried whole milk powder for the chocolate industry, HOCHDORF Swiss Milk Ltd was exposed to a more intensive competition situation in Switzerland. However, in addition to outstanding products, HOCHDORF scores points with its considerable product know-how, the accompanying services and delivery reliability. None of our competitors can supply customers from two factories and focus so intensively on the (customer-specific) further development of roller-dried whole milk powder as we do.

The international prices for milk powder and butter were lower from the second quarter of 2014. The difference compared with the A milk price in Switzerland, which was not falling, became ever larger and put more and more of a strain on the export aid ("Schoggi Law" funding). We have been dealing intensively with the "Schoggi Law" funding situation at the latest since mid 2014. The HOCHDORF Fund solution, which is designed to prevent the inward processing of our export-based customers, has led to us together with the milk producers contributing around CHF 7 million to export support for our customers. The HOCHDORF Group financed around one third of this total. Our milk suppliers have therefore contributed much to the stability of the domestic milk price (A milk price). In future,this burden is to be spread more broadly. Therefore, we are trying to come up with an industry solution and top up the government's "Schoggi Law" funding.

HOCHDORF Baltic Milk has had an outstanding year. The milk market in Lithuania is not so heavily protected and so the influences are correspondingly more direct and can be felt more quickly. The Russian embargo on milk products from the EU afforded the company a significantly higher milk volume at more competitive prices. As the international prices for milk proteins did not go down until the end of the third quarter, HOCHDORF Baltic Milk was able to pay relatively good prices for milk for longer and sell its products successfully on the market.

Baby Care: growth held back slightly

HOCHDORF Nutricare Ltd was aiming for growth of between 18 and 22 per cent. Unfortunately, this figure was not achieved in full due to a lack of filling capacities. Nevertheless, sales growth of over 16% to CHF 110.0 million was remarkable. In terms of the limiting filling capacities we are trying to optimise our plant capacity in the short term and are looking at external filling options. In the medium term, an additional filling station will be installed at the Prenzlau site.

In April, our plant was audited by the Chinese authorities. The HOCHDORF Group passed the time-consuming audit. On 7 May 2014, we were able to inform our Chinese customers that we may continue producing infant formula for China. Therefore, growth in China was achieved particularly in the second half of the year. Additionally, we experienced growth in the Middle East, North Africa and the rest of Asia with existing customers. We are also proud of our cooperation with UNICEF. We are working with this international organisation in the area of therapeutic milk.

Cereals & Ingredients: Strengthened by acquisition abroad

The business area Cereals & Ingredients had to contend with a drop in sales in 2014 by 9.0% to CHF 18.2 million. Lower turnover in the area of bakery products and the streamlining of the product range in favour of increasing efficiency were mainly responsible for this. The number of customer contacts increased significantly together with the sales partners. However, it also became clear that the healthy VIOGERM® wheat germ products were hardly able to compete in the export business. Therefore, the HOCHDORF Group kept an eye out for a possible takeover candidate and found it in the shape of Marbacher Ölmühle GmbH.

We celebrated product successes in the area of Cereals & Ingredients with the newly developed VIOGERM® Gold Flakes and the traditional Femtorp® dessertmixes. As a new development, the lime/liquorice flavour was successfully launched in Sweden in autumn.

Personnel changes

At the General Meeting in 2014, Dr. Walter Locher, Niklaus Sauter and Prof. Dr. Holger Till were newly elected to the Board of Directors. The new directors fitted into the Board very well and contributed much to its successful work with their professional expertise. There was also a change of chairperson: Following the resignation of Hans-Rudolf Schurter, Josef Leu was elected as the new Chairman of the Board of Directors. The Board of Directors convened on the occasion of the first Ordinary Board Meeting. At the same time, the market and strategy committee was newly formed. You can find out more about the work of the Board of Directors in the "Corporate Governance" section of this annual report.

Unfortunately, at the beginning of the current business year we had to accept the resignation of Michiel de Ruiter, Managing Director Baby Care. He internationalised our business for infant formula with a great deal of commitment and enthusiasm. We would like to thank him wholeheartedly for his work. We are very happy to be able to recruit internally for this position: Fons Togtema has worked for HOCHDORF since 2006 and helped to set up the Baby Care division internationally as a founding partner. We wish Michiel de Ruiter and Fons Togtema every success with their new challenges.

Outlook

In mid January the Swiss National Bank announced that it would no longer be supporting the minimum exchange rate for the euro against the Swiss franc of CHF 1.20. The HOCHDORF Group has a euro surplus of around EUR 60 million per year. That means we issue by this amount more invoices in euro than we purchase in euro. The situation calmed down somewhat with the slight appreciation of the euro. Nevertheless, we need to speed up the measures taken in the area of improving efficiency and increasing added value. So it is important to quicken the progress of the "capacity maximisation" and "Prenzlau infant formula" projects. Price cuts for Swiss suppliers and price increases in the area of infant formula were implemented as further measures.

Structurally we will be occupied with the integration work for Uckermärker Milch GmbH and Marbacher Ölmühle GmbH. The restructuring in Switzerland also still has to be completed.

In the area of Dairy Ingredients we are expecting a fall in the milk quantities. However, we shall process more whey and other milk-based liquids. The aim is to run the existing plants at full capacity if possible over the course of the year.

It is only through optimisation measures that our capacities for producing and filling infant formula can be increased. Thanks to various measures, we are still expecting turnover growth, but it is likely to be somewhat lower compared to 2014. The formation of a company in Uruguay to market infant formula in Latin America is in the pipeline. The aim is to win additional infant formula contracts this year so that the products of the converted tower in Prenzlau can be sold immediately.

The business area Cereals & Ingredients will integrate Marbacher Ölmühle GmbH this year and press ahead with the new Kids Food business. Thanks to the acquisition of Marbacher Ölmühle we can internationalise our expertise in the gentle processing of cereals.

At group level we are expecting gross sales revenues for 2015 in the region of CHF 580 to 620 million. The acquisitions carried out in 2014 are responsible for the sales growth. EBIT (expressed in per cent) compared with the production revenue will be somewhat lower than in 2014 due to the acquisitions made and their product portfolio, i.e. in the range between 2.8 and 3.0%.

Our thanks

The success of a company is reflected in the figures that it can present after the year-end closing. However, many factors are responsible for success: Without reliable milk and other suppliers, our well trained employees cannot develop, produce and sell high quality products. Without customers, no sales can take place and without financial resources from shareholders, the company cannot develop further. The whole economic value chain must be well synchronised so that long-term success can be established. Therefore, we would like to take this opportunity to sincerely thank all those people who have played their part in the success of the HOCHDORF Group.

About the images in the 2014 Annual Report

On the last pages of this annual report you will also find our sustainability report, in which we report on the areas of energy, personnel and social commitment. The images in this annual report in each case show one of our activities on the subject of sustainability in connection with a matching picture from Swiss nature or culture. It is important to HOCHDORF that we take care of our environment and get involved in these matters. Healthy, valuable raw materials can only be created in an intact environment – and we human beings also feel better and are more productive in an intact environment.

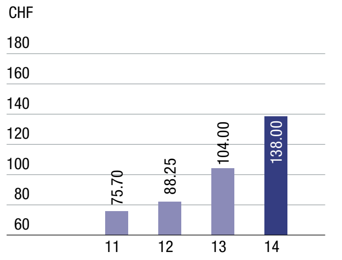
Josef Leu
Chairmen of the Board of Directors

Dr. Thomas Eisenring
CEO

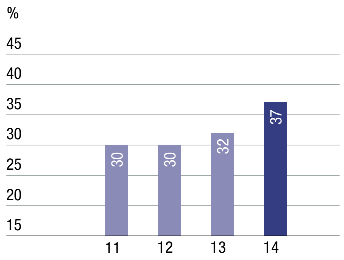
Whatever the destination, our logistics experts work wonders – like the Alpine herdsmen on the annual transhumance. Every inch of space is used. We even do without pallets to save on space and take everything to its destination in one go. Thanks to loading up directly on site the number of trips is also reduced, leaving more room for traditions and a lifestyle close to nature.

HOCHDORF shares

HOCHDORF share development



HOCHDORF dividend development



Shareholders by category as of 31.12.14

Name	Listed Shareholders
Natural persons	1,307
Legal persons	63
Pension funds (PF)	15
Insurance	2
Funds	20
Other trusts	6
Banks (BK)	12
Total	1,425

Shareholders according to breakdown as of 31.12.14

Number of shares	Listed Shareholders
1–10	146
11–100	583
101–1,000	580
1,001–10,000	103
10,001 and more	13
Total	1,425

Share development 2014

Once again, 2014 was a very good year for equities. Despite a capital increase and the commencing conversion of shares from the convertible bond, the share price of HOCHDORF Holding Ltd rose much faster rate than the Swiss Performance Index (SPI). At close of trading on 31.12.14, the price was CHF 138.00 (2013: 104.00). The share therefore achieved a price increase of +32.69% (2013: +17.85%). As of 31.12.2014, HOCHDORF Holding Ltd had 1,070,922 shares (previous year: 900,000 shares). The market capitalisation rose accordingly from CHF 93.6 million at the end of 2013 to CHF 147.8 million (+57.89%) at the end of 2014.

Listing

HOCHDORF Holding Ltd is listed on the SIX Swiss Exchange (ISIN CH0024666528). At the end of 2014, the market capitalisation was CHF 147.8 million.

ISIN	CH0024666528
Securities number	2,466,652
Bloomberg code	HOCN SW
Thomson Reuters code	HOCN.S

Significant shareholders

See page 88 for details of significant shareholders.

Dividend

The Board of Directors is applying to the Annual General Meeting for a dividend payment from capital investment reserves of CHF 3.70 per share. The dividend increase from CHF 3.20 to CHF 3.70 per share means that a dividend return of 2.68% was achieved for the 31 December 2014 balance sheet date. With this increase, HOCHDORF Holding Ltd is pursuing a cautious dividend policy based on sustainability.

The payment from capital investment reserves is tax-free for natural persons resident in Switzerland who hold shares as personal assets.

Disclosure of equity holdings

In accordance with Article 20 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act), anyone who directly, indirectly or in consultation with third parties acquires or sells on his own account the shares of a company domiciled in Switzerland, whose equity holdings are at least partially quoted in Switzerland and so reaches, falls short of or exceeds the limit value of 3, 5, 10, 15, 20, 25, 33 1/3 50 or 66 2/3 % of the voting rights, whether these are exercisable or not, must disclose this to the company and to the stock exchanges on which the equity holdings are quoted.

Financial calendar

- Annual General Meeting
  8 May 2015
- dividend payment
  15 May 2015
- Half-yearly statement 2015
  19 August 2015

Key figures for the HOCHDORF Holding Ltd share

		2014	2013	2012	2011	2010
Share capital as of 31.12.	CHF 1,000	**10,709**	9,000	9,000	9,000	9,000
Number of shares as of 31.12.	Unit	**1,070,922**	900,000	900,000	900,000	900,000
Nominal value per share	CHF	**10.00**	10.00	10.00	10.00	10.00
Profit/loss (–) per share	CHF	**17.45**	6.95	–39.69	13.91	4.52
EBITDA per share	CHF	**25.40**	20.11	15.91	16.15	17.78
EBIT per share	CHF	**18.69**	11.44	3.07	2.11	4.55
Cash flow (earned capital) per share	CHF	**23.63**	20.14	15.01	14.35	15.30
Equity per share	CHF	**133.69**	115.30	110.85	152.60	144.28
Dividend per share	CHF	**3.70***	3.20	3.00	3.00	3.00
Peak price**	CHF	**141.30**	105.30	89.95	114.00	
Lowest price**	CHF	**100.80**	79.20	66.00	72.05	
Price at close of trading as of 31.12.	CHF	**138.00**	104.00	88.25	75.70	101.90
Average trading volume per day**	Units	**1,202**	804	940	1,133	–
P/E (price/earnings ratio) as of 31.12.		**7.9**	15.0	n.a.	5.4	22.2
Dividend return	%	**2.68**	3.08	3.40	3.96	2.94

* Application of the Board of Directors to the Annual General Meeting.

** Since the listing in Zurich on 17.05.2011.

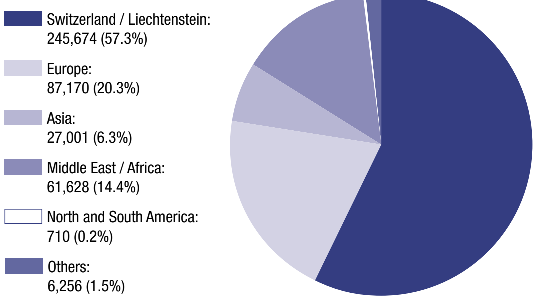
Business model, strategy and markets

The HOCHDORF Group is one of the leading foodstuff companies in Switzerland. The company is active in the areas of Milk Derivatives, Baby Care and Cereals & Ingredients. The Group's key areas of expertise involve the gentle drying and mixing of milk, cereals and other foodstuff ingredients. With its shares in Uckermärker Milch GmbH, HOCHDORF is also active in the area of butter and curds in Germany.

Operationally, the group is run as a holding. The HOCHDORF Group is composed of HOCHDORF Swiss Nutrition Ltd, HOCHDORF Baltic Milk UAB, HOCHDORF Deutschland GmbH and Marbacher Ölmühle GmbH, each at 100%. HOCHDORF Holding Ltd has a 60% share of Uckermärker Milch GmbH and a 26% share of Ostmilch Handels GmbH.

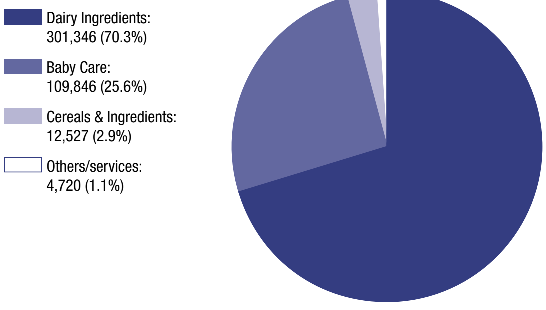
Gross sales revenue by region (2014)

CHF 1,000



Gross sales revenue by areas (2014)

CHF 1,000



All of the companies within the HOCHDORF Group are primarily active in business-to-business markets:

- Since 1.1.2015, HOCHDORF Swiss Nutrition Ltd has combined all activities of the HOCHDORF Group in and from Switzerland. Its headquarters are located in Hochdorf/LU. The company is divided into the following business areas: Dairy Ingredients, Baby Care and Cereals & Ingredients.

- HOCHDORF Baltic Milk UAB is domiciled in Medeikiai (Lithuania). It develops, produces and sells various powder products made from milk and whey.

- HOCHDORF Deutschland GmbH, Siegburg (Germany), sells foodstuffs with high product quality standards, mostly from the HOCHDORF Swiss Nutrition Ltd, Cereals & Ingredients product line. The company focuses on high-quality ingredients and instant dessert products from HOCHDORF production, as well as on high-quality commercial products.

- Marbacher Ölmühle GmbH, Marbach (Germany) has belonged to the HOCHDORF Group since 5.12.2014. The company manufactures oils and co-products from wheat germ, canola, sunflowers and nuts. It is a leading manufacturer of quality organic products.

- Uckermärker Milch GmbH, Prenzlau (Germany), daily processes close to 1,000,000 kg of milk into curd, butter and dry milk products. The products are sold domestically and internationally. Starting in mid-2016, infant formula will also be produced in this plant.

- Ostmilch Handels GmbH is an international trading company for dairy products and is active in the areas of trade, logistics and storage.

The HOCHDORF Group has its roots in the production of milk powder. The area of Dairy Ingredients thus accounted for around 70% of gross sales revenues in 2014. The group has also produced infant formula for over 100 years, with a strong international focus since 2006. Today, a quarter of the Group's turnover comes from infant formula – with over 90% of the products exported. Growth in the Baby Care area will be promoted strongly in the coming years, slightly hampered by the current production shortfalls in Switzerland. Starting in 2016, infant formula will also be produced in the Uckermark in Germany, and capacity will increase by around 10,000 tons per year. The Group has mainly expanded into the area of Cereals & Ingredients as a result of acquisitions. The main focus in this area is on the healthy VIOGERM® wheat germ products, Femtorp® instant dessert products and various cereals for the bakery product industry. This business area was significantly strengthened by the acquisition of Marbacher Ölmühle GmbH, located in Marbach, Germany.

The HOCHDORF group has set five strategic priorities for itself:

1. Cost efficiency: Every activity undertaken in the HOCHDORF Group must be cost efficient. This includes strict adherence to budgets and a consistent approach to reducing operating costs.
2. Product portfolio and development: The common thread across the product portfolio is high added value. This involves optimising the product portfolio for production processes and diversifying into high-quality products. Key factors include investment in lactose and whey protein production for use in infant formula and product expansion into the Kids Food area.
3. Utilisation of plant capacity: The utilisation of plant capacity is being continually improved. We want to achieve this with our own products but also through selected commissioned orders and increased cooperation with partners.
4. Internationalisation: Significant growth can now only be achieved internationally. We want to extend internationalisation into the areas of Milk Derivatives and Cereals & Ingredients.
5. Business model/forward integration HOCHDORF is fundamentally a business-to-business company. Wherever possible, HOCHDORF also wants to get closer to the end consumer in the medium term. This applies above all to the Baby Care area.

Products and markets

In the Milk Derivatives market, HOCHDORF wants to hold onto its strong position in the saturated Swiss market and use lactose and whey proteins to gain a foothold in a new, high added-value market in the medium term. These products can be used for our own production of infant formula or exported. For the export business, the company is targeting the chocolate industry and milk reconstitution markets. The company remains actively on the lookout for cooperation partners and projects.

HOCHDORF Baltic Milk UAB (Lithuania) markets its main product of milk protein concentrate internationally. In the coming years, utilisation of plant capacity will be further optimised and selectively expanded.

Baby Care is geared towards international business, with plans to increase growth with existing customers in Asia, the Middle East and in North Africa. We are mainly looking to acquire new partners in the burgeoning markets of Latin America, Africa and in the larger Asian countries where we are not yet active. In the medium term, the Baby Care area plans to use its own brands in selected markets to gain closer access to the end consumer in the value added chain. The new markets of Latin America as well as EU markets will be supplied from the production plant in Prenzlau (Germany) starting in mid-2016.

The Cereals & Ingredients area has assumed a strong position on the domestic market in Switzerland with its gently pressed VIOGERM® wheat germ products. The company has to defend this position and continue to develop business abroad from our production facilities in Marbach (Germany). Working with distribution partners, greater emphasis should be placed on the European market in the export business; for dessert products, it should be placed on neighbouring German-speaking countries in addition to Nordic countries. The Cereals & Ingredients area is also preparing to enter the Kids Food area. The call for healthy food products for children and our customers' needs for an expansion of our product range is becoming increasingly vocal. The VIOGERM® wheat germ products provide HOCHDORF with a solid basis to meet this need.

HOCHDORF Deutschland GmbH seeks growth with instant dessert products and commercial products in Germany. The development of new, seasonally limited editions is one planned measure for growth in these areas.

HOCHDORF is positioning itself as a specialist in all (export) markets and is strong in attractive markets and niches. HOCHDORF's close relationship with its partners and high degree of flexibility allow it to stand out with integrated product and marketing concepts.

“The HOCHDORF Group has good prospects for the future”

Dr. Thomas Eisenring, 2014 was an exciting year which entailed lots of milk, two acquisitions and several internal projects. How would you summarise the business year?

2014 was a very eventful and groundbreaking year. We have demonstrated that HOCHDORF is a very interesting company that can achieve sustainable success. Once again, we were able to significantly improve our results and have shown that we are able to raise capital on the financial markets. We were able to do so with moderation, which has garnered a lot of trust with our shareholders. Our two acquisitions in Germany represent important milestones for our future.

The financial result is putting forward record numbers. Are you satisfied with this result?

I would say that we have managed to post some impressive figures for a company in the food industry. Considering our current business model, these are satisfying figures. However, I still think we have room for improvement that we should consistently be exploiting.

Which internal projects contributed to the improvement in earnings?

There were a whole range of measures: We were able to lower our operational costs thanks to professional procurement in the areas of gas, water and power. We were simultaneously able to implement several cost reduction projects, such as better milk standardisation. Adequate pricing in the Baby Care area was particularly instrumental. Large quantities of milk and an advantageous situation in the Baltic have also helped.

Have these projects created additional potential? Which new projects will be launched in 2015?

The optimisation of our storage logistics has a great deal of potential. I anticipate an increase in earnings from CHF 4 to 4.5 millions a year with the implementation of phase 1 and 2. But the main focus is certainly KAPAMAX, where we are optimising the entire supply chain. This is where I see our main challenge for 2015.

What were the specific challenges in the three business areas of Dairy Ingredients, Baby Care and Cereals & Ingredients in the past year?

Protecting our market position in the rolling whole milk powder area was (and remains) central to the Dairy Ingredients area. We also had to press ahead with the whey processing project where one of the main challenges was securing the future procurement of whey.

If there was a major challenge in the Baby Care area, it would have to be the supply chain. Demand seems to be exploding and it is pushing our supply chain to its limits. We require urgent improvement in this area. This situation was the main reason that we started the KAPAMAX project. The CNCA audit by the Chinese authorities presented an additional challenge.

Since future Kid’s Food products are primarily being developed and produced in the Cereals & Ingredients area, the main challenge there was to develop a corresponding business model. The big question that arises is which products are being produced where, with which technologies, and where applicable, with which partners.

Dr. Thomas Eisenring
CEO

Swiss food companies are facing increasingly strong international competition. How and with which projects does the HOCHDORF Group intended to further decrease costs and where do you estimate the potential?

As I said, the greatest potential is in the optimisation of the supply chain. This project will occupy us for all of 2015. Otherwise, it's important that we always have enough milk; never underestimate the effect of pure volume. But let's not fool ourselves: there are always certain limits to efficiency measures. This is why I see the main potential in the future coming from abroad, and we have set the right course to meet this potential.

In 2014, the HOCHDORF Group acquired a 60% stake in Uckermärker Milch GmbH. How will this company be integrated into the group and how soon can infant formula from this plant be sold?

In additional to classic integration elements, the common restructuring project for the production of infant formula is key. The project involves employees from both companies. We anticipate being able to produce infant formula in Prenzlau by the 3rd quarter of 2016.

Will additional products produced in the Uckermark (butter, curds) remain a part of HOCHDORF's portfolio?

Both businesses are unchartered territory for us and have become part of our product portfolio with the interest in Uckermärker Milch GmbH. This will remain the case in the foreseeable future.

Marbacher Ölmühle GmbH was also acquired last year. How complete is integration there and which synergies have been achieved?

Integration there has really only just begun. We have to above all approach Marbacher Ölmühle's potential in the medium to long term. We can produce there using completely different cost structures and access markets that were previously closed to us due to costs. Furthermore, we can significantly improve the previously very expensive financing by restructuring the balance sheet.

The two acquired plants also operate in the B2B area and to some extent in the commodity business. This is likely cause net profit as a percentage of production to drop slightly. When can this trend be expected to reverse itself again?

That's right. For 2015 and 2016, we anticipate proportionally lower EBIT margins (but higher overall). The big turnaround will come in 2017, when infant formula can be produced at full capacity in Prenzlau.

Which measures are being taken to maximise the synergy potential of the now larger HOCHDORF Group?

Due to Swiss border protection, we can't overestimate the synergy potential for the classic Dairy Ingredients. Nonetheless, we have already recorded significant successes, particularly in the C Milk area. We were also able to bundle natural processes such as in purchasing and international marketing. The main potential as I see it lies above all in the cost-effective production of infant formula and the customs advantage in certain target markets.

The HOCHDORF Group's strategy also plans for forward integration. How far away is HOCHDORF from the end consumer and when and how will a step be taken further in that direction?

When I look at the retail prices of our products, it's clear to me that we are still very far away from the end consumer. However, marketing infant formula is extremely complex and expensive and requires a great deal of effort in most markets. We have to accordingly approach forward integration with great care. We will increase investment in our own brands, starting this year. We are also in the process of defining business models for closer cooperation with our partners in order to participate in their market success. We also expect the initial results from this process this year.

In your view, how will the HOCHDORF Group's respective markets develop going forward?
The traditional milk market will continue on a path of growth, even if the road is somewhat bumpy. There is too little milk being produced in all future sales markets, so export will be key. It will be important to closely observe how production capacities develop. I expect that we will continue to be confronted with temporary excess capacities.

Things also look good in the infant formula area, where all important indicators are pointing upwards. The largest growth markets are Asia and Africa, though Latin America remains very interesting.

In the Cereals & Ingredients area, we are currently operating in a small market with minimal growth. When it comes to diversification in the area of healthy Kid's Food, we are in line with current trends; these markets are experiencing considerable growth.

Which market-oriented priorities is HOCHDORF setting for the current financial year and what is the order situation for the current year?
Essentially, we want to continue growing with our current partners. There is already some demand on us to keep pace. In China, we are instead pursuing consolidation by reducing our number of partners there and expanding cooperation with our most successful partners.

Latin America is this year's focus for new markets. We have found exceptionally professional partners with whom we are founding HOCHDORF Americas Ltd in Uruguay, where we have a 60% majority share.

What impact does the strong Swiss Franc have on the HOCHDORF Group's business? What measures have been taken?
The abolition of the minimum exchange rate is hitting HOCHDORF hard. We have taken the immediate measures of renegotiating all supplier contracts in CHF and increased our prices in the Baby Care area. That went reasonably well, though we won't see the effects until the 2nd quarter.

But we are also experiencing increased price pressure domestically since all market participants now want to sell their products in Switzerland. We need to keep a close eye on this development.

In addition to the currency risk, what other risks should the HOCHDORF Group pay closer attention to, and which measures are being implemented in order to keep a check on these risks?
The greatest risk I see in Switzerland is a sweeping agricultural policy that is fundamentally bad for the dairy industry. Our production conditions are among the world's best and we always top quality rankings. More incentives for more intensive production would benefit the entire Swiss dairy industry. We are trying to influence the process with appropriate lobbying.

On the market side, I see certain risks in certain markets. China above all is a market that has to be constantly observed since the laws there are constantly changing. This is why we are consistently limiting our share in this market in the overall portfolio, despite very good margins.

I generally believe that HOCHDORF should remain small and retain quality in order to be spared from potential worldwide market turmoil to some extent. This means that we should employ very selective growth, always remaining focused on profitability.

Where will the HOCHDORF Group be in five years (2020)?
I'm certainly no clairvoyant, but if we consistently pursue our goals, we should have around CHF 800 millions in sales by 2020 and at least double the EBIT. Depending on how forward integration goes, these figures could also be a lot higher. By then, our next spray tower will most likely be under construction, as we will most soon be producing to capacity, even with the plant in Prenzlau. I still don't know if we will build the tower in Germany or in Switzerland.

Financial Report

Income statement

Operational section

The HOCHDORF Group was able to significantly exceed expectations last year in terms of turnover and revenue (measured as EBIT). Positive factors from all three business areas contributed to the good result. In the business area Dairy Ingredients, the high milk prices could largely be implemented in the market. Additionally, there was no need for write-downs despite the very difficult situation in the area of the "Schoggi Law". In the Baby Care segment we recorded a further rise in capacity utilisation and additional optimisation in the product range, associated with a margin increase. In the case of Cereals & Ingredients adjustment of the product range and portfolio was continued. As a result, the losses of previous years could largely be eliminated.

The Group's gross profit increased (on a percentage basis) to 24.7% (previous year 23.7%). However, the nominal increase in the gross profit to CHF 105.2 million (previous year CHF 89.2 million.) is of greater importance. The quantity produced increased by 11.3% with higher milk production (+11.9% compared to the previous year). Gross turnover increased to CHF 428.7 million (previous year CHF 376.1 million). This is mainly driven by the once again high growth in the area of infant formula, but also by the price increase for milk. We reached a record EBITDA level in the reporting period with CHF 27.2 million (previous year 18.1 million). The EBIT result was CHF 20.0 million (previous year 10.3 million).

Utilisation of Tower 8 (infant formula) was further increased in 2014. In 2015, the volume is to be raised again with the help of additional measures. A key project for 2015 is to convert the production of the acquired plant in Prenzlau to infant formula.

In the area of operating expenses we posted higher values than in the previous year in both personnel expenses and other operating expenses. This increase can be attributed to the improved results and the higher staffing levels. The main factors in the case of other operating expenses are the higher processing quantities and the higher commission payments in connection with the Egypt tender.

Financial results

In the reporting period a total of CHF 4.88 million could be converted from the outstanding convertible bond with a nominal value of CHF 50 million. The executed capital increase was successful and significantly oversubscribed. The resultant funds were mainly used for the acquisition of companies in Germany. Ordinary investments were financed from the current cash flow. The main items in terms of interest costs were the expenses for the syndicated loan and for the convertible bond.

The financial result includes profit from the assumption of debts amounting to CHF 1.99 million.

In 2014, the Swiss franc remained stable compared to the foreign currencies that are essential to our business. However, our competitiveness remains impaired at this exchange rate level. The minimum EUR/CHF exchange rate lifted by the Swiss National Bank as of 15.01.2015 is exacerbating the situation. The expected impact on the HOCHDORF Group is described in more detail in the notes to the annual report (see Page 80).

Taxes

Tax costs on the operational results have been in accordance with expectations. In the reporting period, deferred taxes were capitalised on newly incurred tax losses (HOCHDORF Deutschland GmbH). The good overall result has meant that losses carried forward from previous years from the Swiss companies have been completely eliminated. There is a positive effect on tax expenses because the deferred tax assets on losses carried forward from 2010 and earlier and those from the years 2011 and 2012 were only partially capitalised.

Cash flow and financing

In comparison to the previous year, cash flow from operational activities has risen from CHF 18.2 million to CHF 20.5 million. There was also a significant increase in earned income, from CHF 18.1 million to CHF 25.3 million. Despite the high milk prices and the business expansion, the increase in the “Receivables” and “Inventories” items remained within reasonable limits.

In the area of investment, expenses of CHF 18.3 million were incurred for plants/buildings/software and CHF 15.1 million for acquisitions.In 2015, the investments for the “Warehouse Logistics” and “Lactose Production” projects as well as the conversion in Prenzlau will be roughly the same.

In 2014, the free cash flow was negative, as a result of the investments, after three positive years.We are expecting free cash flow to be balanced in 2015 based on the ordinary business activities.

The net borrowing stands at CHF 46.8 million (previous year CHF 40.0 million). The increase is the result of acquisitions of companies in Germany at the end of the year, which involved taking on long-term financial liabilities. Despite the acquisitions the equity ratio was a good 43.2% (previous year 42.6%). The HOCHDORF Group's financing therefore forms a solid basis for the continued growth of the company.

Marcel Gavillet
CFO

HOCHDORF Group Key Figures

CHF 1,000	**2014**	2013	2012	2011	2010
Processed quantity of milk and whey in thousand kg	**506,963**	454,647	442,350	474,421	410,527
Quantities produced (including cream) in tons	**99,720**	89,631	87,518	92,394	90,159
Turnover (gross sales revenue)	**428,689**	376,145	346,614	346,574	351,447
Earnings before interest, taxes, depreciation and amortisations (EBITDA)	**27,197**	18,099	14,318	14,538	16,001
in % of production revenue	**6.4%**	4.9%	4.2%	4.1%	4.7%
Earnings before interest and taxes (EBIT)	**20,016**	10,298	2,759	1,898	4,096
in % of production revenue	**4.7%**	2.8%	0.8%	0.5%	1.2%
Earnings before taxes	**17,849**	6,328	–35,402	13,499	3,303
in % of production revenue	**4.2%**	1.7%	–10.5%	3.8%	1.0%
Net profit	**16,139**	6,063	–35,326	12,381	4,137
in % of production revenue	**3.8%**	1.6%	–10.4%	3.5%	1.2%
Staff costs	**34,802**	31,720	32,456	31,207	33,019
in % of production revenue	**8.2%**	8.5%	9.6%	8.9%	9.7%
Depreciations and impairments of fixed assets	**6,782**	7,086	10,842	11,871	11,037
in % of average net cash position	**6.1%**	6.5%	8.2%	7.6%	7.3%
Investments in fixed assets	**16,952**	3,957	8,679	6,612	18,803
in % of production revenue	**4.0%**	1.1%	2.6%	1.9%	5.5%
Earned capital	**25,310**	18,126	13,507	12,919	13,774
in % of net sales revenue	**6.0%**	4.9%	3.9%	3.8%	4.0%
Cash flow from operational activities (cash flow)	**20,546**	18,196	15,372	–2,282	14,120
in % of net sales revenue	**4.9%**	4.9%	4.5%	–0.7%	4.1%
Free cash flow (loss)	**-11,903**	13,846	7,134	8,295	–3,403
Level of shareholders' equity	**43.2%**	42.6%	41.6%	48.6%	51.0%
Interest cover (EBIT/interest expenses net)	**8.6**	3.1	0.7	0.5	1.4
Number of shares, outstanding, in units	**1,070,922**	900,000	900,000	900,000	900,000
Earnings per share in CHF	**17.45**	6.95	–39.69	13.91	4.52
Cash flow (earned capital) per share in CHF	**23.63**	20.14	15.01	14.35	15.30
Dividend	**37%**	32%	30%	30%	30%
Payout ratio	**24.55%**	47.50%	n.a.	21.81%	65.26%
Share price as of 31.12. in CHF	**138.00**	104.00	88.25	75.70	101.90
Dividend return	**2.68%**	3.08%	3.40%	3.96%	2.94%
Price/earnings (P/E) ratio	**7.9**	15.0	n.a.	5.4	22.2
Market capitalisation	**147,787**	93,600	79,425	68,130	91,710
Staffing levels as of 31.12.	**573**	362	381	361	377

HOCHDORF Swiss Milk Ltd

Strategy in brief
We are the Number 1 in Switzerland for milk powder - and we are concentrating on our key business: long-life milk and whey derivatives. We are a reliable partner, providing our customers with high-quality products and services. We are pursuing a strategy of added value for dried milk and whey derivatives.

In 2014, HOCHDORF Swiss Milk Ltd generated gross sales revenues of CHF 258.1 million (previous year: CHF 232.8 million; +10.9%). The increase in turnover was mainly due to the high milk quantities: In total, we sold around 63,000 tons of products (previous year: 59,215; +6.4%). For the most part we were able to pass on the higher milk prices to our customers.

The A milk price remained at a high level throughout the year, whereas the international milk powder prices fell considerably from the middle of the year at the latest. The Swiss milk price was adjusted downwards by three centimes from 01.01.2015. The growing difference between the Swiss and the EU/international milk price led to a large gap in the government's export support aid (“Schoggi Law funding”). We had to increase the deductions of our suppliers for the joint fund accordingly. The situationregarding the “Schoggi Law” has had a big influence on the milk price paid to milk producers.

The process and product developers were occupied with optimising the output at the existing plants. However, the main task was to develop processes and products for lactose and whey protein production. The aim is to be able to use these products in HOCHDORF’s own infant formula. The processes were evaluated in 2014 and the corresponding preparations were made for production. The production building is currently under construction and the equipment has been ordered. We need to monitor the costs exactly given the collapse in the international prices for lactose and whey proteins and the current currency situation.

Outlook

Pressure on milk prices will remain high in the first half of the year, exacerbated by the current currency situation with the strong Swiss franc. Luckily, the international prices were somewhat more stable again in the first few months of 2015. In Switzerland, we are expecting a decline in milk quantities after the middle of the year due to the currently relatively low milk prices. Should the government increase the “Schoggi Law funding” to the permitted maximum of CHF 114.9 million, the pressure on the Swiss milk price would be reduced considerably.

It is important for the business area Dairy Ingredients to ensure that the annual average plant utilisation is as high as possible. We want to achieve this by processing the seasonally higher milk quantities in the first half of the year and processing whey, buttermilk and other products, in addition to milk, into powder and selling them in the second half of the year. During the milk peak season, we shall export a relatively large quantity of cream with the support of Lactofama Ltd. The cream will, for example, be processed into butter at our Uckermark plant.

We want to remain the number one on the Swiss market in the area of milk powder and defend our market share for roll-dried whole milk powder. The additional competition from a new rival will probably lead to market shares being lost in Switzerland. Therefore, we shall step up our contacts with foreign chocolate producers.

Werner Schweizer
Managing Director Dairy Ingredients

	2014	2013	2012	2011
Gross sales revenue (in CHF 1,000)	**258,139**	232,767	224,637	238,295
Export (in %)	**13.3**	13.7	18.4	15.3
Tons	**63,001**	59,215	59,853	62,083
Full-time employees	**16.1**	13.9	13.8	12.2
Gross sales revenue per full-time employee (in CHF 1,000)	**16,033.5**	16,745.8	16,278.1	19,532.4
Quantity sold per full-time employee (in tons)	**3,913.1**	4,260.0	4,337.2	5,088.8

Product range: Cream, milk concentrates, skimmed milk powder, whole milk powder, cream powder, fat powder, milk protein powder, whey powder, whey protein powder, permeate powder.

HOCHDORF Baltic Milk UAB

Strategy in brief

We want to exploit the huge potential for milk production in Lithuania to meet the growing demand for milk derivatives on the world market. To this end, we are seeking to strengthen our collaboration with the milk producers and expand our processing capacity in the medium term.

HOCHDORF Baltic Milk UAB earned gross sales revenues of CHF 43.6 million in 2014 (previous year: 31.9 million; +36.5%). This enormous growth is mainly due to a milk exchange deal with a Lithuanian dairy. Even excluding this milk exchange deal, we still managed to achieve growth of just under 9% to around CHF 34.8 million. In the first three quarters, we benefited from the relatively high price level for milk protein concentrates and butter internationally.

A further reason for the turnover growth was the fact that HOCHDORF Baltic Milk UAB did not export any products to Russia . Particularly the cheeseries and dairies in Lithuania suffered from a ban on exports of dairy products from the eurozone to Russia. As they were able to sell fewer products, we received considerably more milk at attractive prices for processing. We sold the products in our export markets (EU and North America).

Together with the developers of HOCHDORF Swiss Milk Ltd we optimised our processing systems and were therefore able to considerably improve our plants' output. In addition, maintenance investments were made to improve overall capacity and output and achieve better safety at our plants.

Outlook

Given the continuing ban on export of EU milk products to Russia, we are expecting milk quantities for our plant to be higher in the first half of 2015 than in 2014. The prices for our products are still likely to be somewhat lower than in the first half of 2014. There are signs though on the international markets that the prices for milk proteins, butter and skimmed milk powder are recovering.

The lifting of the quota at the end of March will scarcely lead to an immediate increase in milk quantities in Lithuania. In Lithuania, the quota has not been fully utilised in recent years. The situation is likely to be different in Latvia, where we also purchase milk. Here we are expecting milk quantities to rise more quickly after the quota is lifted, especially as the Latvian milk producers have exploited the quota in the last few years.

An investment programme in the lower million region is planned for our plant in order to be able to process larger quantities of milk. With these investments, we want to increase the capacity of the existing plants and in so doing further optimise the plant.

Audrius Jukna
Managing Director HOCHDORF Baltic Milk UAB

	2014	2013	2012	2011
Gross sales revenue (in CHF 1,000)	**43,589***	31,934	24,420	33,471
Export (in %)	**75.1***	94.7	93.8	96.2
Tons	**38,429***	13,986	14,213	16,398
Full-time employees	**43**	42	42	37.5
Gross sales revenue per full-time employee (in CHF 1,000)	**1,013.7**	760.3	581.4	892.6
Quantity sold per full-time employee (in tons)	**382.1**	333.0	338.4	437.3

* Including milk exchange deal in Lithuania.

Product range: cream, skimmed milk power, whole milk powder, milk protein powder, whey protein powder, permeate powder.

HOCHDORF Nutricare Ltd

Strategy in brief
We provide our customers with a Swiss-made range of high-quality formula and foods for infants and children, which can be sold under their own name or under the HOCHDORF brand. We support our partners with a variety of services as required, such as sales and marketing training. We will achieve our growth targets through our existing customer base and with new customers in selected markets.

In 2014, we wanted to achieve sales growth of 18 to 22%. Unfortunately, we did not quite manage to achieve this target due to a lack of filling capacities. However, we increased our gross sales revenue to CHF 110 million (previous year: CHF 94.5 million) with remarkable growth of 16.4%. We achieved this growth with existing customers in the Middle East, North Africa and China. In China, we also started to work with a major new customer. We were also able to launch cooperations with newcustomers in Peru, the Dominican Republic and various countries together with UNICEF (supply of therapeutic milk).

On 7 May 2014, we announced to Chinese customers that our Swiss production plants had been successfully audited by the CNCA (Chinese Audit Authority). The successful audit helped us to generate strong growth in China in the second half of the year.

The product development department created new special products or new formulae for special products for our customers. A key product was also the optimisation of various raw materials. Thanks to formula adjustments we were able to optimise the use of raw materials in our products. Our development department will also focus on this sub-project of the supply chain in 2015.

Outlook
To ensure that we can also achieve the budgeted growth in the current year a large capacity expansion project has been launched. Moreover, the production planning system will be optimised. The aim is to raise capacity by roughly 10% with these measures. We shall carry on with customer regrouping and look for possibilities to increase the filling capacities through filling by our partners. The order intake is at a high level despite the strong Swiss franc. We will only be able to assess the impact of price increases that are directly connected with the currency situation in the medium term.

We have invested in further growth by purchasing Uckermärker Milch GmbH. The milk drying plant in Prenzlau will now be made fit for the production of infant formula: We expect initial production to start from mid 2016. In Germany, infant formula is produced for markets in which Swiss technology is more important than Made in Switzerland or where products from Switzerland face a high customs disadvantage.

To speed up growth in the Latin American markets we shall open a sales office in Uruguay. Our partner on the ground has the task of selling infant formula that will be produced in Prenzlau from 2016. Other interesting countries are South Korea, India, South Africa and Indonesia. We shall also continue to grow with our existing customers.

The change of management in the business area Baby Care will also keep us busy. We have found a very good solution in Fons Togtema. He was with us from the beginning as a founding partner and has been jointly responsible for the positive development of HOCHDORF Nutricare Ltd to date. I am leaving after nine years with full confidence in the successful continuation of the Baby Care division.

Michiel de Ruiter
Managing Director Baby Care

	2014	2013	2012	2011
Gross sales revenue (in CHF 1,000)	**110,031**	94,507	70,646	43,615
Export (in %)	**91.3**	95.9	94.4	95.1
Tons	**15,651**	14,006.7	11,086.8	7,115
Full-time employees	**17.5**	16.0	15.9	13.9
Gross sales revenue per full-time employee (in CHF 1,000)	**6,287.5**	5,906.7	4,443.1	3,137.8
Quantity sold per full-time employee (in tons)	**894.3**	875.4	697.3	511.9

Product range: Pregnancy milks, infant formulae and junior milks produced in Switzerland.

HOCHDORF Nutrifood Ltd

HOCHDORF Nutrifood Ltd (incl. HOCHDORF Deutschland GmbH) generated gross sales revenue of CHF 18.2 million (–9.0% compared to the previous year; previous year CHF 20.0 million) in business year 2014. Lower sales in the area of bakery products and the streamlining of the product range were mainly responsible for the decline in turnover. The product range was reduced in favour of improving efficiency and profitability.

We raised our market position in the area of wheat germ by purchasing Marbacher Ölmühle GmbH in Marbach am Neckar, Germany. With this acquisition we extended our portfolio of ingredients to include a large number of oils and press cakes, mostly in organic quality, giving us direct market access to the eurozone.

Together with our distribution partners we increased the number of customer projects considerably and were able to acquire a large number of new customers. Thus, we supplied new companies in Switzerland, Spain, Finland, Sweden and Estonia with VIOGERM® products. In Switzerland, Berger AG Backwaren, for example, is now manufacturing some of its well-known sweets with VIOGERM® wheat germ. Hence, our ingredients have found their way into a large number of snack vending machines in Switzerland. Arguably the best hamburger in Switzerland from McDonalds also contains VIOGERM® wheat germ.

In 2014, our development department created VIOGERM® Gold Flakes, a unique member of the VIOGERM® product family for use in muesli and chocolate. Another new development was the FEMTORP® Lime/Liquorice Mousse. In the Swedish market this product was successfully launched in autumn. Thedevelopment department also contributed to a large number of customer projects with its expertise and therefore supported the use of our products by customers.

Strategy in brief

The area of Cereals & Ingredients is pursuing an internationally focused speciality strategy. Its products make a specific contribution to everyone's health and well-being and are also of very high quality. With VIOGERM® wheat germ we are aiming to produce a unique, healthy brand. We are also developing children's food as a further extension of infant formula. We are aiming to expand FEMTORP®dessert specialities and offer an interesting alternative to the most important competitors in this market.

Outlook

In the current business year we are concentrating on the integration of Marbacher Ölmühle GmbH. After the removal of the CHF/EUR minimum exchange rate by the Swiss National Bank, the acquisition of Marbacher Ölmühle GmbH is more important to us than ever before. We shall also present our products to a trade audience in autumn at the Food Ingredients Europe (FIE) in Paris. In addition, we shall deal with the continuously falling sales in the area of bakery product ingredients and look for solutions. The good cooperation with partners will become more intensive through the coordination of marketing activities.

Michel Burla
Managing Director Cereals & Ingredients

	2014*	2013*	2012*	2011
Gross sales revenue (in CHF 1,000)	**18,183**	19,974	19,147	22,481
Export (in %)	**22.9**	24.7	21.5	31.7
Tons	**3,733**	4,452.4	4,825.9	4,804
Full-time employees	**9.9**	8.8	12.6	11.5
Gross sales revenue per full-time employee (in CHF 1,000)	**1,836.7**	2,269.8	1,516.0	1,954.9
Quantity sold per full-time employee (in tons)	**377.1**	506.0	383.0	417.7

* incl. HOCHDORF Deutschland GmbH

Product range: Food Ingredients (VIOGERM® wheat germ as well as crispy cereals – crisps), wellness products (gentle-pressed wheat germ oil, nutritional supplements – capsules and tablets), tonics and instant dessert products (mousse and ice cream powder).

HOCHDORF Swiss Nutrition Ltd

From January to December the plants in Switzerland processed 336 million kg milk (+12% compared to the previous year) and 50 million kg raw whey (-27% compared to the previous year). Net liquid-receipts amounted to 411 million kg (+6.5% compared to the previous year), 60% of which was delivered at the Sulgen plant and 40% at the Hochdorf plant. Milk production was 5% higher than the previous year and the whey quantities were adjusted accordingly. The milk processing line equipment was well utilised and production was stable. On the new Line 8, 14,300 tons of infant food was produced (+19% compared to the previous year). The diversification on the can-filling line led to bottlenecks.

Regular production

The spring milk season was very strong with liquid receipts 18% up on the previous year's volume due to seasonal factors. To ensure the raw material supply and increase plant flexibility, we provided additional tanks at the Sulgen plant for the supply of liquid concentrates. This gave us the chance to also deliver concentrates to customers or between the factories in the case of diverging milk, whey and permeate volumes. Infant formula production saw a further marked increase in capacity utilisation and efficiency. Processing of wheat germ and sourdough remains stable to regressive.

Costs and quality assurance

In general the production costs per ton of manufactured products could be reduced on the basis of the good capacity utilisation at both Swiss plants. The most important cost blocks are personnel, logistics and energy. Significant savings were achieved in the areas of energy and disposal costs and logistics. The higher liquid volume and the growth in the area of Baby Care led to higher staffing levels and correspondingly higher overall costs.

The systems for ensuring food safety are validated and operating at a good level. In December, the plants were inspected according to the Version 6 BRC Standard and passed with top marks. No market recall was necessary in 2014 because food safety was always guaranteed. The costs for errors, product damage and downgrading was below 0.25% of the gross turnover in the reporting period, with a first-pass rate of 98% (previous year 98.4%).

Procurement and logistics

The procurement volume rose by 15% compared to the previous year and the value of the raw material stocks increased by CHF 1 million. However, the number of purchased articles fell from 1,600 to 1,400.

Strategy in brief

HOCHDORF Swiss Nutrition Ltd, Operations, is one of the leading foodstuff companies in Europe in the manufacture of functional ingredients and special nutrition. The quantity-driven milk/whey area and the process-driven speciality area are being developed further, both in organisational and structural terms.

Of the total 890 freight containers, 637 (+20% compared to the previous year) were loaded directly from the plant. In all, 271,000 tons of goods were relocated between the plants and warehouses with cost implications of CHF 5.1 million. In future, these costs will be largely eliminated with the warehouse logistics projects. The truck utilisation was 98% and the transport costs amounted to CHF 2.5 million. The costs for materials handling stabilised during the reporting period at CHF 19 per ton and CHF 14.28 per pallet. This equates to a continuous cost reduction of 25% since 2012.

Projects

The “Warehouse Logistics” project is generally on track. The buildings will go into operation from March 2015 onwards in stages. The project for producing lactose and whey protein from whey was delayed by around two months. The start-up is scheduled for June 2015.

Outlook

In the current business year, we will reduce production costs further and increase added value, particularly in the production of infant formula, whey processing and logistics. This will result from measures in the production process and from economies of scale with regard to materials and energy management.

Dr. Karl W. Gschwend
Managing Director Operations

What nature gives, we give back flawlessly. To make milk powder we need water, which we produce simultaneously. Whether used or produced – in our 3-step treatment plant we clean both and give the water back to nature in the same state we received it, namely clean and clear as glass. This ensures that the beauties of our country can continue to be reflected in it in the future .

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The HOCHDORF Group's information policy is open, transparent, and continuous. We are committed to responsible corporate governance with the aim of achieving a balance between management and control, while protecting shareholder interests. Our benchmark is the "Swiss Code of Best Practice for Corporate Governance". The following information is in keeping with the current Directive Corporate Governance (DCG) of the SIX Swiss Exchange.

1. Group structure and shareholders

1.1. Group structure as at 31 December 2014

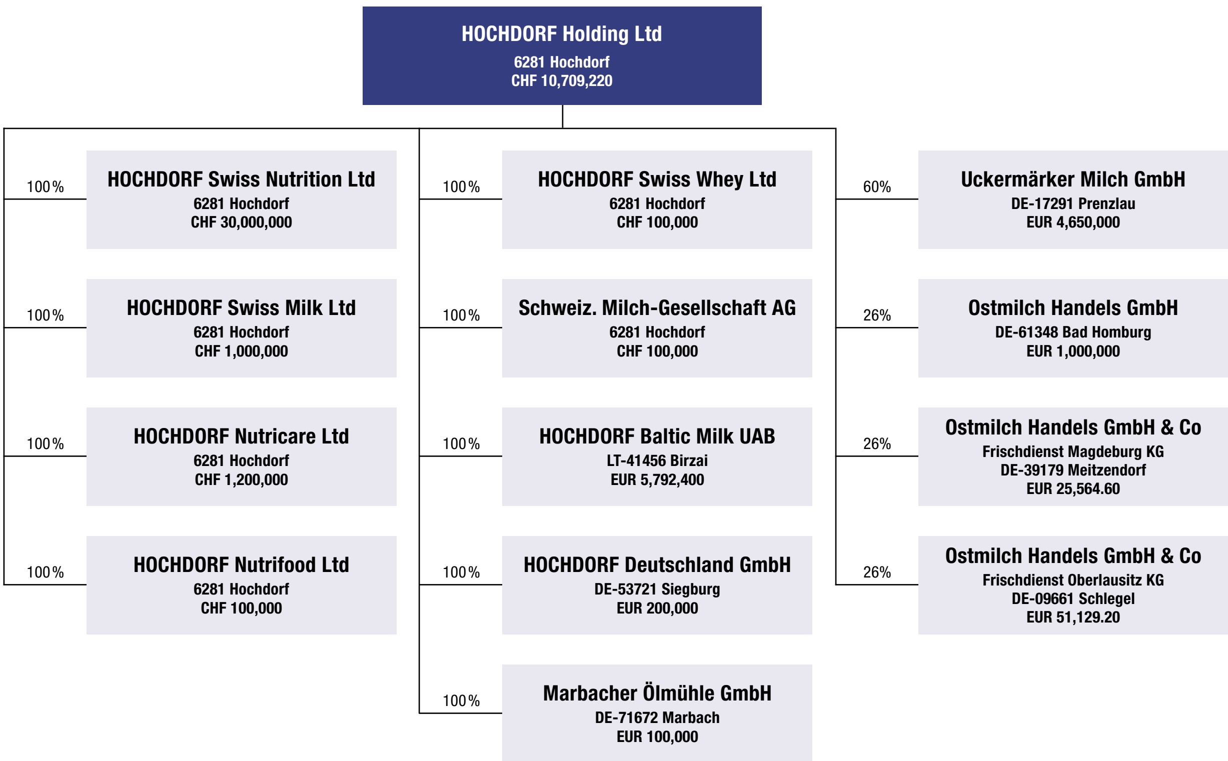
The structure of the HOCHDORF Group (hereinafter, "HOCHDORF") is detailed on this page. All shareholdings are listed on page 61 of the Annual Report, including registered office, share capital, and equity interest. Other than HOCHDORF Holding Ltd, which is listed, the scope of consolidation consists exclusively of non-listed subsidiaries.

1.2. Significant shareholders

Significant shareholders with more than 3% of the voting rights are listed on page 59 of the Annual Report. Various notifications were received in the reporting period in accordance with Article 20 of the Federal Act on Stock Exchanges and Securities Trading (BEHG). Innovent AG, Wollerau, and the Weiss family, Wollerau, form a group in line with Article 20 BEHG and own 6.68% of the capital and 5% of the voting rights (previous year: 7.44% of the capital and 5% of the voting rights). Gebrüder Maurer GmbH, Zenith Gewerbepark GmbH, Maurer-Bertschi GmbH, Maurer-Schöni GmbH, all based in Hunzenschwil, form a group in line with Article 20 BEHG and own 3.57% (previous year: 3.71%) of the capital and voting rights.

1.3. Cross-investments

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



2. Capital structure

2.1. Share capital

As at 31 December 2014, the share capital consisted of 1,070,922 registered shares (security number 2 466 652 / ISIN CH0024666528) with a nominal value of CHF 10 per share. A total of 1,031,529 registered shares have been recorded in the Commercial Register. The share capital is fully paid up. Each share is equivalent to one vote. There are no preferential rights. The company has not issued any profit participation certificates.

2.2. Contingent and authorised capital

As at 31 December 2014, HOCHDORF Holding Ltd had contingent share capital amounting to a nominal total of not more than CHF 4.5 million or not more than 450,000 registered shares at a nominal price of CHF 10. This is reserved for the outstanding convertible bond whose term runs from 30 May 2011 to 30 May 2016. As at 31 December 2014, HOCHDORF Holding Ltd had authorised share capital amounting to a nominal total of not more than CHF 3,184,710 or not more than 318,471 registered shares at a nominal price of CHF 10. The deadline for exercise is 15 May 2016. In connection with an initial capital increase in November 2014, a total of 131,529 new registered shares at a nominal price of CHF 10, out of not more than 450,000 new shares at a nominal price of CHF 10, were issued from the originally authorised capital.

2.3. Capital changes

An overview of capital changes can be found on page 61 of the Annual Report.

2.4. Restrictions on transferability

HOCHDORF Holding Ltd shares are essentially transferable without restriction. Company shareholders are considered to be those who are recorded in the shareholder register. A shareholder register is kept for registered shares, and their owners are recorded there. The company must be notified of any changes. Recording in the shareholder register requires proof of share acquisition. Upon request, purchasers of registered shares are recorded in the register of shareholders as shareholders with voting rights, provided that they expressly declare that they have acquired the registered shares in their own name and for their own account. If they are not prepared to make such a declaration, the Board of Directors can decline to make the recording with voting rights. The recording limit is 5% of the voting rights.

2.5. Convertible bond

In 2011, HOCHDORF Holding Ltd issued a convertible bond in the nominal amount of CHF 50 million. It bears interest of 3% for the entire term, which runs from 30 May 2011 to 30 May 2016. The conversion period runs from 24 June 2011 to 12 May 2016. The conversion price is CHF 123.80. The nominal amount of CHF 5,000 entitles bondholders to subscribe to 40.39 registered shares of HOCHDORF Holding Ltd. Fractions are paid out in cash. As at 31 December 2014, the nominal amount of CHF 4,880,000 had been converted into a total of 39,393 shares, meaning that the nominal amount of CHF 45,120,000 was still outstanding.

3. Board of Directors

3.1. Members of the Board of Directors

In 2014, the Board of Directors of HOCHDORF Holding Ltd consisted of seven non-executive members. None of the members previously belonged to Group Management, and no member has a material business relationship with the issuer or one of the issuer's group companies. The members were elected by the General Meeting for a term of one year, expiring at the time of the next ordinary General Meeting. Re-election is possible. Current members of the Board of Directors who are nominated for re-election are elected on individual ballots. The Chairman and any new members of the Board of Directors are elected on individual ballots. All elections and votes are conducted openly, unless a majority requests secret ballots. The retirement age for members of the Board of Directors is 70. They leave the Board of Directors at the next General Meeting after turning 70. In the reporting period, current Board members Hans-Rudolf Schurter and Rolf Schweiger stepped down, and Dr Walter Locher, Niklaus Sauter, and Dr Holger Karl-Herbert Till were newly elected. No notifications of resignation were received at the 2015 General Meeting.

3.2. Professional background and other positions and interests

Josef Leu

1950; **Place of residence:** Hohenrain LU; **Board member since:** 2002. **Chairman since:** 2014. **Education/degree:** Ing. HTL. (engineering). **Professional experience:** Farm manager and owner until 2011; board member and audit committee member, Migros-Genossenschafts-Bundes MGB until 30 June 2008; member of the Swiss National Council from 1991 to 2006. **Current professional capacity:** Head of the DDPS Damage Compensation Centre, Bern. **Other positions:** none.

v.l. Holger Till, Urs Renggli, Anton von Weissenfluh, Meike Bütikofer, Josef Leu (Chairman of the Board of Directors), Walter Locher, Niklaus Sauter.

Name	Born	Nationality	Member since	Elected in	until
Josef Leu, Chairman	1950	Swiss	2002	2014	2015
Anton von Weissenfluh, Vice Chairman	1956	Swiss	2005	2014	2015
Meike Bütikofer	1961	Swiss	2009	2014	2015
Urs Renggli	1951	Swiss	2008	2014	2015
Walter Locher	1955	Swiss	2014	2014	2015
Niklaus Sauter	1962	Swiss	2014	2014	2015
Holger Karl-Herbert Till	1962	German	2014	2014	2015

Urs Renggli
1951; Place of residence: Kriens LU; Board member since: 2008. Education/degree: lic. oec. publ. (economics); dipl. Wirtschaftsprüfer (auditor). Professional experience: 1977 to 1981, in IT and internal auditing, Schweizerische Kreditanstalt, Zurich; followed by 26 years in auditing and business consulting in an executive capacity, PricewaterhouseCoopers, Lucerne. Current professional capacity: Independent consultant. Other positions: President of the Association "Die Dargebotene Hand Zentralschweiz"; employer representative of the HOCHDORF Group pension fund.

Anton von Weissenfluh
1956; Place of residence: Kriens LU; Board member since: 2005. Vice Chairman since: 2014. Education/degree: Ing. ETH (engineering); Dr. sc. techn. (science) Professional experience: Study of food sciences at the Swiss Federal Institute of Technology (ETH), Zurich, specialising in dairy science; followed by five years in management positions in the dairy industry; 1991 to 2006, Kambly SA, Trubschachen, from 2001 as CEO. Current professional capacity: Since 2006, CEO, Chocolats Halba, Wallisellen. Other positions: Since 2014, chairman of the board, Chocolats Halba, Honduras.

Meike Bütikofer
1961; Place of residence: Wangen SZ; Board member since: 2009. Education/degree: Diplom-Agraringenieurin (agricultural engineering); Master of Science in Animal Nutrition and Management, with an additional qualification in veterinary medicine, Swedish University of Agriculture Science, Uppsala; Executive MBA (University of St. Gallen). Professional experience: 1989 to 1991, head of marketing for feed in Scandinavia, ZIWAG AG, Oberentfelden; 1991 to 1993, PR consultant, ATAG Ernst & Young Consulting AG, Bern; 1993 to 1997, head of the Quality and Environmental Management profit centre, Electrowatt Engineering AG, Zurich; 1997 to 2002, head of strategy and balanced scorecard, Siemens Building Technologies AG, Zurich, Corporate Development and Siemens AG, Munich. Current professional capacity: Since 2002, owner, Bütikofer AG – Wertorientierte Unternehmensstrategien, Hergiswil. Other positions: Since 2006, board member, IE-Engineering Group, Zurich; since 2011, board member, René Faigle AG, Zurich; since 2011, member, Schweizer Berghilferat; since 2012, board member, Brunau Stiftung, Zurich.

Dr Walter Locher
1955; Place of residence: St. Gallen; Board member since: 2014. Education/degree: Dr. iur. (law), licensed attorney and admitted as notary (Canton of St. Gallen). Professional experience: Study of jurisprudence at the University of Zurich; doctorate in 1982. Current professional capacity: Self-employed attorney with own law firm in St. Gallen since 1988. Other positions: Since 2003, member of St. Gallen cantonal parliament (FDP fraction); 2010/2011, president of the cantonal parliament; board member of various companies and foundations (inter alia, chairman of the board of Druckguss Systeme AG, St. Gallen; board member of Gebrüder Knie, Schweizer National-Circus AG, Rapperswil; board member of René Faigle AG, Zurich); president of HEV of the canton of St. Gallen.

Niklaus Sauter
1962; Place of residence: Weinfelden TG; Board member since: 2014. Education/degree: lic.rer.pol. (political science). Professional experience: 1988 to 1989, business consulting in Germany; 1990 to 1992, group planning, UBS; 1992 to 1999, executive, Sauter Group, from 1996 as CEO; 1999 to 2009, managing director, Belimed Sauter AG, Sulgen; 2005 to 2012, CEO, Belimed Group, Zug. Current professional capacity: Since 2012, self-employed consultant focusing on business and strategic development and investment projects. Other positions: board member of Thurgauische Stiftung für Wissenschaft und Forschung; board member of two other SMEs.

Dr Holger Karl-Herbert Till
1962; Place of residence: Graz/Austria; Board member since: 2014. Education/degree: Prof. Dr. med. (medicine) Professional experience: Graduate, doctorate, and post-doctorate degrees in human medicine at various universities; 1999 to 2004, chief of the paediatric surgery clinic, LMU, Munich; 2004 to 2005, associate professor,Chinese University of Hong Kong, Departmentof Surgery, Division of Paediatric Surgery; 2006 to 2012, director and professor, Clinic and Polyclinic for Paediatric Surgery, University of Leipzig. Current professional capacity: Since 2012, head of Paediatric and Youth Surgery Department, Medical University of Graz; since 2013, board member of the University Clinic for Paediatric and Youth Surgery, Medical University of Graz. Other positions: none.

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

a) three mandates as board member or as member of other executive or governing bodies of companies considered publicly traded companies pursuant to Art. 727, para 1, no. 1 of the Swiss Code of Obligations (OR); as well as in addition
b) five mandates as board member or as member of other executive or governing bodies of companies within the meaning of Art. 727, para. 1, no. 2 OR; as well as in addition
c) ten mandates as board member or as member of other executive or governing bodies of other legal entities that do not meet the aforementioned criteria.

3.3. Functioning of the Board of Directors

The Board of Directors meets at least five times each year and as often as business requires. In 2014, the Board had five ordinary meetings, three extraordinary meetings, and one full-day strategy session with Group Management. In addition, the Chairman of the Board of Directors meets with the CEO every three weeks for a work session. The CEO and the CFO participate in meetings of the Board of Directors on all agenda items in an advisory capacity. When required, the Board of Directors also invites external specialists and other members of Group Management to advise on specific topics. The Board of Directors is responsible for the strategic direction of the company, supervision of Group Management, and financial control. The Board of Directors monitors company objectives and identifies risks and opportunities. It also appoints members of Group Management. The Board of Directors has a quorum when the majority of its members is present. In order to be valid, a resolution must be adopted by a majority of the votes cast. In the event of a tie, the Chairman of the Board of Directors has the casting vote.

3.4 Committees of the Board of Directors

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

Audit Committee

Members: Urs Renggli (chair), Josef Leu, Dr Walter Locher. The main duties of this committee are:

– Verifying the effectiveness of external auditing and internal control.
– Evaluating directives addressed to Group Management with regard to financial risks and compliance with same.
– Discussing financial statements with the CFO and the external audit manager.
– Evaluating the performance and fees of the auditor and its independence.
– Evaluating risk management procedures.

The audit committee met five times in 2014. In addition to standard agenda items, particular attention was paid to the viability and effectiveness of the internal control system (ICS) in connection with risk management, and a special examination was carried out with regard to investment controlling and payroll processing.

Personnel and Compensation Committee

Members: Anton von Weissenfluh (chair), Josef Leu, Niklaus Sauter. The main duties of this committee are:

– Making recommendations concerning the remuneration to be paid to members of the Board of Directors and Group Management.
– Developing principles for ensuring that all employees receive total remuneration that is in line with the market and with performance.
– Drawing up employment agreements for members of Group Management.

The Personnel and Compensation Committee met two times.

Market and Strategy Committee

Members: Meike Bütikofer (chair), Anton von Weissenfluh, Holger Karl-Herbert Till. The main duties of this committee are:

– Reviewing and evaluating the long-term vision, mission, and values of the HOCHDORF Group.
– Evaluating decisions that are of strategic relevance, particularly those focused on value creation, in order to advise and support the Board of Directors.
– Monitoring potential changes in the basic conditions concerning the strategy approved by the Board of Directors.

– Reviewing the organisational form based on the strategy and the staff composition of Group Management.

The Market and Strategy Committee met one time.

3.5 Company management and responsibilities

The Board of Directors is responsible for overall management of the company and the Group, as well supervision of Group Management. Pursuant to Art. 716a OR, it has the following non-transferable and inalienable duties:

– Overall management of the company and the Group, which includes setting medium- and long-term strategies, planning priorities, and guidelines for company policies, as well issuing of all necessary directives.
– Determining the basic organisation and the associated operational regulations.
– Determining the guidelines for organisation of the accounting, financial control, and financial planning systems.
– Appointing and dismissing persons entrusted with managing and representing the company, namely the CEO, and issuing signing authorisations.
– Comprehensively supervising the persons entrusted with managing the company, in particular with regard to compliance with the law, the Articles of Association, operational regulations, and directives.
– Compiling the management report, preparing for the General Meeting, and implementing its resolutions.
– Notifying the court in the event that the company is overindebted.
– Determining capital increases and relevant amendments to the Articles of Association.

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

– Annual and investment budgets.
– Annual and half-year financial statements.
– Group organigramme, up to and including the Group Management level.
– Wage policy.
– Assessment of main risks.
– Investments outside the budget greater than CHF 0.5 million.
– Multi-year financial and liquidity planning.
– Collaborations and agreements relevant to strategy, in particular the purchase and sale of holdings, companies, parts of companies, business branches, rights to products, and intellectual property rights.
– Formation and dissolution of companies.
– Nomination of candidates for membership on the Board of Directors, for the attention of the General Meeting.
– Election of the boards of directors of subsidiaries.
– Group operational regulations of strategic importance.

The Board of Directors delegates all other areas of management in full to the CEO, who is empowered to issue directives to the other members of Group Management. The Board of Directors may on a case-by-case basis or in connection with its general reservation of responsibilities intervene at any time in the duties and responsibilities of the bodies hierarchically subordinate to it and assume control of the business conducted by these bodies ("powers reserved").

The CEO acts as chair for Group Management. He leads, supervises, and coordinates the members of Group Management and issues to them the authorisations they need in order to perform their work. In conformity with the law, as well as with the Articles of Association and organisational regulations of the HOCHDORF Group, the CEO has the powers necessary to manage the HOCHDORF Group. In particular, the CEO has the following duties:

– Implementing strategic objectives, determining key operational priorities, and providing the material and staffing resources required for this.
– Directing, supervising, and coordinating the other members of Group Management.
– Convening, preparing, and chairing meetings of Group Management.
– Providing regular information to the Chairman of the Board of Directors, as well as to the Board of Directors itself, with regard to course of business. In the event of important or unexpected business occurrences, the Chairman of the Board of Directors is to be informed without delay.
– Representing the Group both internally and externally.

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

3.6. Information and control instruments applicable to Group Management

The Board of Directors is informed at each meeting about the course of business, the financial situation, and important business occurrences by the Chairman, the committee chairs, the CEO, the CFO and, depending on the agenda item, other members of Group Management. The Chairman is provided with information by the CEO at least every three weeks and receives the minutes of Group Management meetings. Written information about extraordinary events is promptly circulated to the members of the Board of Directors.

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

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

At least once a year, the chair of the Audit Committee and the CFO provide the Board of Directors with information for its approval concerning main risks, along with their assessment of how relevant and likely such risks are. The Board of Directors monitors the implementation of the measures that were defined and undertaken by Group Management in order to combat the risks.

The Audit Committee evaluates the effectiveness of internal and external control systems, as well as the organisation and process of risk management in the HOCHDORF Group. The external auditor Ernst & Young AG constitutes a further information and control system, and it is in direct contact with the chair of the Audit Committee.

4. Group Management

4.1. Members of Group Management

As at 31 December 2014, Group Management consisted of Thomas Eisenring, CEO, Marcel Gavillet, CFO, Karl Gschwend, Managing Director of HOCHDORF Swiss Nutrition Ltd, Werner Schweizer, Managing Director of HOCHDORF Swiss Milk Ltd, Michiel de Ruiter, Managing Director of HOCHDORF Nutricare Ltd, and Michel Burla, Managing Director of HOCHDORF Nutrifood Ltd.

4.2. Professional background and other positions and interests

Dr Thomas Eisenring

1965; Swiss; **Place of residence:** Winterthur/ZH, **Position:** CEO since June 2013. **Education/degree:** Mechanic, Dr. oec. HSG (economics) **Professional experience:** 1985 to 1991, aircraft mechanic, Swissair, Zurich Airport; 1993 to 1997, senior consultant, Schuh & Co Complexity Management, St. Gallen; 1998 to 2000, interim regional manager (Rhein/Ruhr), Peiniger Group, Leverkusen (Germany); 2000 to 2002, director of business regeneration services, PricewaterhouseCoopers, Zurich; 2002 to 2008, chairman of the board of directors, CEO, and head of sales, SE-VEX AG, Sevelen; 2008 to 2013, member of executive management and principal owner, ZIFRU Trockenprodukte GmbH, Zittau (Germany). **Other positions:** chairman of the boards of directors of all HOCHDORF subsidiaries in Switzerland and of HOCHDORF Baltic Milk UAB; managing director, Uckermärker Milch GmbH, Prenzlau (Germany).

Marcel Gavillet

1962; Swiss; **Place of residence:** Retschwil LU; **Position:** CFO since 2003. **Education/degree:** graduate of the Fachhochschule FH (University of Applied Science); MAS corporate finance; certified IFRS accountant. **Professional experience:** 1996 to 1999, head of finance and accounting, Nutriswiss AG, Lyss, then managing director from 1999 to 2003. **Other positions:** Board member of the subsidiaries in Switzerland and of HOCHDORF Baltic Milk UAB; manager of the HOCHDORF Group pension fund.

Dr Karl W. Gschwend

1953; Swiss; **Place of residence:** Altnau TG; **Position:** Since 1998, Managing Director of Operations, HOCHDORF Swiss Nutrition Ltd. **Education/degree:** Study of natural sciences at the Swiss Federal Institute of Technology (ETH), Zurich; 1982, doctorate, Institute for Biotechnology at the Swiss Federal Institute of Technology, Zurich; degree in strategic enterprise management, SKU (Swiss Courses on Enterprise Management). **Professional experience:** 1983 to 1986, head of the biological equipment construction department, Giovanola Frères SA, Monthey; 1986 to 1997, managing director, Obipektin AG, Bischofszell; 1998 to 2003, plant manager, HOCHDORF Nutritec Ltd, Hochdorf; 2003 to 2005, managing director, Schweizerische Milchgesellschaft AG, Sulgen; 2006 to 2014, managing director, HOCHDORF Swiss Nutrition Ltd, Hochdorf. **Other positions:** 2002 to 2011, president, Swiss Society of Food Science and Technology (SGLWT); 2010 to 2011, chairman, Society of Milk Science; advisor, Institute of Food and Beverage Innovation at the Zurich University of Applied Sciences (ZHAW), Wädenswil; officer in charge of coordinating HOCHDORF Group's scientific research; president of the HOCHDORF Group pension fund.

Werner Schweizer

1955; Swiss; **Place of residence:** Kriens LU; **Position:** Since 2006, Managing Director of Dairy Ingredients, HOCHDORF Swiss Nutrition Ltd **Education/degree:** Study of food sciences at the Swiss Federal Institute of Technology (ETH) Zurich, awarded dipl. LM Ing. (engineering) in 1979; degree in strategic enterprise management, SKU (Swiss Courses on Enterprise Management), 2009. **Professional experience:** 1979 to 1982, specialist teacher at the dairy science school, Sursee; 1983 to 1987; head of production, Nestle Lanka, Sri Lanka, Nestec; 1988 to 1990, head of QM and E&A, Laiteries Reunies de Genève; 1991 to 1997, partner, QM Schweizer & Stierli AG, Lucerne; 1998 to 2005, head of marketing and head of the industry/business area milk, HOCHDORF Nutritec Ltd. **Other positions:** board member, Swiss Milk Industry Association (vmi); board member, Milk Sector Organisation; managing director, HOCHDORF Baltic Milk UAB.

Michiel de Ruiter

1962; Dutch; **Place of residence:** Hünenberg See ZG; **Position:** Since 2006, Managing Director of Baby Care, Swiss Nutrition Ltd. **Education/degree:** Masters of Science, Business Administration and Marketing, Agricultural University of Wageningen, Holland. **Professional experience:** 1987 to 1994, senior consultant, McKinsey (Amsterdam, Sao Paulo, Brussels); 1994 to 1997, commercial director and M&A director, Deli Universal, Rotterdam; 1997 to 1999, marketing and business development director, Friesland Consumer Products Europe; 1999 to 2006, managing director, Infant Nutrition Royal Friesland Campina, Leeuwarden, Ede. **Other positions:** none.

Michel Burla

1967; Swiss; **Place of residence:** Lyss BE; **Position:** Since 2013, Managing Director of Cereals & Ingredients, HOCHDORF Swiss Nutrition Ltd. **Education/degree:** Study of natural sciences, degree in microbiology, University of Basel. **Professional experience:** 1995 to 1998, product and sales manager Switzerland, BioConcept, Allschwil; 1998 to 2003, sales manager EMEA, Flachsmann, Wädenswil; 2003 to 2008, business unit manager and member of Group Management, Frutarom, Wädenswil; 2008 to 2010, marketing manager for food ingredients, Univar, Zurich; 2010 to 2013, manager for business support and business development, Narimpex, Biel. **Other positions:** none.

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

a) one mandate as board member or as member of other executive or governing bodies of companies considered publicly traded companies pursuant to Art. 727, para 1, no. 1 of the Swiss Code of Obligations (OR); as well as in addition
b) three mandates as board member or as member of other executive or governing bodies of companies within the meaning of Art. 727, para. 1, no. 2 OR; as well as in addition
c) five mandates as board member or as member of other executive or governing bodies of other legal entities that do not meet the aforementioned criteria.

5. Compensation, participations, loans

With the implementation of the Minder Initiative through the Ordinance Against Excessive Compensation (VegüV), the Remuneration Report replaces the guidelines on corporate governance in this regard, starting 1 January 2014. For the information required in the Remuneration Report, please see pages 45 et seq.

6. Shareholders' rights of co-determination

6.1. Restriction on voting rights; proxying voting rights

All shareholders recorded in the shareholder register are entitled to attend and vote at the General Meeting. The restriction on voting rights amounts to 5% of the share capital. Any shareholder can give written authority to a fellow shareholder or appoint an independent proxy to vote at the General Meeting on his or her behalf. There is no statutory quorum.

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

The Articles of Association can be downloaded from the HOCHDORF Group website under "Investor Relations": www.hochdorf.com/investoren/corporate-governance (available in German only).

6.2. Quorum

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

6.3. Convening of the General Meeting

The General Meeting takes place annually, at the latest six months after the end of the financial year. It is convened by the Board of Directors. Legal provisions apply to the convening of extraordinary General Meetings. Notice of the General Meeting is sent out personally and in writing at least 20 days before the date of the meeting.

6.4. Agenda

Notice of the General Meeting includes the invitation to submit proposed resolutions concerning business set forth on the agenda, as well as questions about the annual report.

6.5. Entries in the share register

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

7. Change of control and defensive measures

7.1. Duty to make an offer

The Articles of Association of HOCHDORF Holding Ltd do not contain any opting-out or opting-up clauses within the meaning of Article 22 of the Federal Act on Stock Exchanges and Securities Trading (BEHG) with respect to the statutory duty to make a takeover offer.

7.2. Change-of-control clauses

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

8. Auditor

8.1. Duration of the mandate and term of office of the audit manager

The General Meeting elects the auditor for terms of one year each. Ernst & Young AG, Lucerne, was elected auditor of HOCHDORF Holding Ltd and its subsidiaries for 2014. Bernadette Koch has been the audit manager since 2014. Ernst & Young AG has been the auditor since 2014.

8.2. Audit fee

The auditor charged total fees of CHF 33,000 (excluding VAT) for the 2014 reporting period for the performance its statutory mandate (including the auditing of the consolidated accounts). An additional CHF 65,000 was deferred.

8.3. Additional fees

During the 2014 reporting period, Ernst & Young charged a total of CHF 28,000 (excluding VAT) for additional services that went beyond its statutory mandate involving work in connection with the capital increase.

8.4. Instruments for supervising and controlling the audit

The Audit Committee of the Board of Directors assesses the performance, invoicing, and independence of the external auditor and makes corresponding recommendations to the Board of Directors. Each year, the Audit Committee checks the scope of the external audit, the audit plans, and the relevant processes and discusses the audit results with the external auditor. The audit manager attended three Audit Committee meetings in 2014.

9. Information policy

Guidelines for investor relations: The HOCHDORF Group maintains open and ongoing communication with shareholders, potential investors, and other stakeholder groups. The aim is to provide rapid, simultaneous, and transparent information about the company, its strategy, and business developments and to present an accurate view of the HOCHDORF Group's performance in the past and the present, as well as its future-prospects. This view is intended to reflect the assessment of the Group's current situation by the Board of Directors and Group Management.

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

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

Press releases and investor information are available under the following link:
– Investor relations: www.hochdorf.com/en/investors

Shareholders and other persons interested in the HOCHDORF Group can also subscribe to a newsletter, which offers information about press releases and ad-hoc notices.
– Newsletter: www. hochdorf.com/en/investors/newsletter

Further information about the Group is available at www.hochdorf.com. Reports to the SIX Exchange Regulation about shareholdings that exceed voting-rights thresholds and are subject to reporting can be found at: www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html.

In 2014, HOCHDORF Holding Ltd experienced various changes to shareholdings that were subject to reporting.

Contact for Investor Relations:

HOCHDORF Holding Ltd, Investor Relations, Siedereistrasse 9, CH-6280 Hochdorf, tel.: +41 41/914 65 62, email ir@hochdorf.com.

The General Meeting will take place on 8 May 2015. Shareholders recorded in the share register will receive the notice of the General Meeting by mail.

The next business results (half-year results for 2015) will be published on 20 August 2015.


1

Wherever the ice may be, it has to be just as carefully protected against heat as our milk. We have overhauled our ice water installation in Sulgen, thereby increasing its efficiency. We now produce less waste heat and consume less power. An investment for the future, ensuring that our glaciers stay cool forever.

REMUNERATION REPORT

Remuneration Report

The Remuneration Report summarises the key principles for determining the compensation of the Board of Directors and Group Management and also explains the structure and amount of compensation.

HOCHDORF places great importance on recruiting, committing, motivating, and fostering well-qualified employees at all levels. This is particularly important when it comes to staffing those positions that have a significant bearing on the management of the company. Remuneration is designed in such a way as to create incentives that benefit the long-term development of the company. Performance evaluations are conducted on a qualitative basis through annual employee review meetings, at which personal targets and performance are assessed in general terms, as well as according to quantitative assessment criteria, which are derived from the current financial results.

Ordinance Against Excessive Compensation (VegüV) – amendment of the Articles of Incorporation

Pursuant to the Ordinance Against Excessive Compensation (VegüV), the General Meeting is to decide on the remuneration of the Board of Directors and Group Management. The corresponding amendment of the Articles of Association will be adopted at the 2015 General Meeting. Article 19, Remuneration of the Board of Directors, provides that the General Meeting decides on total remuneration for the current year until the next ordinary General Meeting. Pursuant to Article 23, Remuneration of Group Management, the General Meeting approves fixed and variable remuneration for the current year.

Remuneration of the Board of Directors

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

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

Compensation includes a base amount for all members of the Board of Directors, a supplementary payment for work as Chairman or Vice Chairman, as well as flat-rate compensation for work on committees and for expenses.

The fees were modified at the meeting of the Board of Directors on 23 October 2014 (the last adjustment was in 2006). The adjustment reflected the new basic conditions and the changes that have occurred since 2006. In particular, it took account of the greater responsibility resulting from increased internationality, higher complexity and size, and additional regulatory requirements in connection with the listing on the SIX Swiss Exchange in Zurich. Settlement was made on a pro-rata basis, taking into account the new roles.

Decision-making responsibilities

Topic	Recommended by	Approved by
Remuneration paid to the Board of Directors	Personnel and Compensation Committee	Board of Directors
Fixed remuneration paid to Group Management (subsequent year)	Personnel and Compensation Committee	Board of Directors
Variable remuneration paid to Group Management (subsequent year)	Personnel and Compensation Committee	Board of Directors

Each year, the General Meeting separately approves the proposed resolutions of the Board of Directors concerning the maximum total amounts of compensation to be paid to the Board of Directors for the period until the next ordinary General Meeting and the compensation to be paid to Group Management for the current year.

The figures show the amounts actually paid out in the reporting period. The members of the Board of Directors are not covered by the pension fund.

Remuneration of the Board of Directors	Compensation	Social benefits	Expenses	**2014 CHF**	**2013 CHF**
Josef Leu, Chairman, AC, PCC, Vice Chairman until 10.5.2014	75,417	11,308	5,416	92,141	61,269
Anton von Weissenfluh, PCC, MSC, Vice Chairman starting 10.5.2014	52,583	7,885	4,583	65,051	47,754
Meike Bütikofer, MSC	45,917	6,885	4,583	57,385	45,452
Walter Locher, AC, starting 10.5.2014	32,083	4,811	2,917	39,811	0
Urs Renggli, AC	55,667	8,496	5,417	69,580	56,663
Niklaus Sauter, PCC, starting 10.5.2014	29,750	4,460	2,917	37,127	0
Holger Karl-Herbert Till, MSC, starting 10.5.2014	29,750	4,460	2,917	37,127	0
Hans-Rudolf Schurter, Chairman, until 10.5.2014	29,250	4,385	3,312	36,947	97,963
Rolf Schweiger, until 10.5.2014	13,500	2,024	1,500	17,024	42,591
Total	**363,917**	**54,714**	**33,562**	**452,193**	**351,692**

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

For the current term of office, there is no total amount that was approved by the General Meeting (mandatory starting in 2015). A vote on the total amount of remuneration to be paid to the Board of Directors will be held for the first time at the 2015 General Meeting. The following remuneration is envisioned for the term of office starting with the 2015 General Meeting, with social contributions being factored in at the flat rate of 15%.

Remuneration of the Board of Directors	Compensation	Meetings committees	Social benefits	**Expenses**	**2015 CHF**
Josef Leu, Chairman, AC, PCC,	55,000	40,000	14,250	5,000	114,250
Anton von Weissenfluh, PCC, MSC, Vice Chairman	49,000	14,000	9,450	5,000	77,450
Meike Bütikofer, MSC	45,000	8,000	7,950	5,000	65,950
Walter Locher, AC	45,000	10,000	8,250	5,000	68,250
Urs Renggli, AC	45,000	19,000	9,600	5,000	78,600
Niklaus Sauter, PCC	45,000	6,000	7,650	5,000	63,650
Holger Karl-Herbert Till, MSC	45,000	6,000	7,650	5,000	63,650
Total	**329,000**	**103,000**	**64,800**	**35,000**	**531,800**

The total amount for 2015 to be put to a vote comes to CHF 535,000, as rounded.

Remuneration of Group Management

Compensation paid to Group Management is composed of a fixed basic salary and variable, performance-related remuneration, with variable compensation for each position being based on the consolidated EBIT of the Group or on the EBIT of the respective business area. Total compensation also includes retirement benefits, service benefits, and benefits in kind. The Board of Directors defines the details in the compensation regulations. There are no share or option plans or similar shareholding programmes in the HOCHDORF Group.

The Board of Directors sets the amount of the emoluments paid to Group Management. In so doing, it relies on the recommendation and proposed resolution of the Personnel and Compensation Committee. The Board of Directors defines the range of total compensation and the strategic targets. As is the case with other members of Group Management, the CEO's compensation is composed of a fixed basic salary and variable, performance-related compensation. For the CEO, variable remuneration amounts to 2.5% of the consolidated EBIT for the HOCHDORF Group, whereby this must amount to at least CHF 3.5 million. The employment agreement was concluded for an indefinite period of time, with a notice period of six months. For all other members of Group Management, the general achievement of personal targets, as well as company results, forms the basis for the decision on compensation. Variable remuneration is individual-specific. Depending on the business area and the position, it amounts to 0.5% of the consolidated EBIT for the HOCHDORF Group, whereby this must amount to at least CHF 3.5 million, or between 0.75% and 5% of the EBIT generated by the individual's business area. The employment agreements were concluded for an indefinite period of time, with a notice period of four months.

Remuneration paid to the CEO and Group Management	Group Management Total		CEO [1]	
in CHF (gross)	**2014**	**2013**	**2014**	**2013**
Basic salary [2]	1,484,347	1,165,301	433,350	192,500
Variable remuneration	960,861	25,000	500,388	0
Social contributions, including personal pension	395,208	245,219	135,869	40,930
Other benefits [3]	103,495	85,759	28,000	13,290
Total	**2,943,911**	**1,521,279**	**1,097,607**	**246,720**
Number of members of Group Management	6	6		

1) Thomas Eisenring, starting 1 June 2013.
2) Monthly salary, 13th monthly salary payment, flat-rate amount for entertainment expenses.
3) Private apportionments for company cars, car allowances, gifts for length of service, and reimbursement of school fees.

The figures show the amounts actually paid out in 2013 (cash accounting). For the 2014 reporting period, the accrual principle was applied in accordance with the provisions of the VegüV.

For the 2014 reporting period, there is no total amount that was approved by the General Meeting. A vote on the total amount of remuneration to be paid to Group Management for the 2015 financial year will be held for the first time at the 2015 General Meeting.

Based on contractual agreements and the calculation of variable remuneration using the budgeted results for 2015, the total amount for 2015 to be put to a vote is composed of the following:

Remuneration paid to the CEO and Group Management	Group Management Total	CEO
in CHF (gross)	**2015**	**2015**
Basic salary	1,514,991	467,800
Variable remuneration	977,167	475,450
Social contributions	396,528	137,826
Other benefits	94,788	28,000
Total	**2,983,474**	**1,109,076**

Variable compensation paid to Group Management amounts to an average of nearly 5% of the consolidated EBIT. In order to be able to cover the contingency that the budget may be exceeded in 2015, a reserve of 20% was factored in, which amounts to about CHF 200,000 in additional variable remuneration. The total amount for 2015 to be put to a vote comes to CHF 3,200,000, as rounded.

Pursuant to Article 23 of the Articles of Association, the company or companies controlled by it are authorised to pay each member who joins Group Management or is promoted within Group Management after the time at which the total amount of fixed compensation is approved by the General Meeting an additional amount if the compensation previously approved is insufficient for his or her compensation. For each compensation period, the additional amount may not exceed 30% of the most recently approved maximum amount of fixed compensation for Group Management.

Change-of-control clauses

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

Remuneration paid to former members of Group Management and the Board of Directors

There were no changes to Group Management in 2014.

Shareholdings

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

Shareholdings of the Board of Directors		2014	2013
Josef Leu	Chairman, AC, PCC	1,290	1,129
Anton von Weissenfluh	Vice Chairman, PCC, MSC	1,000	915
Meike Bütikofer	MSC	441	441
Walter Locher	AC, starting 10.5.2014	1,200	n.a.
Urs Renggli	AC	4,654	4,654
Niklaus Sauter	PCC, starting 10.5.2014	114	n.a.
Holger Karl-Herbert Till	MSC, starting 10.5.2014	0	n.a.
Hans-Rudolf Schurter	Chairman, PCC, until 10.5.2014	n.a.	6,397
Rolf Schweiger	until 10.5.2014	n.a.	729
Total		**8,699**	**14,265**

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

Shareholdings of Group Management		2014	2013
Thomas Eisenring	CEO	400	200
Marcel Gavillet	CFO	700	375
Karl Gschwend	Managing Director of HOCHDORF Swiss Nutrition Ltd	114	100
Werner Schweizer	Managing Director of HOCHDORF Swiss Milk Ltd	165	165
Michel Burla	Managing Director of HOCHDORF Nutrifood Ltd	200	200
Michiel de Ruiter	Managing Director of HOCHDORF Nutricare Ltd	1,576	11,915
Total		**3'155**	**12,955**

Additional fees and remuneration

No additional fees or remuneration was paid to the Board of Directors or Group Management, including related persons, during the reporting period or the previous year.

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

Loans are never granted to members of the Board of Directors, the CEO, Group Management, or employees of the HOCHDORF Group. No collateral (loan guaranties, other guarantees, etc.) was granted during the reporting period. Neither HOCHDORF Holding Ltd nor other Group companies have waived a claim in respect of a member of the Board of Directors or Group Management.

Loans/collateral to related persons

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

Report of the statutory auditor on the remuneration report

Ernst & Young AG
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Report of the statutory auditor to the general meeting of **HOCHDORF Holding Ltd., Hochdorf**

We have audited the remuneration report (Remuneration of the Board of Directors and Remuneration of the CEO and Group Management) dated 17 March 2015 of HOCHDORF Holding Ltd. for the year ended 31 December 2014.

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

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

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

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2014 of HOCHDORF Holding Ltd. complies with Swiss law and articles 14–16 of the Ordinance.

Lucerne, 17 March 2015

Ernst & Young AG

Bernadette Koch	Roman Ottiger
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Where water bubbles, we want to make it fizz. At our plant in Sulgen there is a CO_2 reclamation system. This installation processes the CO_2 that we produce and makes it useable for the food industry. Hence, our CO_2 ends up where it gives pleasure, for example, in mineral and soda water.

Annual financial statement 2014

Consolidated balance sheet as at 31. Dec.

		2014 CHF	In %	2013 CHF	In %
Assets					
Cash and cash equivalents	1)*	46,379,658	14.0%	53,937,515	22.2%
Trade receivables	2)*	59,621,492	18.0%	36,775,396	15.1%
Receivables from related parties	2)*	2,344,321	0.7%	2,924,565	1.2%
Other short-term receivables	2)*	4,881,653	1.5%	808,079	0.3%
Inventories	3)*	47,887,966	14.5%	29,315,283	12.0%
Prepayments and accrued income	4)*	5,999,115	1.8%	2,108,176	0.9%
Current assets		**167,114,205**	**50.5%**	**125,869,015**	**51.7%**
Property, plant, equipment		61,839,942	18.7%	33,643,453	13.8%
Other fixed assets		90,566,899	27.4%	73,370,718	30.1%
Total fixed assets	*5)**	*152,406,842*	*46.0%*	*107,014,171*	*44.0%*
Shareholdings	6)*	2,042,364	0.6%	1,506,462	0.6%
Financial assets	7)*	7,997,313	2.4%	8,363,162	3.4%
Intangible assets	8)*	1,548,639	0.5%	731,813	0.3%
Non-current assets		**163,995,158**	**49.5%**	**117,615,609**	**48.3%**
Total assets		**331,109,363**	**100.0%**	**243,484,623**	**100.0%**
Liabilities					
Trade payables	9)*	66,991,999	20.2%	35,157,528	14.4%
Short-term financial liabilities	10)*	47,241,804	14.3%	36,759	0.0%
Other short-term financial liabilities with related parties	10)*	0	0.0%	500,000	0.2%
Other current liabilities	11)*	6,074,606	1.8%	2,496,819	1.0%
Short-term provisions	14)*	532,716	0.2%	0	0.0%
Accrued liabilities and deferred income	12)*	10,216,821	3.1%	3,169,029	1.3%
Current liabilities		**131,057,946**	**39.6%**	**41,360,135**	**17.0%**
Non-current financial liabilities	13)*	45,967,197	13.9%	93,375,000	38.3%
Provisions	14)*	10,916,099	3.3%	4,975,362	2.0%
Non-current liabilities		**56,883,296**	**17.2%**	**98,350,362**	**40.4%**
Share Capital		10,709,220	3.2%	9,000,000	3.7%
Own shares		–703,225	–0.2%	–30,425	0.0%
Capital reserves		64,812,537	19.6%	47,195,059	19.4%
Profit reserves		45,160,184	13.6%	41,271,752	17.0%
Minority interests		7,050,881	2.1%	211,177	0.1%
Result current year		16,138,524	4.9%	6,126,564	2.5%
Shareholders' equity		**143,168,121**	**43.2%**	**103,774,127**	**42.6%**
Total liabilities		**331,109,363**	**100.0%**	**243,484,623**	**100.0%**

* Explanations in the notes

HOCHDORF Group

Consolidated income statement

		2014 CHF	In %	2013 CHF	In %
		1.1.14–31.12.14		1.1.13–31.12.13	
Sales of products	15)*	428,439,122	100.4%	375,877,229	99.9%
Other revenue	16)*	250,357	0.1%	268,247	0.1%
Gross sales revenue		**428,689,479**	**100.5%**	**376,145,476**	**100.0%**
Reductions in proceeds	17)*	-8,085,916	-1.9%	-994,312	-0.3%
Net sales revenue		**420,603,563**	**98.6%**	**375,151,164**	**99.7%**
Change in inventories of semi-finished and finished products		6,153,608	1.4%	1,013,556	0.3%
Production revenue		**426,757,171**	**100.0%**	**376,164,720**	**100.0%**
Cost of materials and services		-321,557,814	-75.3%	-286,962,672	-76.3%
Gross operating profit		**105,199,357**	**24.7%**	**89,202,048**	**23.7%**
Personnel expenses	18)*	-34,802,357	-8.2%	-31,720,100	-8.4%
Other operating expenses	19)*	-43,200,209	-10.1%	-39,382,790	-10.5%
Operating expenses		*-78,002,566*	*-18.3%*	*-71,102,890*	*-18.9%*
EBITDA		**27,196,791**	**6.4%**	**18,099,158**	**4.8%**
Depreciation on property, plant and equipment		-6,781,620	-1.6%	-7,085,559	-1.9%
Amortisation on intangible assets		-399,654	-0.1%	-716,076	-0.2%
EBIT		**20,015,516**	**4.7%**	**10,297,523**	**2.7%**
Income from associates and joint ventures	20)*	0	0.0%	79,410	0.0%
Financial results	20)*	-253,001	-0.1%	-3,870,050	-1.0%
Earnings before taxes (EBT)		**19,762,516**	**4.6%**	**6,506,883**	**1.7%**
Non-operating results	21)*	-26,145	0.0%	31,924	0.0%
Extraordinary results	22)*	-1,887,220	-0.4%	-211,115	-0.1%
Profit before tax		**17,849,151**	**4.2%**	**6,327,692**	**1.7%**
Income taxes	23)*	-1,710,627	-0.4%	-264,239	-0.1%
Net profit		**16,138,524**	**3.8%**	**6,063,453**	**1.6%**
Attributable to:					
Parent company shareholders		16,138,524	3.8%	6,126,564	1.6%
Minority interests		0	0.0%	-63,111	0.0%
Net profit		**16,138,524**	**3.8%**	**6,063,453**	**1.6%**
Earnings per share (basic)	24)*	**17.45**		**6.95**	
Earnings per share (diluted)	24)*	**13.46**		**5.81**	

* Explanations in the notes

Consolidated cash flow statement

	2014 CHF	2013 CHF
	1.1.14–31.12.14	1.1.13–31.12.13
Net profit	16,138,524	6,063,453
Depreciation on property, plant and equipment and intangible assets	7,181,274	7,801,635
Net interest expense	2,303,695	3,325,947
Other non-cash adjustments	62,343	–216,682
Change in provisions	–464,487	541,281
Loss from the sale of HOCHDORF Nutrimedical Ltd	0	472,710
Accounting losses (profits) from sales of fixed assets	88,560	217,300
Income from associates and joint ventures	0	–79,410
Earned capital	**25,309,910**	**18,126,235**
As % of net sales revenue	***6.02%***	***4.87%***
Change in trade receivables	–4,619,332	–4,539,891
Change in trade receivables from related parties	580,244	–314,123
Change in other short-term receivables	–2,092,426	–75,556
Change in inventories	–6,061,922	–1,381,479
Change in prepayments	–3,864,423	2,971,890
Change in liabilities from deliveries and services	3,398,297	4,589,348
Change in other short-term liabilities	3,016,450	1,900,050
Change in deferred income	4,879,644	–3,080,210
Change in net current assets	**–4,763,469**	**70,029**
Cash flow from operating activities	**20,546,441**	**18,196,263**
As % of net sales revenue	***4.88%***	***4.89%***
Investments in fixed assets	–16,952,189	–3,956,565
Divestments of fixed assets	151,100	323,433
Investments in intangible assets	–1,338,560	–183,342
Divestments of intangible assets	375,097	0
Investments in/Divestments of long-term financial assets	381,008	–535,617
Net cash flow from the purchase (-)/sale (+) of investments	–15,096,445	–17,864
Interest and dividends received	30,608	19,672
Cash flow from investing activities	**–32,449,380**	**–4,350,284**
Free cash flow	**–11,902,940**	**13,845,980**
As % of net sales revenue	***–2.83%***	***3.72%***
Change in short-term financial liabilities	40,666,431	33,941
Change in other short-term financial liabilities with related parties	0	–2,581,180
Change in non-current financial liabilities	–52,130,894	–220,644
Additions/disposals of minority interests in capital and profits	–211,177	0
Capital increase incl. premium from the conversion of the conversion bond	4,876,524	0
Capital increase from approved capital	17,166,283	0
Sale (purchase) own shares net cash flow	–510,735	500,957
Interest paid	–2,334,303	–3,315,619
Dividend payments	–2,872,310	–2,633,598
Cash flow from financing activities	**4,649,819**	**–8,216,143**
Currency translation	–304,735	172,693
Net change in cash and cash equivalents	**–7,557,857**	**5,802,530**
Cash and cash equivalents at 1 January	53,937,515	48,134,985
Cash and cash equivalents at 31 January	**46,379,658**	**53,937,515**

Consolidated statement of changes in equity

CHF 1,000	Share Capital	Own shares	Capital reserves	Profit reserves	Accumulated translation differences	Total excl. minority-interests	Minority interests	Total incl. minority interests
Equity as per 31.12.2012	**9,000**	**–481**	**49,847**	**43,090**	**–2,052**	**99,403**	**360**	**99,764**
Capital increase costs HOCHDORF Baltic Milk UAB			–2			–2		–2
Change to consolidated companies						0	–86	–86
Allocation of capital investments to free reserves			–2,700	2,700		0		0
Acquisition of own shares		–5,132				–5,132		–5,132
Sale of own shares		5,583	50			5,633		5,633
Translation differences					167	167		167
Dividends				–2,634		–2,634		–2,634
Net profit				6,127		6,127	–63	6,063
Shareholders' equity as at 31.12.2013	**9,000**	**–30**	**47,195**	**49,283**	**–1,884**	**103,563**	**211**	**103,774**
Change in scope of consolidation				15		15	7,051	7,066
Acquisition of minority interests						0	–211	–211
Goodwill from acquisition of shares of subsidiaries				–3,088		–3,088		–3,088
Badwill from acquisition of shares from subsidiaries				1,084		1,084		1,084
Reclassification			2	–2		0		0
Allocation of capital contributions to voluntary reserves			–2,880	2,880		0		0
Conversion of conversion bond	394		4,483			4,877		4,877
Capital increase	1,315		15,851[3]			17,166		17,166
Acquisition of own shares		–6,719				–6,719		–6,719
Sale of own shares		6,047	162			6,209		6,209
Currency differences					–256	–256		–256
Dividends				–2,872		–2,872		–2,872
Net profit				16,139		16,139		16,139
Shareholders' equity as at 31.12.2014	**10,709[1]**	**–703**	**64,813**	**63,851[2]**	**–2,140**	**136,117**	**7,051**	**143,168**

1) 1,070,922 registered shares at nominal CHF 10.00; each share corresponds to one vote; the maximum entry limit in the share register is 5% of the votes.
2) Of which non-distributable legal reserves KCHF 10,172 (previous year CHF KCHF 10,202).
3) The total costs of the capital increase of KCHF 590 (stamp duty on newly issued securities) are included in the capital reserves.

Shareholders >3%	**share**		
ZMP Invest AG, Lucerne	10.96%	5.66%	65,798 shares without voting rights
Familie Weiss und Innovent Holding AG, Wollerau	6.68%	7.44%	19,975 shares without voting rights
Argos Investment Managers S.A., Geneva	4.90%	4.55%	904 shares without voting rights
Gruppe Maurer, Hunzenschwil	3.57%	3.71%	
Pension fund of the HOCHDORF Group, Hochdorf	<3%	3.89%	
Rudolf Schrepfer, Hergiswil	<3%	3.50%	

Contingent capital
The Group has contingent capital in the nominal amount of CHF 4,500,000, corresponding to 450,000 registered shares at nominal CHF 10, which is connected with the outstanding conversion bond.

Approved capital
The Group has approved capital in the nominal amount of CHF 3,184,710, corresponding to 318,471 registered shares at nominal CHF 10.

Notes on the consolidated annual accounts 2014
The HOCHDORF Group

Principles for group accounting

General information

The consolidated annual accounts of the HOCHDORF Group are prepared in compliance with all existing guidelines of Swiss GAAP FER (Swiss accounting and reporting recommendations) and the provisions of Swiss law. The HOCHDORF Group will fully incorporate Swiss GAAP FER 31, which can be used from 1 January 2015, in the Group accounts for 2014. The consolidated annual accounts reflect the actual status of the Group's asset, financial and revenue position. The consolidated annual accounts are based on the principle of historical costs and are based on the annual accounts for the affiliated companies as of 31.12.2014, prepared according to standard principles.

Consolidation principles

Consolidated companies/consolidation method

The consolidated annual accounts for the HOCHDORF Group comprise the annual accounts for the HOCHDORF Holding Ltd parent company as well as all subsidiaries in which there is a capital and vote-relevant majority. Investments with 20% to 50% of the voting rights are accounted for using the equity method.

The consolidated individual financial statements for the companies are adapted to the standard Group structure and evaluation regulations and entered in accordance with the full consolidation method. 100% of the assets and liabilities as well as expenses and revenues are included in the consolidated annual accounts and all intercompany transactions are eliminated. Significant interim profits within the Group are considered in this elimination.

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

Capital consolidation

For capital consolidation, assets and liabilities on holdings are evaluated at the time of the takeover according to standard Group principles (purchase method). Any remaining surplus/shortfall (goodwill/badwill) of this revaluation is offset against equity.

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

Foreign currency translation

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

	Income statement Average exchange rates		Balance sheet End-of-year exchange rates	
	2014	2013	**31.12.14**	31.12.13
1 EUR	**1.2127**	1.2266	**1.2024**	1.2255
1 USD	**0.9159**	0.9231	**0.9936**	0.8894
1 LTL	**0.3512**	0.3552	**0.3482**	0.3549

Cash flow statement

Cash and cash equivalents form the basis for the presentation of the cash flow statement.

Cash flow from operating activities is calculated using the indirect method.

Overview of the Group and associated companies

Consolidated companies	Location	Function	Currency	Capital (1,000) 31.12.2014	Capital share 31.12.2014	Capital share 31.12.2013
HOCHDORF Holding Ltd 1)	Hochdorf CH	Holding	CHF	**10,709**	**100%**	100%
HOCHDORF Swiss Nutrition Ltd	Hochdorf CH	Production	CHF	**30,000**	**100%**	100%
HOCHDORF Swiss Milk Ltd	Hochdorf CH	Trade	CHF	**1,000**	**100%**	100%
HOCHDORF Nutrifood Ltd	Hochdorf CH	Trade	CHF	**100**	**100%**	100%
HOCHDORF Nutricare Ltd 2)	Hochdorf CH	Trade	CHF	**1,200**	**100%**	85%
HOCHDORF Baltic Milk UAB	Medeikiai LT	Production and trade	LTL	**20,000**	**100%**	100%
HOCHDORF Swiss Whey Ltd 3)	Hochdorf CH	Shell company	CHF	**100**	**100%**	50%
Schweiz. Milch-Gesellschaft AG	Hochdorf CH	Shell company	CHF	**100**	**100%**	100%
HOCHDORF Deutschland GmbH	Siegburg DE	Trade	EUR	**200**	**100%**	100%
Marbacher Ölmühle GmbH 4)	Marbach DE	Production and trade	EUR	**100**	**100%**	0%
Uckermärker Milch GmbH 5)	Prenzlau DE	Production	EUR	**4,650**	**60%**	0%

1) Capital increase as of 7.11.2014 from authorised capital in the amount of 131,529 shares at nominal CHF 10 = CHF 1,315,290.
Increase thus from nominal CHF 9,000,000 to nominal CHF 10,315,290.
Capital increase from partial conversion of convertible bond for CHF 4,880,000 corresponding to 39,393 new shares at nominal CHF 10 = CHF 393,930.

2) Increase of shareholding in HOCHDORF Nutricare Ltd as of 14.02.2014 from 85% to 100%.

3) Increase of shareholding in HOCHDORF Swiss Whey Ltd as of 30.04.2014 from 50% to 100%.
Change of consolidation from equity to full consolidation. Capital reduction as of 30.10.2014 from CHF 3 million to CHF 100,000.

4) Acquisition of 100% of Marbacher Ölmühle GmbH as of 05.12.2014.

5) Acquisition of 60% of Uckermärker Milch GmbH as of 29.12.2014.

Associated companies	Location	Function	Currency	Capital (1,000) 31.12.2014	Capital share 31.12.2014	Capital share 31.12.2013
HOCHDORF Swiss Whey Ltd 6)	Hochdorf CH	Trade	CHF	**100**	**0%**	50%
Ostmilch Handels GmbH 7)	Bad Homburg DE	Trade	EUR	**1,000**	**26%**	0%
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG 8)	Schlegel DE	Logistics	EUR	**51**	**26%**	0%
Ostmilch Handels GmbH & Co. Frischdienst Magdeburg KG 9)	Meitzendorf DE	Trade	EUR	**26**	**26%**	0%

6) Omission of associated companies due to the acquisition of majority shareholding as of 30.04.2014.

7) Acquisition of 26% of Ostmilch Handels GmbH as of 29.12.2014.

8) Acquisition of 26% of Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG as of 29.12.2014.

9) Acquisition of 26% of Ostmilch Handels GmbH & Co. Frischdienst Magdeburg KG as of 29.12.2014.

Principles of valuation

General

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

Cash and cash equivalents

Cash and cash equivalents include cash and deposits on postal and bank accounts. They are recognised at their nominal value.

Securities without participation features

Standard commercial securities are measured at the market value on the balance sheet date. The remaining securities are recognised at the lower of cost or market.

Receivables

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

Inventories

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

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

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

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

For semi-finished and finished products:

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

The value adjustments calculated in this way are checked by the relevant MD and adjusted for normal saleability or longer shelf life. Apart from this, inventories whose realisable disposal value is lower than the acquisition or production cost (SPC), should be adjusted in value according to the "Lower of cost or market" principle. The current market price on the sales market is assumed when defining the realisable disposal value. The typical sales deductions, sales expenses and any administrative expenses still to be incurred have to be deducted from this.

Consumption is measured in accordance with the first expiring date first out principle.

Interim profits on internal Group inventories are, if significant, eliminated and affect net income.

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

Prepayments or deferred income

Accruals and deferrals are recognised at their nominal value.

Impairment

A check is made on each balance sheet date to see if assets are impaired in value. The check is based on events and indicators that show, that an overvaluation of the book value seems possible. A loss from value impairment is posted with an effect on net income if the book value of an asset exceeds the recoverable amount. A recoverable amount is the higher of the net market value and the utility value. A value impairment recorded in earlier reporting periods can be partially or completely cancelled with an effect on net income if the factors defining the recoverable amount have significantly improved.

Property, plant and equipment

The acquisition costs, less the economically necessary depreciation, constitute the maximum valuation limit. Permanent impairments are taken into account. Depreciation is calculated on a straight line basis from the purchase value. All investments apply - and so are capitalised - as do all acquisitions over a value of CHF 5,000. Projects in progress are capitalised as current investment projects and are not depreciated. Interests on assets under construction are not capitalised.

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

Leasing

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

Financial assets

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

Intangible assets

Intangible assets include software, patents and licences. These are recognised at the lower of acquisition cost or utility value. They are depreciated in a straight line over their economic useful life.

Short-term/long-term external capital

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

Provisions

A provision is a probable obligation based on an event before the balance sheet date, the amount of which and/or due date is uncertain, but can be estimated. This obligation warrants a liability. These are calculated according to standard and consistent operating criteria.

Taxes

The income taxes payable on the taxable profits of the individual companies are accrued. Likewise, the incurred capital taxes are accrued.

The deferred taxes are entered at currently applicable tax rates (12% for companies with exclusive tax liability in the canton of Lucerne, 15% for HOCHDORF Swiss Nutrition Ltd and for MGL Baltija UAB and 25% for the German companies) on all differences between tax and Group values. There are no negative valuation differences that could lead to tax assets. Offsettable tax assets from losses carried forward are capitalised if it is likely that they might be realised in the future by sufficient taxable profits. Capital taxes are posted under operating expenses.

Derivative financial instruments

HOCHDORF Group uses derivative financial instruments to hedge its currency and interest rate risks. They are recorded in the balance sheet if they fulfil the definition of an asset or a liability. The instruments are disclosed in the notes to the annual report.

Employee pension plan

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

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

Net turnover and income realisation

Net turnover includes all invoiced sales of goods to third parties. Revenues are deemed to have been realised on delivery or provision of the service.

Research and development

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

Contingent liabilities

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

Transactions with related parties

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

Notes to the consolidated financial statement

The increase in the individual balance sheet items was mainly due to the change in the scope of consolidation as a result of the takeover of Marbacher Ölmühle GmbH and Uckermärker Milch GmbH, which were consolidated in the balance sheet as at 31.12.2014. Consolidation with regard to earnings will take place from 1.1.2015.

1. Cash and cash equivalents

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

CHF 1,000	2014	2013
Cash	14	5
Post account	300	1,300
Bank account	45,743	52,485
Short-term investments	323	147
Total	**46,380**	**53,937**

2. Receivables

CHF 1,000	2014	2013
Trade receivables from third parties	59,803	36,775
./. provision for doubtful accounts	–182	0
Trade receivables from associated companies	0	104
Short-term receivables from related parties	2,344	2,821
Other receivables	4,882	808
Total	**66,847**	**40,508**

Diversification means, there is no concentration of credit risk with regard to receivables from deliveries and services. The other receivables mainly result from credit from welfare institutions and from government bodies (VAT, Directorate General of Customs).

3. Inventories

CHF 1,000	2014	2013
Raw materials, packaging materials, operating materials	9,048	5,830
Finished and semi-finished products, trade goods	38,150	22,791
Heating oil	690	694
Total	**47,888**	**29,315**

4. Prepayments and accrued income

CHF 1,000	2014	2013
As at 31 December	**5,999**	**2,108**

The prepayments and accrued income are comprised of revenues not yet received as well as costs paid in advance.

5. Fixed assets

CHF 1,000

	Property[1]	equipment, Warehouse equipment, fixed equipment	Machines, equipment production, Furnishings	Office equipment, IT systems, communications, equipment	Vehicles	Current investment projects[2]	Total
Net accounting value as at 1.1.2013	**34,809**	**21,046**	**43,341**	**7,060**	**1,305**	**2,907**	**110,468**
Purchase value							
as at 1.1.2013	**89,568**	**39,394**	**104,699**	**17,406**	**2,056**	**2,907**	**256,030**
Change in scope of consolidation [4]	0	0	0	0	–50	0	–50
Additions	0	44	0	12	179	3,615	3,850
Disposals	–734	–699	–1,989	–142	–215	0	–3,779
Reclassification [3]	242	3,630	495	558	147	–5,072	0
Currency translation difference	32	30	63	1	12	0	138
As at 31.12.2013	**89,108**	**42,399**	**103,268**	**17,835**	**2,129**	**1,450**	**256,189**
Accumulated depreciation							
as at 1.1.2013	**54,759**	**18,348**	**61,358**	**10,346**	**751**	**0**	**145,562**
Change in scope of consolidation [4]	0	0	0	0	–15	0	–15
Disposals	–714	–573	–1,959	–107	–136	0	–3,489
Depreciation	1,414	1,680	2,553	1,164	274	0	7,085
Currency translation difference	5	8	15	0	4	0	32
As at 31.12.2013	**55,464**	**19,463**	**61,967**	**11,403**	**878**	**0**	**149,175**
Net accounting value as at 31.12.2013	**33,644**	**22,936**	**41,301**	**6,432**	**1,251**	**1,450**	**107,014**
Net accounting value as at 1.1.2014	**33,644**	**22,936**	**41,301**	**6,432**	**1,251**	**1,450**	**107,014**
Purchase value							
as at 1.1.2014	**89,108**	**42,399**	**103,268**	**17,835**	**2,129**	**1,450**	**256,189**
Change in scope of consolidation [5]	48,984	8,835	24,453	382	312	222	83,188
Additions	0	0	0	0	0	17,076	17,076
Disposals	0	–41	–100	–2,385	–376	0	–2,902
Reclassification [3]	590	1,966	1,545	831	419	–4,863	488
Currency translation difference	–40	–40	–78	–1	–17	–1	–177
As at 31.12.2014	**138,642**	**53,119**	**129,088**	**16,662**	**2,467**	**13,884**	**353,862**
Accumulated depreciation							
as at 1.1.2014	**55,464**	**19,463**	**61,967**	**11,403**	**878**	**0**	**149,175**
Change in scope of consolidation [5]	20,133	6,886	20,492	101	114	0	47,726
Disposals	0	–36	–100	–1,821	–216	0	–2,173
Depreciation	1,212	1,732	2,429	1,115	293	0	6,781
Currency translation difference	–7	–14	–25	–1	–7	0	–54
As at 31.12.2014	**76,802**	**28,031**	**84,763**	**10,797**	**1,062**	**0**	**201,455**
Net accounting value as at 31.12.2014	**61,840**	**25,088**	**44,325**	**5,865**	**1,405**	**13,884**	**152,407**

1) The Group has free parcels of land at its disposal, but not undeveloped, separate property plots.

2) The current investment projects are plants under construction.

3) New acquisitions are posted with project numbers under "Current investment projects" as inward movements. After the start of operations, there is a transfer posting from the "Current investment projects" account to the appropriate fixed asset account. A decision is taken about which purchase costs are capitalised or posted via the income statement. The remaining balance of KCHF 488 relates to the transfer of the existing assets from the holding to HOCHDORF Swiss Nutrition Ltd. There was no appreciation and the transfer is not a new addition to HOCHDORF Swiss Nutrition Ltd.

4) In the context of the sale of the HOCHDORF Nutrimedical Ltd.

5) In connection with the purchase of the holdings Marbacher Ölmühle GmbH and Uckermärker Milch GmbH.

Of which assets subject to financial leasing
CHF 1,000

	UMP	Outstanding leasing instalments
Net accounting value as at 1.1.2014	**0**	**0**
Purchase value as at 1.1.2014	**0**	**0**
Additions	601	601
Disposals of instalments	0	–126
As at 31.12.2014	**601**	**475**
Accumulated depreciation as at 1.1.2014	**0**	**0**
Depreciation	78	0
As at 31.12.2014	**78**	**0**
Net accounting value as at 31.12.2014	**523**	**475**

In 2013 no assets were subject to financial leasing.
Leased asset at Uckermärker Milch GmbH included due to the change of scope of consolidation.

6. Associated companies at equity

Associated companies	Location	Function	Currency	**Capital in thousand 31.12.2014**	**Shareholdings 31.12.2014 CHF 1,000**	Capital share 31.12.2013 CHF 1,000
HOCHDORF Swiss Whey Ltd	Hochdorf CH	Trade	CHF	**100**	**0**	1,506
Ostmilch Handels GmbH	Bad Homburg DE	Trade	EUR	**1,000**	**2,018**	0
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Schlegel DE	Logistics	EUR	**51**	**16**	0
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Meitzendorf DE	Trade	EUR	**26**	**8**	0
					2,042	1,506

7. Financial assets

CHF 1,000	2014	2013
Securities, loans	30	30
Deferred tax assets	411	644
Assets from employer contribution reserves	7,556	7,389
Long-term receivables from third parties	0	300
Total	**7,997**	**8,363**

The deferred tax assets result from existing carried forward losses in the tax balance sheet as well as from differences between the commercial balance sheet and the tax balance sheet of the subsidiaries in Germany, KCHF 388 of which resulting from the change in the scope of consolidation (Uckermärker Milch GmbH). The carried forward losses created in previous years at HOCHDORF Swiss Nutrition Ltd could be offset in full against the year-end results 2014. The deferred tax assets on the elimination of interim profit were liquidated in full as at 31.12.2014 at the expense of the income statement, as they will disappear from 1.1.2015 as a result of the reorganisation. The inventories of the former sales companies were sold to HOCHDORF Swiss Nutrition Ltd for this purpose at the end of 2014 and these interim profits were eliminated at the year-end when the inventories were valued.

Taxable losses carried forward after the due date

CHF 1,000	2014	2013
2016	0	1,525
2017	0	3,514
2018	0	3,841
2019	27	156
2020	115	111
2021	42	0
Total	**184**	**9,147**

Pension plans

CHF 1,000

Employer contribution reserve	Nominal value 31.12.2014	usage Waiver 31.12.2014	Balance 31.12.2014	Formation/ usage pro 2014	Balance 31.12.2013	Result of the committee of works and staff councils in terms of staff costs 2014	2013
HGR pension fund	**7,556**	**0**	**7,556**	**167**	**7,389**	**0**	**0**

The posting of interest from employer contribution reserves by the pension facility appears as a credit in the financial revenues. Interest of 2.25% was calculated on the employer contribution reserves in 2014 (previous year 2.25%).

CHF 1,000

Economic benefit/ Economic liability and pension expenditure	Credit/debit balance 31.12.2014	Commercial part of the organisation 31.12.2014	Commercial part of the organisation 1.1.2014	change to previous year	Contributions accrued in the period	Pensions expenditure in staff costs 2014	Pensions expenditure in staff costs 2013
HGR pension fund	**17,110**	**0**	**0**	**0**	**0**	**1,644**	**1,565**

8. Intangible assets [1)]

CHF 1,000

	Goodwill	Software	Total
Net accounting value as at 1.1.2013	0	1,265	1,265
Purchase value			
As at 1.1.2013	**21**	**5,402**	**5,423**
Additions	0	183	183
Disposals	–21	0	–21
As at 31.12.2013	**0**	**5,585**	**5,585**
Accumulated depreciation			
As at 1.1.2013	**21**	**4,137**	**4,158**
Disposals	–21	0	–21
Depreciation	0	716	716
As at 31.12.2013	**0**	**4,853**	**4,853**
Net accounting value as at 31.12.2013	**0**	**732**	**732**
Net accounting value as at 1.1.2014	**0**	**732**	**732**
Purchase value			
As at 1.1.2014	**0**	**5,585**	**5,585**
Change in scope of consolidation	0	501	501
Additions	0	1,338	1,338
Disposals	0	–5,497	–5,497
As at 31.12.2014	**0**	**1,927**	**1,927**
Accumulated depreciation			
As at 1.1.2014	**0**	**4,853**	**4,853**
Change in scope of consolidation	0	248	248
Disposals	0	–5,122	–5,122
Depreciation	0	400	400
As at 31.12.2014	**0**	**378**	**378**
Net accounting value as at 31.12.2014	**0**	**1,549**	**1,549**

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

9. Trade payables

CHF 1,000	2014	2013
To third parties	66,712	34,275
To related parties [1)]	280	883
Total	**66,992**	**35,158**

1) Related parties included associated companies and other related parties.

10. Short-term financial liabilities

CHF 1,000	2014	2013
Other financial liabilities	52	37
Other financial liabilities with related parties[1)]	0	500
Leasing liabilities	99	0
Bank loans [2)]	47,091	0
Total	**47,242**	**537**

1) Related parties included associated companies and other related parties.

2) Of which reclassification of syndicated loan over CHF 40 million, with a due date of 30.09.2015, is shown on the balance sheet under short-term financial liabilities.

11. Other current liabilities

CHF 1,000	2014	2013
Other current liabilities	2,637	981
Employee overtime	234	69
Employee holiday credits	501	394
Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc..)	2,516	928
Government bodies (taxes, source taxes)	187	125
Total	**6,075**	**2,497**

The other short-term liabilities include the «Schoggi Law» fund in particular. This fund is augmented from charges raised per litre of milk delivered. The funds are used to compensate for any gaps in the «Schoggi Law» credit from the state. It is calculated annually. Money that is not used is reimbursed to the milk suppliers.

12. Accrued liabilities and deferred income

CHF 1,000	2014	2013
As at 31 December	**10,217**	**3,169**

The deferred income essentially includes accruals in the context of reimbursements and commissions (Schoggi Law) as well as invoices not yet received for goods receipts and other supplier services (power, water, transport) as well as the accrual of interest from the conversion loan.

13. Non-current financial liabilities

CHF 1,000	2014	2013
Mortgages, loans [1]	471	3,375
Leasing liabilities	376	0
Bank loans	0	40,000
Conversion bond 3% from 30.05.2011 to 30.05.2016 [2]	45,120	50,000
Total	**45,967**	**93,375**

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

2) Convertible loan for a nominal CHF 50 million; from 30.5.2011 to 30.5.2016; interest rate 3% for the entire duration; conversion price CHF 123.80; securities number 12,931,421; ISIN CH0129314214; by 31.12.2014 CHF 4,880,000 had been converted.

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

Item	book value (CHF 1,000)	Amount in foreign currency (FW 1,000)	Due date	Interest rate
Syndicated loan	40,000	0	30.09.2015	Libor + Margin
Convertible loan	45,120	0	30.05.2016	3%
Current liabilities to banks	7,091	5,898	2015	Miscellaneous
Loans	471	392	>2018	Miscellaneous
Short-term leasing	99	82	2015	3.818%
Long-term leasing	376	313	2018	3.818%
Other current liabilities	52	43	2015	Miscellaneous
Total	**93,209**			

The financial liabilities are recorded at nominal value and valued. No division into borrowed capital and equity was made for the conversion bond.

14. Provisions

CHF 1,000

Development of provisions	Short-term provisions	damages claims	Deferred tax provisions	Total
As at 31.12.2012	**0**	**150**	**4,285**	**4,435**
Change in scope of consolidation [1]	0	0	–1	–1
Provisions made (with effect on net income)	0	450	840	1,290
Provisions used	0	0	0	0
Provision released	0	0	–763	–763
Currency differences	0	0	14	14
As at 31.12.2013	**0**	**600**	**4,375**	**4,975**
Change in consolidation basis [2]	533	1,204	5,201	6,938
Provisions made (with effect on net income)	0	2,273	923	3,196
Provisions used	0	–2,423	0	–2,423
Provision released	0	–450	–773	–1,223
Currency differences	0	0	–14	–14
As at 31.12.2014	**533**	**1,204**	**9,712**	**11,449**

1) In the context of the sale of HOCHDORF Nutrimedical Ltd as at 30.06.2013.

2) Addition of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH.

Notes to the consolidated income statement

The following explanatory notes are given to supplement the income statement, structured in accordance with the overall cost procedure (production income statement).

15. Sales of products

By product groups

CHF 1,000	2014		2013	
Milk products/Cream	90,012	21.00%	82,895	22.05%
Milk powder	211,334	49.33%	181,255	48.22%
Baby food	109,846	25.64%	93,922	24.99%
Specialities/Wheatgerm	5,565	1.30%	5,682	1.51%
Bakery-/confectionary goods	6,962	1.63%	7,403	1.97%
Remaining products/services	4,720	1.10%	4,720	1.26%
Total	**428,439**	**100.00%**	**375,877**	**100.00%**

By region

CHF 1,000	2014		2013	
Switzerland/Liechtenstein	245,674	57.34%	218,174	58.04%
Europe	87,170	20.35%	80,608	21.45%
Asia	27,001	6.30%	24,952	6.64%
Middle East/Africa	61,628	14.38%	45,232	12.03%
USA/Canada	1	0.00%	227	0.06%
Americas (others)	709	0.17%	795	0.21%
Rest	6,256	1.46%	5,889	1.57%
Total	**428,439**	**100.00%**	**375,877**	**100.00%**

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

As a result of possible competitive disadvantages compared to non-listed and large listed competitors, customers and suppliers, presentation of the segment results pursuant to Swiss GAAP ARR 31/8 was waived. The Swiss milk market is a small and tightly knit market with a few key companies and providers. The providers (milk producers) are limited to the individual milk producer organisations. On the processing side the market is shaped by four large dairies along with the cheeseries. On the customer side the chocolate industry segment dominates, also with a few large processors. In the area of baby food (based on milk) only one other baby food firm produces for the Swiss and international market apart from the HOCHDORF Group.

16. Other revenue

CHF 1,000	2014	2013
Various remaining revenue	250	268
Total	**250**	**268**

Larger items in the various remaining revenues include employee private shares and office space rental.

17. Reductions in proceeds

CHF 1,000	2014	2013
Discounts, contingency reserves, accounts receivable losses [1)]	–108	–81
Reimbursements (Schoggi Law), rebates	–7,841	–427
Various reductions in proceeds [2)]	–137	–487
Total	**–8,086**	**–994**

1) There were no significant losses from accounts receivables in the current year.

2) Various reductions in proceeds include individual damage claims from deliveries and services. The balance is shown net since cancellations of the provisions made also occur via the damages claims account.

18. Personnel expenses

CHF 1,000	2014	2013
Wages	–28,897	–26,237
Social contributions	–4,372	–4,048
Incidental wage costs including temporary staff	–1,533	–1,435
Total	**–34,802**	**–31,720**

19. Other operating expenses

CHF 1,000	2014	2013
Facilities expenditure incl. warehouse rents	–3,326	–3,001
Maintenance, repairs	–6,164	–4,875
Vehicle and transport costs	–7,801	–6,504
Insurance, fees, duties	–1,121	–1,055
Energy and disposal expenditure	–13,722	–12,701
Administration and IT expenditure	–3,127	–3,278
Advertising expenditure incl. commission to customers	–4,161	–3,905
Various other operating costs	–3,778	–4,064
Total	**–43,200**	**–39,383**

From 2014 the commission for agents will be represented in the advertising expenditure. The previous year was adjusted accordingly.

20. Financial results

CHF 1,000	2014	2013
Interests from cash and cash equivalents	17	20
Revenues from holdings and financial assets incl. associated parties	2,169	360
Value adjustment from financial assets	11	0
Total financial revenue	**2,197**	**380**
Interest costs	–2,334	–3,346
Deposit fees, bond fees	–51	–7
Loss from sale of HOCHDORF Nutrimedical Ltd	0	–630
Value adjustment from financial assets	0	–108
Exchange rate losses	–65	–80
Total financial expenditure	**–2,450**	**–4,171**
Total	**–253**	**–3,791**

Income from financial assets includes profit from the assumption of debt amounting to CHF 1.99 million.

21. Non-operating results

CHF 1,000	2014	2013
Revenue from external properties	0	49
Revenue from external properties	–26	–17
Total	**–26**	**32**

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

22. Extraordinary results

CHF 1,000	2014	2013
Profit from the disposal of operational assets	–68	6
Exceptional expenditure	–1,819	–217
Total	**–1,887**	**–211**

Exceptional expenditure 2014 includes the net payment from a lost claim with a customer from China.

23. Income taxes

CHF 1,000	2014	2013
Current income taxes		
Taxes on operating result	–942	–252
Deferred income taxes		
Net change in deferred tax assets and liabilities	–769	–12
Total	**–1,711**	**–264**

Valuation of deferred taxes occurs in line with the tax rates that are actually expected in meeting future tax liability or in the realisation of future receivables (liability method). The tax rate is 12% for companies exclusively based in the canton of Lucerne; it is 15% for HOCHDORF Nutritec Ltd, with its production in the Thurgau canton. From 2013, 15% is available for use for the subsidiary in Lithuania (18% up to now) and 25% for the subsidiary in Germany.

The carried forward losses from previous years of the Swiss companies were offset in full in the reporting year against the profit in the reporting year. As a precaution, no tax assets were formed for the carried forward losses from 2010. The full potential assets were not formed for the carried forward losses from 2011 and 2012. The offset of these items will lead to a positive tax contribution in 2014 of CHF 756,000 given that the average tax rate for the cantons of Lucerne and Thurgau is 15%.

The weighted average Group tax rate is 9.58% (previous year 4.18%). Including the positive tax effect of CHF 756,000 this gives a weighted average Group tax rate of 13.82%.

Capital taxes are posted separately in operating costs. 2013 and years before have been definitively assessed for the Swiss Companies and the subsidiary in Germany. Actual taxes of CHF 232,000 were paid in 2014 (previous year CHF 177,000).

24. Earnings per share

Company results per share, basic

	2014	2013
Weighted average shares outstanding	924,700	882,153
Company result before minority interests	16,138,523	6,126,564
Company results per share in CHF, basic	**17.45**	**6.95**

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

Company earnings per share, diluted

	2014	2013
Weighted average shares outstanding basic	924,700	882,153
Dilution effect of conversion bond [1)]	364,459	403,226
Weighted average shares outstanding, diluted	1,289,159	1,285,378
Company result before minority interests	16,138,523	6,126,564
Convertible loan interest 3% of CHF 45.12 million	1,353,600	1,500,000
12% tax effect (conversion loan*0.12/1.12)	–145,029	–160,714
Company result before minority interests, diluted	17,347,094	7,465,850
Company earnings per share in CHF, diluted	**13.46**	**5.81**

1) The dilution is calculated from the conversion loan of CHF 50 million and the conversion price CHF 124, from which a maximum of 403,226 new shares are generated. As a result of the increase in the dividend in 2014 from CHF 3.00 to CHF 3.20 the exercise price of the conversion bond was reduced to CHF 123.80. Until 31.12.2014 CHF 4.88 million had been converted leaving a remaining balance of CHF 45.12 million, from which a maximum of 364,459 new shares can be generated at the current conversion price of CHF 123.80.

Further notes

Unsettled derivative financial instruments

Exchange rate instruments	Value change	2014 Assets value	2014 Liabilities value	Purpose	Value change	2013 Assets value	2013 Liabilities value	Purpose
Interest rate swaps	0	0	–31	Hedging	0	0	0	Hedging
Total assets and liability values	**0**	**0**	**–31**		**0**	**0**	**0**	

Derivative financial instruments, which do not meet the definition of assets or liabilities, are not included in the balance sheet. As of the balance sheet date, hedging interest rate swaps existed, which occurred because of the change in the scope of consolidation due to the takeover of Uckermärker Milch GmbH, but they are not charged to income.

Pledged assets

CHF 1,000	2014	2013
Property/mortgage liens	5,338	0
Total	**5,338**	**0**

Leasing debts

CHF 1,000	2014	2013
Unrecognised leasing debts	154	0
Total	**154**	**0**

Fire insurance values for fixed assets

CHF 1,000	2014	2013
Property	161,315	119,489
Fixed assets and goods	373,495	317,388
Total	**534,810**	**436,877**

Liabilities from pension fund

CHF 1,000	2014	2013
HOCHDORF Group pension fund	280	519
Total	**280**	**519**

Goodwill offset against equity

Purchase costs

CHF 1,000	2014	2013
As at 1 January	0	0
Additions	3,088	0
As at 31 December	**3,088**	**0**

Cumulated amortisations

CHF 1,000	2014	2013
As at 1 January	0	0
Additions	–382	0
As at 31 December	**–382**	**0**
Theoretical price as at 31 December	**2,706**	**0**

In the reporting year a goodwill of CHF 3,088,000 resulted from the various shareholding acquisitions. The acquisition of the 15% shares in HOCHDORF Nutricare Ltd from 85% to 100% took place on 14 February 2014. The acquisition of 100% of Marbacher Ölmühle GmbH took place in December 2014. This is shown based on a linear amortisation over 5 years (pro rata), with depreciation only shown on the goodwill of Nutricare for 2014.

The effects of a theoretical capitalisation on the income statement and balance sheet are shown in the following table.

CHF 1,000	2014	2013
Group result	16,139	6,063
Goodwill amortisations	–382	0
Theoretical company results	**15,757**	**6,063**

CHF 1,000	2014	2013
Equity	143,168	103,774
Theoretical goodwill	2,706	0
Theoretical equity	**145,874**	**103,774**

Transactions with related persons and companies
The business transactions with related persons and companies are based on standard commercial contracts and conditions. All transactions are contained in the consolidated annual accounts 2014 and 2013. These cover deliveries of goods and raw materials as well as services to and from related companies.

Transactions with associated companies

CHF 1,000	2014	2013
Net sales	0	126
Cost of goods	0	–3,212
Services revenue	0	401
Financial expenses	0	–59

Transactions with related companies

CHF 1,000	2014	2013
Net sales	13,777	13,046
Cost of goods	–594	–290
Services revenue	23	20
Service costs [1)]	–1,644	–1,595
Financial revenue	6	12
Financial expenses	–3	–24

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

Contingent liabilities
In 2014 HOCHDORF Group was able to finally settle the claims it was involved in via its subsidiary HOCHDORF Swiss Nutrition Ltd. In the first case with the French customer the action was dismissed in full in favour of HOCHDORF. In the second case with a Chinese customer HOCHDORF had to make a payment, which is represented in full in the 2014 results

Acquisitions
In connection with the strategic development of the Baby Care area the purchase of 60% of Uckermärker Milch GmbH was completed on 29.12.2014 and 26% of each of the three Ostmilch companies. The balance sheet of Uckermärker Milch GmbH was made up as follows at the time of purchase:

Assets	CHF 1,000	**Liabilities**	CHF 1,000
Cash and cash equivalents	19	Trade payables	27,777
Receivables	19,076	Other non-Group borrowed capital	9,110
Inventories	11,279	Short-term provisions	533
Other current assets	17	Non-current financial liabilities	376
Fixed assets	30,599	Provisions	6,206
Financial assets	388	Equity	17,627
Intangible assets	251		
Total assets	**61,629**	**Total liabilities**	**61,629**

100% of Marbacher Ölmühle GmbH was acquired on 5.12.2014. The balance sheet of Uckermärker Milch GmbH was made up as follows at the time of purchase:

Assets	CHF 1,000	Liabilities	CHF 1,000
Cash and cash equivalents	127	Trade payables	959
Receivables	1,132	Other non-Group borrowed capital	812
Inventories	1,231	Non-current financial liabilities	6,194
Other current assets	10	Provisions	199
Fixed assets	4,863	Equity	–799
Intangible assets	2		
Total assets	**7,365**	**Total liabilities**	**7,365**

The stake in HOCHDORF Nutricare Ltd was increased from 85% to 100% on 14.02.2014.
The stake in HOCHDORF Swiss Whey Ltd was increased from 50% to 100% on 30.04.2014.

Risk report

Risk management and risk policy

Enterprise automatically involves opportunities and threats. The HOCHDORF Group has been an increasingly successful player in European and global enterprise for more than 119 years. Management and planning systems have to be improved on an ongoing basis to ensure competitiveness and future potential but also to identify and manage existing risks at an early stage. It was for this reason, that we began looking at risk management in a systematic and structured way at the end of the 1990s. A professional risk management system was introduced in 2007.

We now have a specifically designated risk management centre, which reports directly to the management team. The risk management area has the relevant practical skills and maintains all the organisational provisions such as risk policy and risk strategy as well as all the process descriptions. For higher-level issues, risk committees can be deployed to bring their expertise and decision-making skills to resolve particular problems. Risk management provides important support in protecting and securing future potential. The general risk awareness of the management team and employees is increased by annual risk assessments.

The risk assessment includes all business processes. The reporting includes the following areas:

– Strategic risks (risk from development and the situation in society)
– Market risks (sales market risks)
– Financial market risks (investment and financing risks)
– Political/legal risks/organisation and management
– Service risks (risks from production and procurement as well as research and development)

Risk assessment

Our strategy is to generate sustainable profitable growth. The strategic risks are closely related to the main area of business - the milk market and milk as a raw material. Analysis has shown, that the defined competence profile shows a healthy basis for gaining competitive advantages as well as internal strengths. This provides us with endless opportunities to meet strategic objectives and prepare ourselves for any challenges we may face in the foreseeable future. The strategic positioning is underpinned by strategic partnerships. We defined alternative courses of action as part of our risk strategy and adopted targeted measures to identify risks.

In our markets for products with milk components, refinement into functional powders, children’s food, products for bakeries and gentle pressed wheat germ, the main market risks emanate from «sales fluctuations» and «fluctuations in the cost of materials». The basis for our study included market trend analysis, identification of market appeal and the competitive environment. The main focus of the analysis was on sales and procurement markets.

The analysis of the financial outlook is based on comparative data from rating agencies. From a financial point of view, we can be described as a healthy group. As with other companies of a similar structure, we have to explicitly mention "value fluctuations in holdings", "investment risks" and "accounts receivable losses", as well as "currency fluctuations".

The analysis also reveals mixed results in terms of the political/legal and organisational risks facing the company. There are opportunities and threats arising from political change and from the political circumstances (CH, EU, WTO) and the opening up of the milk market. We are addressing the risks from product liability with quality assurance and organisational measures, as well as appropriate product liability insurance. Risks from contractual agreements are minimised by employing appropriate legal expertise.

We have a clear understanding of how to deal with the risks involved in providing goods and services and we monitor them appropriately by observing basic commercial principles. We produce regular reports on the risks caused by business interruption. Emergency plans are in place and are regularly updated. These include estimates of internal and external interactions, such as capacity distribution and supplier evaluations.

Overall risk status

The risks are evaluated quantitatively and statistical procedures show their interconnectivity. This enables us to derive equity share, liquidity and credit requirements and to compare these with existing funds and the actual substance of the company. Based on traditional rating analysis and on modern procedures for the 2015 planning year, the results are positive and compare favourably with the high credit level achieved by other similar companies.

Events after the balance sheet date

After the balance sheet date and until the adoption of the Group accounts by the Board of Directors, no significant events have occurred which would affect the informational value of the 2014 annual accounts or which must be disclosed here.

On 15 January 2015 the Swiss National Bank announced the lifting of the EUR/CHF minimum exchange rate. This led to a strong appreciation of the Swiss franc, which is used as a presentation currency by the HOCHDORF Group. The translation of the financial statements of Group companies and associated companies with a different functional currency will have a negative currency translation effect on the consolidated financial statements and increase the cumulative translation difference recorded in equity. The lifting of the minimum EUR/CHF exchange rate did not have an impact on the annual financial statements of the reporting year. The lifting of the EUR/CHF minimum exchange rate may have a noticeable effect on sales development and on profits in business year 2015. The HOCHDORF Group has introduced various measures to cushion against the effects.
The first half of 2015 will be hit harder in terms of earnings owing to the transitional phase until the measures take effect. Overall the HOCHDORF Group assumes that the budget for 2015 can be reached despite the exchange rate impact.

The consolidated annual accounts were approved in the form presented here by the Board of Directors at its meeting on 17 March 2015.

Report of the statutory auditor on the consolidated financial statements for the year 2014

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Report of the statutory auditor to the general meeting of **HOCHDORF Holding Ltd, Hochdorf**

As statutory auditor, we have audited the consolidated financial statements of HOCHDORF Holding Ltd., which comprise the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, statement of changes in equity and notes (pages 56 until 80), for the year ended 31 December 2014.

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2014 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.

Other matter
The consolidated financial statements of HOCHDORF Holding Ltd. for the year ended 31 December 2013 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 25 March 2014.

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

In accordance with article 728a paragraph 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.

Luzern, 17 March 2015

Ernst & Young Ltd

Bernadette Koch Licensed audit expert (Auditor in charge)	Roman Ottiger Licensed audit expert

When complex issues are involved, our production planning always pays attention to detail. Hansjörg Bucher, Head of Production Planning, ensures that our magnificent plants operate at full capacity. We protect the environment with our efficient production so that we can still scan the horizon for large and small wonders for a long time to come.

HOCHDORF Holding Ltd

Balance sheet as at 31 December

	2014 CHF	in %	2013 CHF	in %
Assets				
Liquid assets and current assets with market price	34,811,786	16.7%	18,532,048	9.8%
Trade receivables				
– to Group companies	0	0.0%	832,447	0.4%
Other current receivables				
– to third parties	5,897	0.0%	4,169	0.0%
Accrued income				
– to third parties	17,910	0.0%	0	0.0%
Current assets	**34,835,592**	**16.7%**	**19,368,664**	**10.3%**
Loans to Group companies	96,905,638	46.4%	117,757,711	62.5%
Shareholdings	76,077,357	36.4%	50,483,000	26.8%
Other fixed assets	0	0.0%	458,852	0.2%
Intangible assets	948,978	0.5%	474,335	0.3%
Non-current assets	**173,931,973**	**83.3%**	**169,173,897**	**89.7%**
Total assets	**208,767,566**	**100.0%**	**188,542,562**	**100.0%**
Liabilities				
Current external capital				
Trade payables				
– with third parties	469,722	0.2%	91,349	0.0%
– with related parties	24,563	0.0%	42,722	0.0%
– with group companies	0	0.0%	21,060	0.0%
Current interest-bearing payables				
– to third parties	40,045,116	19.2%	0	0.0%
Other current payables				
– to third parties	1,036,304	0.5%	360,755	0.2%
Deferred income				
– to third parties	986,600	0.5%	890,000	0.5%
Long-term external capital				
Long-term interest-bearing payables				
– to third parties	45,120,000	21.6%	90,000,000	47.7%
– to Group companies	198,464	0.1%	96,910	0.1%
Total external capital	**87,880,770**	**42.1%**	**91,502,796**	**48.5%**
Share capital	10,709,220	5.1%	9,000,000	4.8%
Statutory capital reserves (capital investments)	41,724,679	20.0%	24,271,092	12.9%
Statutory retained earnings				
General statutory retained earnings	10,172,000	4.9%	10,172,000	5.4%
Reserves from own shares	0	0.0%	30,424	0.0%
Total statutory reserves	***51,896,679***	***24.9%***	***34,473,516***	***18.3%***
Voluntary retained earnings	20,347,588	9.7%	20,317,164	10.8%
Balance sheet profit				
Profit carried forward	33,286,455	15.9%	31,802,677	16.9%
Result for current year	5,350,145	2.6%	1,476,089	0.8%
Own shares	–703,292	–0.3%	–29,680	0.0%
Total equity	**120,886,796**	**57.9%**	**97,039,766**	**51.5%**
Total liabilities and equity	**208,767,566**	**100.0%**	**188,542,562**	**100.0%**

HOCHDORF Holding Ltd

Income statement

	2014 CHF	in %	2013 CHF	in %
	1.1.14–31.12.14		1.1.13–31.12.13	
Service revenue	5,865,525	99.8%	4,508,172	99.8%
Other revenue	8,889	0.2%	10,645	0.2%
Gross earnings	**5,874,414**	**100.0%**	**4,518,748**	**100.0%**
Personnel costs	–3,284,893	–55.9%	–2,522,739	–55.8%
Other operating costs	–1,868,819	–31.8%	–979,851	–21.7%
Total operating costs	*–5,153,712*	*–87.7%*	*–3,502,591*	*–77.5%*
EBITDA	**720,702**	**12.3%**	**1,016,157**	**22.5%**
Depreciation of fixed assets	–151,671	–2.6%	–291,182	–6.4%
Depreciation of intangible assets	–126,249	–2.1%	–184,215	–4.1%
EBITDA earnings	**442,781**	**7.5%**	**540,760**	**12.0%**
Income from financial assets	7,636,083	130.0%	5,805,946	128.5%
Expenses from financial assets	–2,437,106	–41.5%	–4,303,041	–95.2%
Extraordinary results	8,387	0.1%	–567,576	–12.6%
Profit before taxes	**5,650,145**	**96.2%**	**1,476,089**	**32.7%**
Taxes	–300,000	–5.1%	0	0.0%
Company result	**5,350,145**	**91.1%**	**1,476,089**	**32.7%**

Notes to the financial statements 2014

Information according to article 959 ff.
Swiss Code of Obligations

1. Company, name, headquarters, shareholdings
HOCHDORF Holding Ltd, Siedereistrasse 9, 6280 Hochdorf LU
The number of full-time positions on annual average was more than 10 in the reporting year and the previous year.
As part of restructuring as of 1.1.2015, the holding no longer employees personnel.

2. Principles

General
These financial statements have been prepared in accordance with the provisions on commercial accounting from the Swiss Code of Obligations (articles 957-963 b CO, valid until 1 January 2013). The additional requirements for large companies according to article 961 d para. 1 CO (additional information in the notes, cash flow statement and financial report) are waived, as a consolidated financial statement according to Swiss GAAP FER is being issued.

Cash and cash equivalents
Cash and cash equivalents include cash, balances in postal giro and bank accounts. They are recognised at their nominal value.

Receivables
Receivables are measured at nominal value less value adjustments. Identifiable individual risks are taken into account with appropriate value adjustments.

Accruals and deferrals
Accrual and deferral items, measured at the nominal or effective value, do not include undervaluations or overvaluations.

Securities and financial assets
Short-term securities are measured at the market price on the balance sheet date. The creation of a fluctuation reserve is omitted. Financial assets include loans to group companies. They are measured at their acquisition costs less possible value adjustments.

Fixed assets
Fixed assets with the exception of land are depreciated on a sliding scale. When there are indications of overvaluation, the carrying amounts are reviewed and, if necessary, their value adjusted.

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

Revenue recognition
Service revenue is registered when benefits and risks have been transferred to the receiving subsidiaries or the service has been rendered.

Notes to the financial statements 2014

Information according to article 959c ff. CO

3. Information on balance sheet and income statement items

3.1. Shareholdings

3.1. Shareholdings	Purpose	Currency	Capital in 1,000 31.12.2014	31.12.2013	Capital and voting share 31.12.2014	31.12.2013
Schweiz. Milch-Gesellschaft AG, Hochdorf	Inactive	CHF	**100**	100	**100%**	100%
HOCHDORF Swiss Nutrition Ltd, Hochdorf	Production	CHF	**30,000**	30,000	**100%**	100% [1]
HOCHDORF Swiss Milk Ltd, Hochdorf	Trade	CHF	**1,000**	1,000	**100%**	100%
HOCHDORF Nutrifood Ltd, Hochdorf	Trade	CHF	**100**	100	**100%**	100%
HOCHDORF Nutricare Ltd, Hochdorf	Trade	CHF	**1,200**	1,200	**100%**	85% [2]
HOCHDORF Swiss Whey Ltd, Hochdorf	Inactive	CHF	**100**	0	**100%**	0% [3]
HOCHDORF Baltic Milk UAB, LT-Medeikiai	Production	LTL	**20,000**	0	**100%**	0% [4]
HOCHDORF Deutschland GmbH, DE-Siegburg	Trade	EUR	**200**	0	**100%**	0% [5]
Marbacher Ölmühle GmbH, DE-Marbach	Production	EUR	**100**	0	**100%**	0% [6]
Uckermärker Milch GmbH, DE-Prenzlau	Production	EUR	**4,650**	0	**60%**	0% [7]
Ostmilch Handels GmbH, DE-Bad Homburg	Trade	EUR	**1,000**	0	**26%**	0% [7]
Ostmilch Handels GmbH Frischdienst Oberlausitz KG, DE-Schlegel	Logistics	EUR	**51**	0	**26%**	0% [7]
Ostmilch Handels GmbH Frischdienst Magdeburg KG, DE-Meitzendorf	Trade	EUR	**26**	0	**26%**	0% [7]

1) Name change from HOCHDORF Nutritec Ltd to HOCHDORF Swiss Nutrition Ltd as of 17.09.2014
2) Increase of share to 100% as of 14.02.2014
3) Increase of shares to 100% and reclassification of HOCHDORF Swiss Milk Ltd to HOCHDORF Holding Ltd as of 30.04.2014; capital reduction as of 30.10.2014
4) Reclassification of HOCHDORF Swiss Milk Ltd as HOCHDORF Holding Ltd as of 30.04.2014
5) Reclassification of HOCHDORF Nutrifood Ltd as HOCHDORF Holding Ltd as of 30.04.2014
6) Acquisition as of 05.12.2014
7) Acquisition as of 29.12.2014

3.2. Fixed assets (CHF 1,000)

3.2. Fixed assets (CHF 1,000)	31.12.2014	31.12.2013
Office equipment, computer equipment, communications systems	0	403
Vehicles	0	41
Fixed equipment, installations	0	6
Current investment projects	247	9
Total	**247**	**459**

3.3. Intangible assets

Intangible assets consist primarily of software developed or acquired by a third party.

3.4. Long-term interest-bearing payables (CHF 1,000)

3.4. Long-term interest-bearing payables (CHF 1,000)	31.12.2014	31.12.2013
Consortium loan	0	40,000
Convertible bond	45,120	50,000
Total	**45,120**	**90,000**

Maturity structure (CHF 1,000)	31.12.2014	31.12.2013
Up to 5 years	45,120	90,000
More than 5 years	0	0
Total	**45,120**	**90,000**

Notes to the financial statements 2014

Information according to article 959c ff. CO

3.5. Other operating costs (CHF 1,000)	31.12.2014	31.12.2013
Occupancy costs	–235	–236
Maintenance, repair, replacement	–401	0
Vehicle and transport costs	–22	–26
Property insurance, fees	–434	–368
Administration and IT costs	–620	–225
Marketing and sales costs	–87	–110
Other operating costs	–1	+16
Financial expenses, bank charges	–69	–31
Total	**–1,869**	**–980**

4. Bond issue	
Type of bond	Convertible bond
Nominal amount	CHF 50 million
Securities number	12931421 / ISIN CH0129314214
Interest rate	3%
Duration	30 May 2011 to 30 May 2016
Conversion price	CHF 123.80
Repayment	30 May 2016 at par or conversion
Outstanding as of 31.12.2014 nominal	CHF 45,120,000

5. Shareholders >3%	31.12.2014	31.12.2013
ZMP Invest AG, Lucerne	10.96%	5.66%
of which 65,798 shares without voting rights		
Weiss family and Innovent Holding AG, Wollerau	6.68%	7.44%
of which 19,975 shares without voting rights		
Argos Investment Managers S.A., Geneva	4.90%	4.55%
of which 904 shares without voting rights		
Group Maurer, Hunzenschwil	3.57%	3.71%
Pension fund of HOCHDORF Group, Hochdorf	<3%	3.89%
Rudolf Schrepfer, Hergiswil	<3%	3.50%

	31.12.2014	31.12.2013
6. Liabilities to pension schemes	CHF	CHF
Pension fund	24,563	42,722

Notes to the financial statements 2014

Information according to article 959c ff. CO

7. Elimination of hidden reserves	31.12.2014 CHF	31.12.2013 CHF
Elimination of hidden reserves	174,010	347,741

8. Transactions with own shares

Business year 2014					Business year 2013					
01.01.2014	Portfolio	307 shares	at price.	96.68	01.01.2013	Portfolio	5,727 shares			
BY 2014	Purchases	53,753 shares	at av. price	125.00	BY 2013	Purchases	58,027 shares	at av. price	88.44
BY 2014	Sales	48,917 shares	at av. price	126.92	BY 2013	Sales	63,447 shares	at av. price	88.78
31.12.2014	Portfolio	5,143 shares	at price	136.75	31.12.2013	Portfolio	307 shares	at price	96.68

9. Contingent capital

As at 31.12.2014, HOCHDORF Holding Ltd had total contingent capital of CHF 4,500,000 nominally. This is tied to the outstanding convertible bond of CHF 50 m with a timeframe of 30 May 2011 to 30 May 2016.

10. Authorised capital

As of 31.12.2014, HOCHDORF Holding Ltd had total authorised capital of CHF 3,184,710 nominally by issuing up to 318,471 registered shares to be paid with a nominal value of CHF 10 per share.

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

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

Board of Directors	Number of shares **31.12.2014**	Number of shares 31.12.2013
Josef Leu, Chairman, Audit Committee, Personnel and Compensation Committee	**1,290**	1,129
Anton von Weissenfluh, Vice Chairman, Personnel and Compensation, Market and Strategy Committee	**1,000**	915
Meike Bütikofer, Market and Strategy Committee	**441**	441
Walter Locher, Audit Committee, as of 10.05.2014	**1,200**	n.a.
Urs Renggli, Audit Committee	**4,654**	4,654
Niklaus Sauter, Personnel and Compensation Committee, as of 10.05.2014	**114**	n.a.
Holger Karl-Herbert Till, Market and Strategy Committee, as of 10.05.2014	**0**	n.a.
Hans-Rudolf Schurter, Chairman, Personnel and Compensation Committee, until 10.05.14	**n.a.**	6,397
Rolf Schweiger, until 10.05.2014	**n.a.**	729
Board of Directors Total	**8,699**	14,265
Group Management		
Thomas Eisenring, CEO	**400**	200
Marcel Gavillet, CFO	**700**	375
Karl Gschwend, Managing Director of HOCHDORF Swiss Nutrition Ltd	**114**	100
Werner Schweizer, Managing Director of HOCHDORF Swiss Milk Ltd	**165**	165
Michel Burla, Managing Director of HOCHDORF Nutrifood Ltd	**200**	200
Michiel de Ruiter, Managing Director of HOCHDORF Nutricare Ltd	**1,576**	11,915
Group Management Total	**3,155**	12,955
Total of Board of Directors and Group Management	**11,854**	27,220
in %	**1.32%**	3.02%

In the reporting year, no shares were allotted to the Board of Directors or to Group Management.
Acquisition is made directly on a private basis.

HOCHDORF Holding Ltd

Appropriation of retained earnings

	31.12.2014 CHF	31.12.2013 CHF
Profit carried forward	33,278,766	31,736,275
Change correction on balance of own shares from the previous year [1)]	7,690	66,402
Profit from current year	5,350,145	1,476,089
Total available to General Meeting	**38,636,600**	**33,278,766**

Proposed appropriation of retained earnings

	31.12.2014 CHF	31.12.2013 CHF
Balance carried forward	38,636,600	33,278,766
Total appropriation of profit	**38,636,600**	**33,278,766**

1) No dividend will be paid on the "own shares" portfolio

Proposal for the distribution of a dividend from capital investment reserves

	31.12.2014 CHF	31.12.2013 CHF
Capital investment reserves	**21,391,092**	**24,271,092**
Capital investments from capital increase as of 04.11.2014	15,850,993	0
Capital investments from bond conversion in 2014	4,482,594	0
Conversion of reserves from capital investments to free reserves [2)]	–4,070,000	–2,880,000
Remaining reserves from capital investments	**37,654,679**	**21,391,092**
2) Dividend CHF 3.70 (previous year CHF 3.20) per nom. CHF 10 share capital from capital investment reserves. The effective dividend payment amount is calculated on the effective number of shares outstanding at the time of the dividend payment.	4,070,000	2,880,000

Report of the statutory auditor on the financial statements for the year 2014

Building a better working world

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Report of the statutory auditor to the general meeting of **HOCHDORF Holding Ltd, Hochdorf**

As statutory auditor, we have audited the financial statements of HOCHDORF Holding Ltd., which comprise the balance sheet, income statement and notes (pages 84 until 90), for the year ended 31 December 2014.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Other matter
The financial statements of HOCHDORF Holding Ltd. for the year ended 31 December 2013 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 25 March 2014.

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

In accordance with article 728a paragraph 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.

Luzern, 17. März 2015

Ernst & Young AG

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert


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STUTZ
2

Where a roof also acts as a consolidating feature. Our newly built logistics centre in Sulgen TG means we are no longer reliant on external intermediate storage. It is our focal point for the transfer of merchandise and the place where everything comes together. It means we save around 15% on works traffic and reduce the impact on the environment and the local residents. So nature and people are given enough space.

Corporate Social Responsibility

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-conscientious 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 mediamatics, 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, CO_2, 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 CO_2 recovery equipment at the Sulgen plant. This equipment processes the CO_2 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 have fallen 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).

CO_2 Commitment 2013 – 2020

In May 2014, we signed a new CO_2 commitment with the Industrial Energy Agency (EnAW). The HOCHDORF Group undertakes to further reduce CO_2 by nearly 10% by 2020, which corresponds to 20,000 tonnes of CO_2 per year. Average CO_2 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 CO_2 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/Weinfelden, 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, telenews (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 Christmastime, 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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