ANNUAL REPORT 2017

Hero

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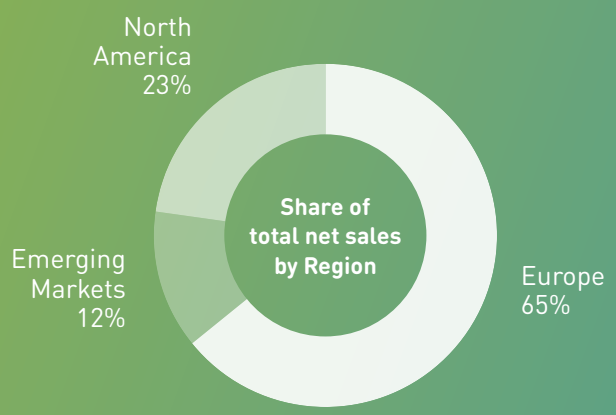
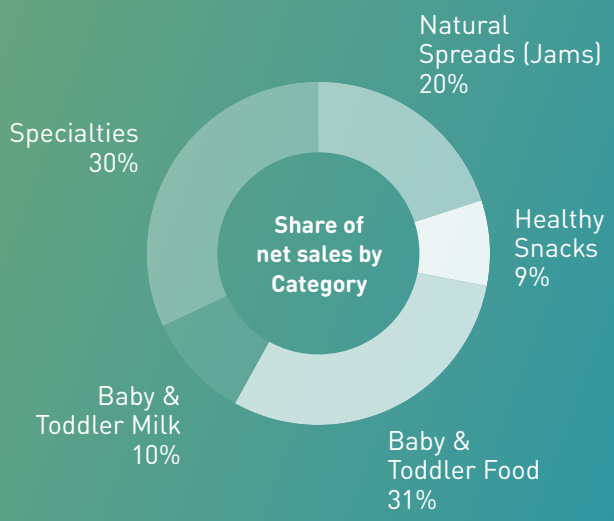
KEY FIGURES

in CHF million	2017	2016	2015
Net sales	**1 281.0**	**1 269.2**	**1 260.6**
Organic growth in %*	3.5	0.1	1.7
Operating Profit (EBIT)	**105.3**	**113.8**	**108.2**
in % of net sales	8.2	9.0	8.6
Income for the year	**20.9**	**73.4**	**71.8**
in % of net sales	1.6	5.8	5.7
Cash flow from operating activities	**135.1**	**118.3**	**118.8**
in % of net sales	10.5	9.3	9.4
Total Equity	**696.6**	**682.6**	**839.2**
Equity ratio in %	47.5	44.9	53.2
EBITDA	**145.0**	**153.7**	**145.9**
Net Debt	**252.9**	**329.0**	**166.2**
Net debt / EBITDA	1.7	2.1	1.1
Headcount	**4 048**	**3 900**	**3 747**





* adjusted for currency and acquisition effects

JOINT CHAIRMAN / CEO MESSAGE

2017

For Hero, 2017 was a good year. We accelerated the organic growth of our company considerably to 3.5%, a result made all the more satisfying when one considers that the growth is driven by our core categories with an outstanding +7.0% in line with our strategic focus.

Dr Hasso Kaempfe, Chairman (left) and Rob Versloot, CEO

Our operating profit remains on a solid level at CHF 105 million. It is slightly below last year's number mainly due to a positive one-time effect in 2016, currency impacts, as well as a planned higher investment in Advertising & Promotion.

As with many other companies which have a presence in the US, our net income and tax expense was significantly impacted by the US tax reform that was signed in December 2017. We adjusted our deferred tax positions in the US accordingly and this led to a negative accounting effect of CHF 50 million. Our strong operational and financial performance allowed us to digest this impact and still show a positive Net Income of CHF 20.9 million.

Due to strong operational cashflows and a reduction of our net working capital, Hero significantly reduced its net debt from CHF 329 million to CHF 253 million, a result that further strengthens our financial structure.

Outlook 2018

Our mission 'to delight consumers by conserving the goodness of nature' will continue to guide us in 2018. On the back of this strong mission, we will pursue our sustainable profitable growth model and plan to increase top and bottom lines.

We have further developed our strategy in 2017 and are working towards making Hero even more integrated. Entrepreneurship in local markets is a key value for Hero and we will continue to foster that. At the same time, we see the opportunity to unleash further value creation potential with closer integration across all functions.

Board of Directors / Executive Board

In March 2017, Michael Pieper stepped down from the Hero Group's Board of Directors as he reached the age limit as stipulated by the company's by-laws. During the 20 years he served on the Board, Pieper contributed immensely to successes we have had. We are grateful for this contribution and would like to thank him for his loyalty and valuable input to our Group.

His successor on the Hero Group Board of Directors is Italian national Giovanni Ciserani. He brings with him a wealth of experience and knowledge in the FMCG sector gained over 30 years with Procter & Gamble.

The Hero Group saw the appointment of Najoh Tita-Reid to the Executive Board as CMO in August 2017. She is a seasoned executive with a considerable mix of marketing knowledge, both brand and category, and commercial, general management, and agency experience.

Our people

We would like to take the opportunity to thank all our employees for their passion and commitment to our business in the past year. At Hero, we are proud of our people and culture, and consider them key assets of our company.

Together with our colleagues on the Board of Directors and Executive Board, we also would like to thank our shareholders for their dedication and long-term perspective, and also our customers for their continued support and loyalty to our brands.

Sincerely,

Dr Hasso Kaempfe
Chairman Board of Directors

Rob Versloot
Chief Executive Officer

DELIGHT CONSUMERS BY CONSERVING THE GOODNESS OF NATURE

OUR MISSION AND VISION

The world today is different from the one that existed 10 years ago, and nothing like what it was in 1886 when Hero was founded. Since the first day, our company has been on a journey, and while the wording may have changed, the mission has always been **to delight consumers by conserving the goodness of nature**. It's what we do and what we are good at.

Bringing nature into people's homes in convenient jars, pouches, tins and other containers is our core business. We want to ensure that the food we offer is the best in terms of quality, using the best natural ingredients while minimizing processing.

We take this very seriously, so much so that we conducted a study, together with the ETH Zürich and the University of Murcia, to bring clarity to what consumers understand by the term 'naturalness' in food.

In this light, we continuously ask ourselves the question: how can we delight consumers and create preference for our products and brands?

We believe in the following principles:

- Having superior natural products that communicate goodness, nature, and homemade
- Using sustainable and responsible sourcing
- Minimizing the use of artificial additives
- Focusing on nutrition and healthy snacking
- Building consumer and shopper understanding
- Innovating our processes, products and packaging

Our United Local Heroes ideal reflects that our group of companies is more than the sum of its parts – it is one integrated and focused organization.

We are **UNITED** because we all work together towards a common goal. We work collaboratively to preserve the consistency of and leverage synergies from our multi-country brands to drive success; it is **LOCAL** because the people who know our customers and shoppers best are the ones in the field, working most closely to them, and they are better placed to focus on building our brands and superior local execution; finally, it's also **HEROES** as we aspire to go that extra mile to make sure our customers in our markets are happy and deliver on our profitable growth ambitions.

OUR STRATEGY

Focus on core categories

At Hero, we aim to drive organic growth of our core categories, namely Baby & Toddler Food, Natural Spreads, Healthy Snacks, and Gluten Free (as of 2018), supported by our business in Baby & Toddler Milk, and Specialties. We do so by increasingly aligning the portfolios of our core categories to our mission 'to delight consumers by conserving the goodness of nature' and by focusing our central and country organizations on these businesses. Next to this, our business development agenda is targeted at increasing the weight of our core categories in our total Group sales.

Profitable growth

Our Hero profitable growth model guides the implementation of our strategy. We aim to increase the profitability of our Group by increasingly unlocking synergies between our operating companies, a process which we intend to strengthen further in 2018.

Operating model

Our goal as an organization is to achieve profitable growth: a virtuous cycle where performance improvement creates financial returns that can be invested in brand building and innovation, driving economies of scale / scope that lead to ever improving performance and accelerated growth.

We strive to find the advantages of being part of a Group – scale, synergies and specialist skills – while retaining the advantages of being highly local, quick on the ground, and close to the consumer/shopper.

To make this type of organization work, we rely on leadership at all levels and a strong link to our Hero values to underpin our way of working.

The theme is clear: the center provides unified overarching direction and added value to countries. Countries drive focused execution and deliver results, given that they are the ones who ultimately bring growth and profit.

They also implement central initiatives as a means to help drive growth and margin improvement for the whole company. We are more integrated and focused than ever before because we believe the sum of our whole is larger than the individual parts.

CONSERVING THE GOODNESS OF NATURE
OUR STORY SO FAR

Our beliefs echo those of archeologists and restorers: what is of value deserves to be conserved, defended, protected and nurtured for everyone to enjoy. This is why we at Hero have made it our mission to conserve the works of the greatest artist of all times – Mother Nature.

Our work starts at the source itself: farmers, growers and planters all over the world. From Francisco Javier, a farmer in Jumilla, Spain, who grows peaches for our baby food, to Dirk, a strawberry farmer in Schmilau, Germany, and Hans, who grows potatoes for our Swiss Rösti in Endingen. In Egypt, Khalil and Mahmoud work the fields to provide us with fresh produce, while Sören in Köping, Sweden, provides hundreds of tons of oats for our infant cereals. These are real people who we know personally and trust.

With precision rivalling that of Swiss watch makers, we conserve the fruits of their land. Indeed, Hero is like a time machine, capturing the taste and nutritional value of fruit, grain and dairy products, and conserving these works of art against the ravages of time. And so, we take consumers back to that very moment when Mother Nature presents her work with absolute perfection – ripe and tasty fruit freshly picked from trees or raw produce harvested from fields.

In essence, little has changed since Hero was founded in 1886. The company enchanted consumers by conserving all the goodness found in nature, and that is what we still do today. In the 130 years

between then and now, Hero has acquired a considerable global reputation. Using both timeless care and state-of-the-art technology, we distribute nature's goodness to hundreds of millions of consumers in scores of countries, spread over five continents.

Some call us a food manufacturer – we disagree. For us, it is Mother Nature who makes food – all we do is conserve the goodness, for you.

Our customers may be 82 years old, or 82 months, or 82 days. In each case, our food provides the nutrients needed for them to lead a healthy life, all conveniently packaged and conserved.
Our family-owned company includes dozens of brands. We represent a significant force in jams, healthy snacks, and baby/infant foods. With brands synonymous with quality, such as Hero, Hero Baby, Organix, Beech-Nut, Semper, Vitrac, Corny, and Schwartau, we are accustomed to prominent market positions in many local markets. They are our local heroes.

Some call us a food manufacturer – we disagree. For us, it is Mother Nature who makes food – all we do is conserve the goodness, for you. We are her treasurer and are in her debt. This is why we are striving to help nature through our *bee careful* initiative, which seeks to protect bee populations that are vital to fruit diversity.

Ever since 1886, we have been nature lovers with one aspiration; to delight consumers by conserving the goodness of nature.

CORPORATE VALUES

Change

Frank van Beers
Hero Benelux

"It is a privilege to work for Hero. One of the most important core values is **change**. Change often means resistance, but at Hero it offers opportunities for personal development. I am challenged on a daily basis to contribute to the growth of Hero. Change management leads to special partnerships throughout the total organization. Hero thinks in solutions and this is unique. I am proud to be a part of the Hero family."

Empowerment

Dalia Megahed
Hero MEA

"My time at Hero has been characterized by a constant willingness on behalf of the company to take initiatives and make my voice heard. The of **empowerment** I have received from the company has been more than at any other throughout my career. Not only does my manager believe in me, but also supports me with guidance, resources and a great team – this has made me a stronger and more confident person. This empowerment helps me develop, maximizes my potential, and has allowed us to reach targets we thought were unachievable."

Speed

Patrick Tanaka
Hero Brazil

"Being one step ahead creates movement, and classifying priorities, planning actions, and drilling down decisions helps organize the movement. Collective cooperation, doing the right thing, and doing it the right way, shields the movement and sets the pace. A company in movement generates energy, drives new cycles, picks up **speed** and sustains it. In an ever-changing environment, speed is essential to generate sustainable growth."

Entrepreneurship

Sirin Isik

Hero Turkey

"**Entrepreneurship** is one of the company values which inspires me every day at Hero. At every level, we are encouraged and trusted to think creatively and be innovative in finding solutions. Exploring new ideas, identifying new opportunities, evaluating their potential and risks and taking action are the main steps, which will bring our company to the next level of success. Entrepreneurial spirit at Hero is highly supported and enables our company to continuously find new ways to improve our value."

Family

Chris Edwards

Organix

"One of the great things about working for Hero is the **family** values of the company. The wealth of talent and experience which exists across the different business units is a rich source of information which can be tapped into and helps fuel a highly entrepreneurial spirit. It is really inspiring when you get to see what drives the businesses in different markets and have the opportunity to understand their values."

AN INITIATIVE TO PROTECT BEE HEALTH AND FRUIT DIVERSITY

BEE CAREFUL: A HERO GROUP INITIATIVE

The world of bees is as fascinating as it is threatened. Every year, higher than average losses in bee colonies are being reported around the world. And while the situation may not be as critical as a decade ago, the situation is still dire.

The Hero Group launched the *bee careful®* initiative in an effort to better understand and address the bee colony collapse disorder problem. Bees pollinate about 80% of the world's plants – fruit in particular. Without bees not only would orchard yields and fruit quality be considerably lower, some fruit species would practically disappear. Bees are essential for us all, and in particular for the Hero Group as a major fruit user. The main aims behind *bee careful* are:

- To assist in targeted research
- The dissemination of knowledge in schools and other institutions
- To provide support to beekeepers and prospective beekeepers

"This is not just another sustainability program, but rather a small step we are taking to contribute to the survival of the bee, which works tirelessly to carry out the important task assigned to it. In recognition of its work, we should do our utmost to ensure its survival, and by doing so, ensure our own survival," said Rob Versloot, CEO Hero Group.

bee careful®

Our efforts are backed by renowned bee expert Professor Jürgen Tautz from the University of Würzburg and his Honey Bee Online Studies (HOBOS) research and teaching platform.

Country initiatives

The Group has pledged a substantial budget for local bee careful initiatives. These include:

- Creating bee-friendly communities
- Research projects aimed at saving the Egyptian bee *Apis lamarckii*
- Assessing the impact of pollination by bees on yield and nutritional value of peach and apple trees
- Establishment and maintenance of HOBOS stations
- Promotions for people to build bee homes
- Promoting bee keeping among students
- Education for and support to bee keepers
- Promoting bee-friendly agricultural projects
- Creation of country websites aimed at promoting the initiative and bees' health

Bees pollinate about 80% of the world's plants – fruit in particular. Without bees not only would orchard yields and fruit quality be considerably lower, some fruit species would practically disappear.

OUR CATEGORIES

At the Hero Group, we are all about conserving the goodness of nature. Our products are divided into five categories, plus a Specialties section.

Our **Baby & Toddler Food**, the largest category of the Group, provides our younger customers with nutritious food. The category is complemented by our **Baby & Toddler Milk** category where we offer a range of milk formulas.

Natural Spreads, formerly the Jams category, has now been extended to include a wider variety of products. The trend towards snacking has seen our **Healthy Snacks** category go from strength to strength, both in terms of bars and pouches.

In 2017, we increased our focus on **Gluten Free** as this niche area is growing in popularity among people who live with coeliac disease or are gluten intolerant, and also others who choose to eat gluten free products. This area will be reported separately as a category as of 2018. Previously, it was included in the **Specialties** section, which includes areas such as decoration, seasonal products, and local offerings.

Baby & Toddler Food (BTF)

We are on a mission to delight babies and toddlers with the goodness of natural and safe food. Babies are our inspiration. Having a baby is challenging enough without having to worry about making the wrong choices in foods. The Hero BTF category provides great tasting, nutritional and safe foods for babies and toddlers from four months upwards.

Our portfolio covers cereals, meals, and fruits and snacks of the highest quality and adapted to babies' requirements. As well as regular BTF, we have a strong competence in organic BTF. We manufacture and sell our food under various brands across North America, Europe and MEA (Middle East & Africa).

Investments in packaging, technology and ingredients ensure we maintain our leading position in key markets. Of the four main Group categories, BTF is the largest with a total of 30.9% of our total net sales, up from 26.5% in 2016. This category performed strongly in 2017 with an organic net sales growth of 7.7%.

Baby & Toddler Milk (BTM)

'Delighting mums (and dads) & babies by conserving the goodness of nature' is at the core of the Hero BTM mission and inspiration. We believe breast milk is the best to ensure our babies have the best start in life. For those times when breastfeeding is not possible, Hero has developed a range of infant milk formulas.

Hero is present in numerous European countries, the MEA region and China with different brands, including Hero Baby, Semper, and Sunar.

As mums want to give all the goodness they have to their babies, so do we. Therefore, we have developed a unique formula with milk fat and MFGM (Milk Fat Globule Membrane) that mimics mothers' breast milk. Products with our formula have been launched in different countries since 2014.

The BTM category made up 10.3% of the Hero Group's total for 2017, marginally up from a year earlier. This category grew organically by 6.2% in 2017 after a decline of 6.7% in 2016.

Natural Spreads

At Hero, it's all about goodness of nature, and we are experts in conserving the best of what nature provides with our jams. Transforming fresh fruits in the gentlest of ways for our jams to keep their authentic fruit taste is part of our daily striving to improve quality. In 2017, we started delivering the first products with our new, improved all natural recipe as another important step to fulfil our company mission.

In our plants, we produce millions of jam jars every year. We work closely with the local farmers whom we have known for a long time, benefiting from their expertise in growing the best quality fruit for our jams.

Today, millions of consumers all over the world start their day with our products. Hero jams are available in over 120 countries worldwide, and our brands hold leading market positions in Europe, MEA and South America.

It's not only about jams – we are now expanding our footprint in this area to provide great products. The Natural Spreads category, a mainstay of the Hero Group, made up 20.0% of the net sales, marginally down from 20.4% the previous year. However, the category reported a growth in organic net sales of 6.5% in 2017.

The category name changed from Jams to Natural Spreads.

Healthy Snacks

The Healthy Snacks category continued to grow in the last year. It made up 8.7% of the total Hero Group net sales, up from 8.1% the previous year. Organically, the category grew by 5.3% in 2017.

Our wide range of cereal products – including cereal bars, nut bars, fruit bars, sandwich bars with creamy fillings and pouches – provide consumers with great flavors and energy throughout the day. The first Hero cereal bar was produced in 1984. Since then we have become the market leader in continental Europe.

We are constantly looking for ways to improve our bars, develop new ranges and offer our consumers innovative and delicious products. Last year saw the launch of a number of innovations, including a protein sports bar and an oat power bar, fruit bars, soft oat bars and fruit & oat smoothies in pouches.

Global brand equity building via consumer communication and shopper activation, portfolio structure optimization, innovation power and market entries in new emerging markets will be the strategic success factors for accelerating the profitable growth for the Healthy Snacks category.

Specialties

The Hero Group product portfolio includes specialized products for niche markets. This section includes products that are sold seasonally and are created around festivities or themes, such as Easter and Halloween, plus a decoration business and local offerings.

Gluten free products are included in this grouping. Our gluten-free brands Juvela (UK/Ireland) and Semper (Nordics, Netherlands) offer great tasting gluten-free alternatives for people who are diagnosed with coeliac disease, gluten-intolerant and gluten-sensitive consumers. Enjoying tasty foods is one of life's pleasures. We aim to bring this statement to life for our consumers via our offerings of gluten free products and online services to consumers. Our products include a large variety of breads, breakfast cereals, pastas, cookies, biscuits, snacks, and flour mixes for all types of cooking and baking. We believe that everyone should have

the right to choose from many different flavors and tastes, for all occasions. Gluten-free has been an important product group within the Hero Group for many years. As a result, Gluten Free will be reported as a separate category starting January 2018.

The Specialties category made up 30% of the Group total sales with organic net sales down 3.6% mainly driven by regulatory changes.


Hero

REGIONAL FOOTPRINT

Europe remains the largest sales area for the Hero Group, accounting for two-thirds of the total for 2017, amounting to 65% of total sales, up from 64.2% in 2016. Hero was able to grow most of its European markets. The US, which reported an increase in total Group sales in 2017 versus the previous year of 0.2% to 23.2%, is the second largest sales area. Emerging Markets, which include Egypt, Russia, Turkey, Brazil, and China, made up the remainder of sales, coming in at 12%. This region reported net sales growth of just under 20%.

In terms of production, the Hero Group has its own facilities in Egypt (Cairo), Germany (Bad Schwartau), Spain (Alcantarilla), Sweden (Gotene and Korsnäs), Switzerland (Lenzburg), Turkey (Ankara), Brazil (Itatiba), and the US (Amsterdam, NY, and Ocala, Florida). Furthermore, the Group selectively uses external production and co-packers to produce its products.

CORPORATE GOVERNANCE

Introduction

The Hero Group is committed to modern corporate governance principles. Professional processes and responsi ent are upheld and followed by the Group's management teams.

Hero's corporate governance regulations are oriented towards the guidelines outlined in the Swiss Code of Best Practices in addition to the provisions set out by Swiss law.

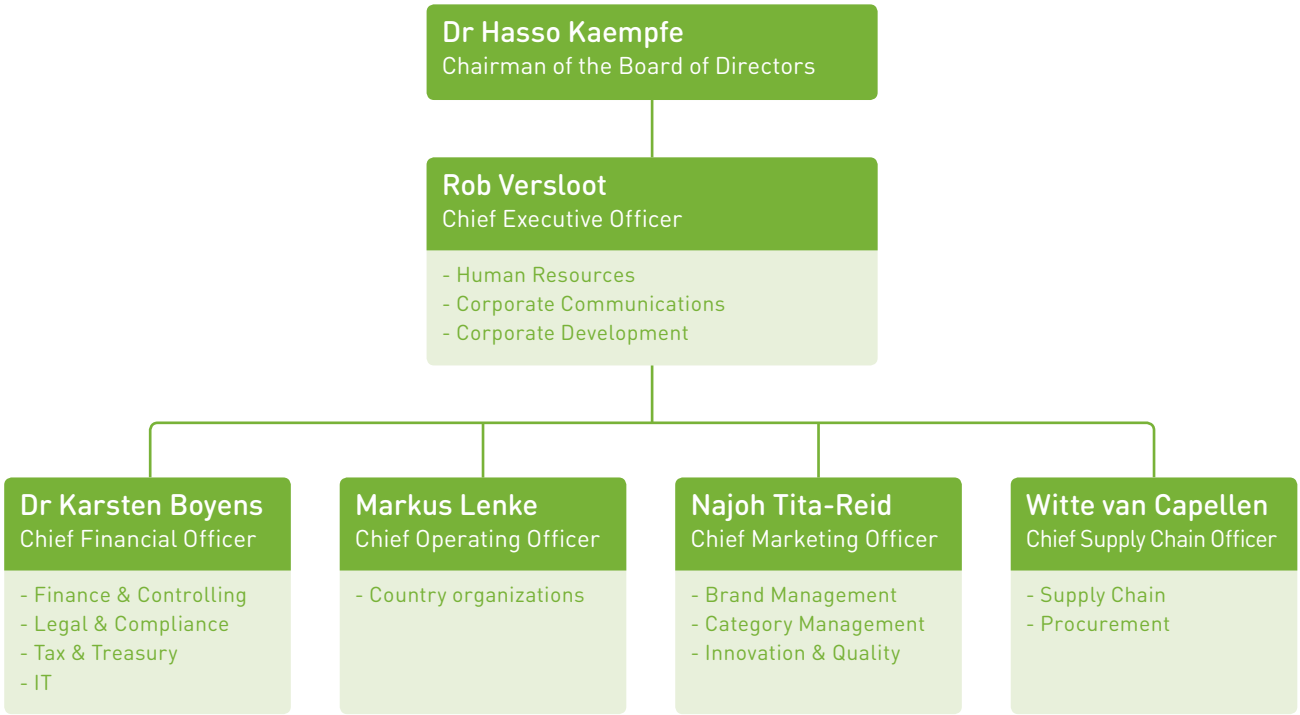
Group structure

The chart below shows the organisation of Hero Group as of December 31, 2017.

Shareholders and capital structure

Shareholders

Schwartau International GmbH, Bad Schwartau, Germany, a subsidiary of AOH Nahrungsmittel GmbH & Co. KG, Germany, holds 99.0% of the share



capital of Hero AG*. The remaining 1.0% of the share capital is held by Executive Board members in relation with the long-term incentive plan.

Share capital

The share capital of Hero AG consists of 6,213,272 fully paid registered shares with a par value of CHF 10.00 each.

Contingent capital

As of December 31, 2017, the share capital may be increased through the issuance of maximum 938,328 fully paid registered shares with a par value of CHF 10.00 each. The contingent share capital is available for the exercise of any rights in connection with convertible and other bonds as well as in connection with option rights of the Executive Board members related to the long-term incentive plan.

As of December 31, 2017, there are no convertible or other bonds with the right to acquire shares of Hero AG.

Hybrid capital

On October 28, 2016, the Hero Group issued CHF 200 million Perpetual Callable Subordinated Bonds at the Swiss Capital Market. The listed bonds do not have a maturity date and Hero AG has no obligation to redeem the underlying nominal amount at any future date.

The bonds bear a coupon of 2.125% for which there is no obligation to pay for Hero AG unless Hero AG distributes a dividend to their shareholders or re-purchases share capital.
In case Hero AG does not redeem the bonds by October 27, 2023, the coupon will increase by an additional mark up of 200 basis points.

The bonds are subordinated obligations to all of Hero's present and future unsubordinated debts.

* Hero AG is the legal entity for the Hero Group.
Both names are used interchangeably in this section

Board of Directors

Dr Hasso Kaempfe Chairman

Herbert J. Scheidt Vice-Chairman

Giovanni Ciserani

Dr Hagen Duenbostel

Leopold Oetker

Honorary Chairman

Dr Arend Oetker

The Hero Group Board of Directors and Executive Board are separate decision-making bodies with distinct functions and responsibilities.
No official on the Board of Directors is a member of the management team.

The Hero Board of Directors consists of five members who are elected during the Annual General Meeting for a period of two years.
The current Board of Directors consists of Dr Hasso Kaempfe (Chairman), Herbert J. Scheidt (Vice-Chairman), Giovanni Ciserani, Dr Hagen Duenbostel, and Leopold Oetker. Dr Arend Oetker holds the post of Honorary Chairman.

Members of the Board of Directors must step down from the Hero Group Board of Directors on their 70th birthday. Otherwise, there is no restriction in terms of election.

The Board of Directors convenes its own meetings at least four times a year. A minimum of one board meeting is held in a country / office outside Switzerland. The Board of Directors has delegated individual tasks to two sub-committees, the Finance & Audit Committee and the Human Resources Committee, which analyse specific issues in more depth on behalf of the Board.

Board of Directors Name	Function	Nationality	Committee membership*	Initial election	Term expires
Dr Hasso Kaempfe	Chairman	German	FAC, HRC	2012	2018
Herbert J. Scheidt	Vice-Chairman	Swiss/German	FAC, HRC	2010	2018
Giovanni Ciserani	Member	Italian		2017	2018
Dr Hagen Duenbostel	Member	German	FAC, HRC	2012	2018
Leopold Oetker	Member	German		2016	2018

*FAC: Finance & Audit Committee, HRC: Human Resources Committee

The Board of Directors elects the members of these two sub-committees from the directors sitting on the board. At each Board of Directors meeting, the chairmen of the sub-committees inform the members about the issues dealt with by the sub-committees and any corresponding resolutions.

The Board of Directors has delegated all operative management functions to the Executive Board with the exception of those tasks assigned to other bodies as prescribed by law, the articles of incorporation, or other corporate regulations.

The Hero Board of Directors is informed at every meeting about current business developments, the financial situation and key business events by members of the Executive Board.
Depending on the agenda of the business visit, delegations of the Board of Directors accompany the Executive Board during business reviews of subsidiary companies.

Dr Arend Oetker

Owner & Honorary Chairman

After studying Business Administration and Political Sciences at the universities of Hamburg, Berlin and Cologne from 1962 – 1966, and Marketing at the Harvard Business School in 1966, Dr Oetker earned his doctorate in Business Administration from the University of Cologne in 1967.

Dr Oetker is owner as well as Honorary Chairman of the Board of Directors of the Hero Group as well as shareholder and vice-chairman of KWS SAAT SE (plant breeding) and chairman of Cognos AG (education).

He is Chairman of the German Council for Foreign Relations e.V. (DGAP), Honorary Member of the Presidential Board of the Federation of German Industries e.V. (BDI) and Member of the Presidential Board of the Confederation of German Employers' Associations (BDA).

Dr Hasso Kaempfe

Chairman

Dr Hasso Kaempfe has been a member of the Hero Group Board of Directors since the beginning of 2012 and took on the role of Chairman of the Board of Directors, succeeding Dr Arend Oetker, in January 2013. Dr Kaempfe also holds the post of Chairman of the Human Resources Committee.

A lawyer by profession, he was the long-standing Executive Chairman of Mast-Jägermeister AG in Wolfenbüttel and before that a Board Member at Tchibo GmbH. His current mandates include the Vice Chairmanship of the Supervisory Boards of Falke KGaA, Schmallenberg, Schwartauer Werke GmbH, WIV Wein International AG, Burg Layen, and Member of the Advisory Boards of Heinrich Schulze GmbH, Braunschweig, MCF Corporate Finance GmbH, Hamburg, and the Institute of Brand Logic, Innsbruck (Consulting).

He is also Vice Chairman of the Board of the German Brands Association (Markenverband), Berlin, and the industrial advisor of EQT Partners AB, Stockholm.

Herbert J. Scheidt

Vice-Chairman

Herbert J. Scheidt is Vice-Chairman of the Hero Group Board of Directors, holds the chairmanship of the Group's Finance and Audit Committee, and is a member of the Human Resources Committee.

He has been Chairman of the Vontobel Board of Directors since 2011, before which he served as the bank's CEO. Prior to that, he worked for Deutsche Bank AG in various roles for two decades from 1982 culminating with his appointment as CEO of Deutsche Bank (Schweiz) AG in 2001.

Scheidt holds an MA in Economics from the University of Sussex (UK) and an MBA from the University of New York. In addition to the Hero Group, Scheidt is also Chairman of the Board of Directors of the Swiss Bankers' Association (Basel), Member of the Board of Directors of the SIX Group (Zürich), Member of the Board of Directors of Economiesuisse (Zürich), and Member of the Board of European Banking Federation (Brussels).

Giovanni Ciserani

Verona-born Giovanni Ciserani has worked his way up the ranks at P&G to become one of the company's top executives. Educated at the prestigious Bocconi University in Milan, Italy, Ciserani has spent his entire career at P&G, where he has worked for more than 30 years. He currently holds the position of Sector Group President Global Fabric and Home Care, Global Baby and Feminine Care, P&G, and is based in Switzerland.

He joined the Hero Group Board of Directors in 2017.

Dr Hagen Duenbostel

Dr Hagen Duenbostel is a member of both the Hero Finance and Audit Committee and the Human Resources Committee.

He is currently CEO and Executive Board Member of KWS SAAT SE, a provider of agricultural seed, based in Einbeck, Germany. He has been with the company since 1998 in various capacities, CFO of KWS, and latterly responsible for the Corn Division and Corporate Marketing. He began his professional career in auditing at PricewaterhouseCoopers AG in 1995.

Dr Duenbostel holds an MBA from the universities of Regensburg and Passau in Germany and obtained his doctorate from the University of Göttingen, Germany.

In addition to his board position with Hero, Dr Duenbostel was on the Supervisory Board of Sievert AG, the Food and Agribusiness Council, Osnabrück and the Eastern European Economic Relations Committee, Berlin as Chairman of the Food and Agribusiness

Leopold Oetker

Leopold Oetker successfully completed his studies in Culture Studies and History in Berlin and Copenhagen. Mr Oetker undertook a two-year international business development traineeship at the Hero Group's former partner Yildiz Holding, and worked at the Istanbul Foundation for Culture and Arts. Oetker is also involved in charitable work, helping underprivileged children in his hometown Berlin.

He joined the Hero Board of Directors in 2016.

Executive Board

Rob Versloot CEO

Dr Karsten Boyens CFO

Markus Lenke COO

Najoh Tita-Reid CMO

Witte van Cappellen CSCO

The Executive Board is ultimately responsible for the operational management of the business. The Executive Board's responsibilities encompass the execution and achievement of the Group's strategies, the direction of Group companies, as well as extracting maximum synergies from the Group's structures.

The leaders of the business divisions and the heads of the subsidiary companies are responsible for the development and achievement of their commercial and financial targets, and for the leadership of their areas. The Executive Board answers to the Board of Directors for the results of the Group.

Rob Versloot

CEO

Rob Versloot joined the company in September 2008 as Regional Vice President. In July 2011, he became Executive Vice President and Member of the Executive Board. The Board of Directors appointed him to Group CEO in September 2012. Before joining Hero, Versloot worked for Royal Numico / Danone. He held various commercial and marketing leadership roles for the company in The Netherlands, Brazil, Indonesia and Russia. Versloot holds a Master's in Business Administration & Management from the University of Groningen in The Netherlands.

Dr Karsten Boyens

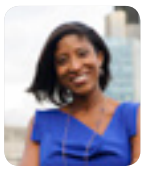
CFO

Dr Karsten Boyens joined the Hero Group as Chief Financial Officer (CFO) in April 2016.
He brings with him a wealth of experience in the financial field and consulting, previously working for the Beiersdorf Group and McKinsey & Company. His responsibilities are Finance & Controlling, Tax & Treasury, Legal & Compliance as well as IT. Dr Boyens holds a Master's degree in Business Administration from the WHU – Otto Beisheim School of Management in Koblenz and a PhD from the Christian Albrechts University of Kiel (Germany).

Markus Lenke

COO

Markus Lenke joined our German subsidiary Schwartauer Werke in December 1993. He held different Commercial and GM positions within the company and was appointed to Regional Vice president in July 2010 and has been a member of the Executive Board since 2011.
During his long career with the Hero Group, Lenke held various positions in sales and marketing functions, among others. He was also General Manager for both Schwartauer Werke and Semper in the Nordics.
Lenke holds a Master's in Business Administration from the University of Hamburg, Germany.



Najoh Tita-Reid
CMO

Najoh Tita-Reid joined the Hero Group in August 2017 after a long and successful career with P&G and Bayer. She brings with her hands-on knowledge of the key Hero geographies and a strong track record in country, regional, and global marketing roles. Her responsibilities include the Hero Group core categories (Baby & Toddler Milk, Baby & Toddler Food, Natural Spreads, and Healthy Snacks), branding, innovation, and marketing communication. Tita-Reid holds a Master's in Business Administration from the Duke University, Fuqua School of Business, US.

Witte van Cappellen
CSCO

Witte van Cappellen joined the Hero Group in 2000 as Director Operations before taking over as General Manager Hero Netherlands and subsequently Hero Benelux. In 2009, he took over as head of Semper AB and six years later was appointed as Cluster General Manager Northern Europe, which includes the Hero business for the Nordics and Organix in the UK. Witte took over the role of CMO before moving to his current position, where he is responsible for the Hero Group Supply Chain and Procurement functions. His previous career path saw him take on a number of senior roles in supply chain and operations functions for Royal Numico in the Benelux region, Poland and the UK.

Van Cappellen obtained his Master's in Business Administration from the NIMBAS Graduate School of Management in Utrecht, The Netherlands.

Executive Board Name	Nationality	Current function
Rob Versloot	Dutch	Chief Executive Officer
Dr Karsten Boyens	German	Chief Financial Officer
Markus Lenke	German	Chief Operating Officer
Najoh Tita-Reid	American	Chief Marketing Officer
Witte van Cappellen	Dutch	Chief Supply Chain Officer

Board and management compensation

The Board of Directors determines the principles of the remuneration system and annual compensation for the Executive Board at the recommendation of the Human Resources Committee. This process is carried out annually. The Human Resources Committee deliberates and reviews the annual compensation in light of market practices of companies of similar size and industry.

The remuneration paid to the Board of Directors comprises a fixed compensation paid in cash.

Remuneration of the members of the Executive Board comprises a fixed and a variable component paid in cash.

The variable component of the Executive Board's remuneration is based on a three-year average of Net Income plus individual performance targets.

Executive Board members may participate in a long-term incentive plan where they are offered to invest up to 50% of their short-term incentive plan payment in shares of Hero AG. For newly-employed Executive Board members, there is a two-year waiting period. *Refer to Accounting policies (page 74) of the consolidated financial statements for an explanation of the provisions of the long-term incentive plan.*

Auditors

The consolidated financial statements and the stand-alone financial statement of Hero AG are audited by Ernst & Young. According to the Articles of Associations, the external auditor is elected for a period of one year at the Ordinary General Meeting of the Shareholders. Ernst & Young was elected as auditor of Hero AG for the first time in 2006. The auditor in charge is André Schaub, who has held this function since the 2014 financial year. According to the provisions of the Swiss Code of Obligations, he may execute this mandate for a maximum of seven years.

The Finance & Audit Committee reviews the scope of the audit, the audit plans and discusses the audit results and reports with the auditor in charge annually. In general, the auditors participate in four Finance & Audit Committee meetings per year to report, both verbally and in writing, on audit planning, execution, and recommendations.

Information policy

The Hero Group pursues an open and continuing communication with its shareholders, employees, clients, the financial investors, and the general public.

Hero's reporting activities include the publication of the annual reports, as well as the organisation of the annual investors conference. At this conference, the Hero Group informs interested parties about the results of the year, gives a strategy update, and an outlook for the new year.

Media releases about events relevant to the financial investors are published in accordance with guidelines relating to the ad-hoc publicity of the SIX Swiss Exchange. Further, Hero provides information about important Group events via its corporate website.


Hero

FINANCE REVIEW

Summary

In 2017, Hero's strategic focus on its lead categories paid off with accelerated organic Net Sales growth and an increase in gross profit margin. Net Sales reached CHF 1,281 million in 2017, an increase of 0.9% over 2016. Adjusted for currency effects, organic Net Sales growth was 3.5%. (PY 0.1%). Hero's lead categories consisting of Natural Spreads (formerly Jams), Healthy Snacks and Baby & Toddler Food achieved an outstanding organic Net Sales growth of 7.0% (PY 3.8%).

The operating profit remains on a solid level at CHF 105.3 million.

Net Income in 2017 was heavily affected by the US tax reform. The changes in the US tax legislation resulted in a negative accounting effect of CHF 50.1 million, driven by an extraordinary write-down of US deferred tax assets in 2017 which had no cash impact. With the strong operational performance registered in 2017, Hero could absorb this effect and still show a positive Net Income of CHF 20.9 million. The Hero Group generated a strong cash flow from operating activities of CHF 135.1 million (PY CHF 118.3 million), which enabled the Group to further reduce its net debt by CHF 76.1 million to a very healthy level of CHF 252.9 million as of December 31, 2017.

Net Sales – Regions

Europe remains Hero's most important sales area with a share of 65.0% (PY 64.3%) of total Net Sales in 2017. Organic Net Sales growth reached 1.0% in 2017 (PY 0.4%). Hero was able to grow in most of its European markets in 2017, such as the Nordics, Germany, Switzerland, Czech Republic, Italy, and Portugal. In the UK, our Organix brand showed positive growth while our gluten free prescription business declined following the introduction of regulatory changes. We also faced challenges in Spain in a difficult market environment.

Hero's business in **North America** represents 23.2% (PY 23.0%) of total Net Sales in 2017. Overall, Net Sales in the US grew 1.8% in local currency. While our core business in Baby & Toddler Food under the Beech-Nut brand contributed with a strong growth performance, our specialties business, such as dessert decoration, saw a decline.

Hero's **Emerging Markets** registered a significant organic Net Sales growth of 19.2% (PY 4.0%) in 2017. Our main markets in this region are Egypt, Russia, Turkey, Brazil, and China. They all contributed to the strong growth in 2017.
The negative nominal growth in Swiss Francs (-6.6%) comes from a significant devaluation of the Egyptian Pound at the end of 2016.

Net Sales – Categories

Baby & Toddler Food (BTF), Hero's biggest category, representing 30.9% of Hero Group's sales in 2017 (PY 29.5%), had a very strong year showing an organic growth level of 7.7% in 2017 (PY 0.2%). This development is broadly based on positive contributions from many markets.

In the US, sales of our brand Beech-Nut are developing very well, driven by its Naturals and Organic baby food range. Semper and Organix continue to show high growth rates in the Nordic countries as well as the UK.

Net Sales in the **Baby & Toddler Milk (BTM)** category increased 6.2% organically in 2017 after a decline of 6.7% the year before. The growth in 2017 is mainly supported by a recovery of Net Sales in China. BTM represents 10.3% of Hero's sales in 2017 (PY 10.1%).

in CHF million	Net sales 2017	Net sales 2016	△ 2017 vs 2016 in %	Acquisition effect	Currency effect	Organic Growth
Europe	832.4	815.3	2.1%	-	1.1%	1.0%
North America	297.6	292.3	1.8%	-	0.0%	1.8%
Emerging Markets	151.0	161.6	-6.6%	-	-25.8%	19.2%
HERO GROUP	**1 281.0**	**1 269.2**	**0.9%**	**-**	**-2.6%**	**3.5%**

The **Natural Spreads** category (formerly Jams) represents 20.0% of net sales (PY 20.4%). Hero sells jams in most of its European markets and Emerging Markets. Hero achieved a very positive organic Net Sales growth of 6.5% in 2017 after a marginal increase of 0.2% in 2016. Despite the saturated jams markets, organic Net Sales grew 1.1% in Europe. In Emerging Markets, Net Sales increased with a double digit growth level driven by Brazil and Egypt.

Organic Net Sales of the **Healthy Snacks** category increased by 5.3% in 2017 (PY 15.2%). Germany, Hero's biggest healthy snacks market, showed continued growth, though at a slightly lower pace compared to prior years. At the same time, we experienced very strong growth momentum in this category in other markets, for example in the Netherlands and Czech Republic. In 2017, Healthy Snacks contributed 8.7% to Hero's Net Sales (PY 8.1%).

Hero's organic Net Sales in the **Specialties** category was down 3.6% in 2017 (PY -1.1%). As in prior year, changes in the Gluten Free prescription market in the UK as well as challenging market conditions in the US decorating market affected the category negatively. As of 2018, Gluten Free will be reported as a separate category.

in CHF million	Net sales 2017	Net sales 2016	△ 2017 vs 2016 in %	Acquisition effect	Currency effect	Organic Growth
Natural Spreads	256.5	259.0	-1.0%	-	-7.5%	6.5%
Healthy Snacks	111.4	102.8	8.4%	-	3.1%	5.3%
Baby & Toddler Food	395.5	374.2	5.7%	-	-2.0%	7.7%
Lead categories	**763.4**	**736.0**	**3.7%**	-	**-3.3%**	**7.0%**
Baby & Toddler Milk	131.7	128.7	2.3%	-	-3.9%	6.2%
Specialties	385.9	404.4	-4.6%	-	-1.0%	-3.6%
Non-lead categories	**517.6**	**533.1**	**-2.9%**	-	**-1.7%**	**-1.2%**
HERO GROUP	**1 281.0**	**1 269.2**	**0.9%**	**-**	**-2.6%**	**3.5%**

Operating Result

The Hero Group **Operating Profit** reached CHF 105.3 million (PY CHF 113.8 million) in 2017. It is below prior year's figure because of negative currency translation and one-off effects. One-off effects have been positive in 2016 driven by insurance proceeds in the US (see page 86). In 2017 we faced negative one-off effects, including costs related to restructuring. Adjusted for currency and one-off effects, Hero increased its operational profitability in 2017 driven by sales growth and gross margin improvement.

In 2017, Hero reached a **Gross Profit Margin** of 33.1% compared with 32.6% in the previous year. The increase in Gross Profit Margin is a result of Hero's continuous efforts in executing its sustainable profitable growth plan. The improvement is driven by a combination of supply chain and procurement initiatives, product portfolio optimization, as well as commercial efforts.

In line with the sustainable profitable growth model, Hero increased investments in **Advertising & Promotion**, which reached a level of 8.8% of Net Sales (CHF 112.2 million) in 2017 compared to 8.2% (CHF 103.5 million) in the prior year. The additional investments were focused on our core categories and supported its strong growth in 2017.

The cost ratio of **operating expenses** in Marketing, Sales, R&D and Administration were reduced to 15.8% of Net Sales (CHF 202.3 million) compared to 16.0% (CHF 203.4 million) in the prior year.

In 2017, **other operating expenses** include one-off costs in relation to restructuring in some of Hero's markets (see page 86, note 1). In 2016, **other operating income** included proceeds from an insurance claim in the US.

Financial Result and Taxes

The **net finance expense** decreased significantly from CHF 21.4 million in 2016 to CHF 7.5 million in the year under review, driven by a positive foreign exchange result. This improvement was brought about by more efficient debt financing in foreign currencies and positive foreign exchange

effects from the US Dollar (USD) and the Russian Ruble (RUB). The increase in net interest expense from CHF 4.3 million in 2016 to CHF 6.1 million in 2017 is mainly the result of replacing CHF 135.0 million in hybrid capital with the issuance of a straight bond in the 2016 financing round.

In 2017, **income tax expense** was heavily impacted by the effect of the US tax reform, causing an extraordinary tax expense of CHF 50.1 million. One main effect is related to the federal tax rate decline in the US from 35% to 21%. Our deferred tax asset position in the US had to be adjusted for this tax rate decline. This is an accounting effect that did not have any cash impact. This increased the overall income tax expense for 2017 to CHF 76.9 million compared to CHF 19.0 million the year before.

Net Income

Net Income for the year amounts to CHF 20.9 million. The decline versus prior year (CHF 73.4 million) was predominantly the impact of the US tax reform.

Cash Flow

The **Cash Flow** from operating activities further improved from CHF 118.3 million in 2016 to CHF 135.1 million in 2017. The strong operating Cash Flow is driven by steady cash contribution from our business as well as an effect of enhanced Net Working Capital management in 2017. With CHF 41.6 million, investing activities into property, plant and equipment remained at similar levels as in prior year (CHF 41.0 million). Major investments were made to further increase the capacity for the production of baby and toddler food pouches in Spain, to improve the efficiency of our jam production in Germany, and investments in new packaging lines for cereals in the US.

Net Debt and Equity

Hero significantly reduced its **Net Debt** level in 2017 to CHF 252.9 million as of December 31, 2017 (PY CHF 329.0 million). Next to the strong operating Cash Flows, Hero benefited from the hybrid bond refinancing in October 2016 that enabled Hero to decrease annual coupon payments by over CHF 16 million. Consequently, the Net Debt / EBITDA ratio was reduced to

1.7 (PY 2.1), which is a very solid level. The current financing structure serves as a good basis to support the Group's long-term strategy.
Hero's equity ratio increased to 47.5% (CHF 696.6 million) compared to 44.9% (CHF 682.6 million) in the prior year.

Risks

Hero follows an Enterprise Risk Management approach in which the Group systematically captures strategic, operational, financial, and compliance risks from all entities.

Regulatory changes in the gluten free prescription market in the UK and potential regulatory changes in the baby and toddler milk business in China continue to be a risk for the Group.

In Emerging Markets, currency fluctuations and economic instability remain major risks. After the sharp devaluation of the Egyptian Pound in November 2016, the currency was more stable during the course of 2017. However, we remain cautious with respect to our currency exposure in these markets. Hero's US businesses continue to face commercial risks in a challenging market and competitive environment.

Further risks for the Group also include product safety, supply chain, raw material prices, and cybersecurity.

The results of the risk assessment are reported to the Board of Directors and appropriate measures are taken to mitigate or transfer these risks. Further, Hero's external auditors regularly report their findings to the Finance and Audit Committee.

Outlook

The economic outlook for the markets in which Hero operates is generally positive. At the same time, growth prospects in developed markets remain moderate. For 2018, Hero is optimistic that it can continue on its path of sustainable profitable growth. In line with our strategy, we expect to be able to deliver positive organic profitable growth in our lead categories.

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERO GROUP

Content

CONSOLIDATED INCOME STATEMENT

for the year ended December 31
Hero Group
in CHF 1000.–

	Note	2017	2016
Net Sales		**1 280 977**	**1 269 169**
Cost of sales		(785 425)	(785 335)
Distribution expense		(71 453)	(70 035)
Gross profit		**424 099**	**413 799**
Advertising and promotion		(112 200)	(103 536)
Marketing and sales		(97 029)	(101 291)
Research and development		(12 804)	(11 921)
Administrative expense		(92 476)	(90 168)
Other income	1	2 039	8 069
Other expense	1	(6 283)	(1 113)
Operating profit		**105 346**	**113 839**
Finance income	2	8 112	4 017
Finance expense	2	(15 592)	(25 454)
Income before tax		**97 866**	**92 402**
Income tax expense	5	(76 942)	(19 016)
INCOME FOR THE YEAR		**20 924**	**73 386**
Attributable to:			
Equity holders of the parent		19 969	72 939
Non-controlling interests		955	447
INCOME FOR THE YEAR		**20 924**	**73 386**

The notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31
Hero Group
in CHF 1000.–

	2017	2016
INCOME FOR THE YEAR	**20 924**	**73 386**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	23 892	(47 610)
Income tax effects	253	(133)
	24 145	(47 743)
Net gain/ (loss) on cash flow hedge	511	(326)
Income tax effects	(77)	79
	434	(247)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**24 579**	**(47 990)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land	(1 161)	-
Income tax effects	291	-
	(870)	**-**
Remeasurement gains / (losses) on defined benefit plans	12 105	(10 859)
Income tax effects	(3 078)	2 820
	9 027	(8 039)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**8 157**	**(8 039)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**32 736**	**(56 029)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**53 660**	**17 357**
Total comprehensive income attributable to:		
Equity holders of the parent	53 414	15 849
Non-controlling interests	246	1 508
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**53 660**	**17 357**

The notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

for the year ended December 31
Hero Group
in CHF 1000.–

Assets	Note	2017	2016
Non-current assets			
Property, plant and equipment	7	389 420	381 727
Intangible assets	8	574 563	556 880
Investments in associated companies		150	145
Non-current receivables	10	7 476	7 231
Deferred tax assets	11	30 832	98 299
TOTAL NON-CURRENT ASSETS		**1 002 441**	**1 044 282**
Current assets			
Inventories	12	169 761	173 930
Financial assets at fair value	21	2 612	931
Income tax receivables		8 824	9 787
Trade receivables, prepayments and other receivables	13	177 713	190 937
Cash and cash equivalents	14	105 489	99 039
TOTAL CURRENT ASSETS		**464 399**	**474 624**
TOTAL ASSETS		**1 466 840**	**1 518 906**

The notes form an integral part of these consolidated financial statements.

in CHF 1000.–

Equity and liabilities	Note	2017	2016
Shareholders' equity			
Share capital	15	62 133	62 047
Share premium		63 632	62 993
Hybrid capital	15	198 779	198 779
Treasury shares		(4 249)	(3 524)
Other reserves	15	(191 999)	(225 444)
Retained earnings		557 725	577 385
Equity attributable to the equity holders of the parent		**686 021**	**672 236**
Non-controlling interests		**10 569**	**10 323**
TOTAL EQUITY		**696 590**	**682 559**
Non-current liabilities			
Borrowings	16, 21	27 222	28 096
Debentures	16, 21	264 731	264 626
Deferred tax liabilities	11	35 157	36 818
Net employee defined benefit liabilities	17	74 384	83 456
Provisions	18	20 795	15 833
Other liabilities	19	3 024	7 842
Total non-current liabilities		**425 313**	**436 671**
Current liabilities			
Trade and other payables	20	271 876	249 668
Income tax payables		3 733	4 520
Derivative financial liabilities	21	321	6 706
Borrowings	16, 21	66 433	135 352
Provisions	18	2 574	3 430
Total current liabilities		**344 937**	**399 676**
TOTAL LIABILITIES		**770 250**	**836 347**
TOTAL EQUITY AND LIABILITIES		**1 466 840**	**1 518 906**

The notes form an integral part of these consolidated financial statements.

CHANGES IN EQUITY

for the year ended December 31
Hero Group
in CHF 1000.-

	Attributable to equity holders of the company						Non-controlling interests	Total equity
	Share capital (note 15)	Share premium (note 15)	Hybrid capital (note 15)	Treasury shares (note 15)	Other reserves (note 15)	Retained earnings		
BALANCE AT JANUARY 1, 2016	**61 872**	**61 192**	**334 542**	**(2 257)**	**(168 354)**	**547 129**	**8 815**	**842 939**
Income for the year	–	–	–	–	–	72 939	447	73 386
Other comprehensive income	–	–	–	–	(57 090)	–	1 061	(56 029)
Total comprehensive income	**–**	**–**	**–**	**–**	**(57 090)**	**72 939**	**1 508**	**17 357**
Capital increase and exercise of options *	175	1 092	–	(1 267)	–	–	–	–
Repayment of hybrid capital third parties	–	–	(334 542)	–	–	(6 522)	–	(341 064)
Issuance hybrid capital	–	–	198 779	–	–	–	–	198 779
Distribution on hybrid capital third parties	–	–	–	–	–	(21 840)	–	(21 840)
Dividend payments to shareholders	–	–	–	–	–	(13 612)	–	(13 612)
Stamp duty **	–	709	–	–	–	(709)	–	–
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**62 047**	**62 993**	**198 779**	**(3 524)**	**(225 444)**	**577 385**	**10 323**	**682 559**
Income for the year	–	–	–	–	–	19 969	955	20 924
Other comprehensive income	–	–	–	–	33 445	–	(709)	32 736
Total comprehensive income	**–**	**–**	**–**	**–**	**33 445**	**19 969**	**246**	**53 660**
Capital increase and exercise of options *	86	639	–	(725)	–	–	–	–
Distribution on hybrid capital third parties	–	–	–	–	–	(4 258)	–	(4 258)
Dividend payments to shareholders	–	–	–	–	–	(35 371)	–	(35 371)
BALANCE AT DECEMBER 31,2017	**62 133**	**63 632**	**198 779**	**(4 249)**	**(191 999)**	**557 725**	**10 569**	**696 590**

* In connection with long-term incentive plan. These shares are accounted as treasury shares rather than a sale of shares to plan participants.
** Transaction cost in connection with capital increase

The notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31
Hero Group
in CHF 1000.–

	Note	2017	2016
Cash flows from operating activities			
Income for the year		20 924	73 386
Adjustments for:			
Tax expense	5	76 942	19 016
Depreciation	7	32 342	31 932
Amortization / Impairment	8	7 273	7 872
Net gain on sale of property, plant and equipment		–	(47)
Fair value result, net		(7 278)	6 357
Interest income	2	(801)	(1 298)
Interest expense	2	6 881	5 548
Net loss in foreign exchange		3 771	6 943
Cash flows before changes in net working capital		**140 054**	**149 709**
Inventories		8 961	(6 854)
Trade and other receivables		(731)	210
Trade and other payables		338	5 642
Accruals and provisions		9 957	(5 878)
Changes in net working capital		**18 525**	**(6 880)**
Interest paid		(6 645)	(5 796)
Income tax paid		(16 792)	(18 763)
NET CASH FROM OPERATING ACTIVITIES		**135 142**	**118 270**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired		–	(427)
Purchase of property, plant and equipment	7	(41 635)	(41 004)
Purchase of intangible assets	8	(5 124)	(4 263)
Payment interest rate swap and other		(83)	(8 281)
Loans made		(488)	(510)
Disposal of intangible assets		87	69
Proceeds from sale of property, plant and equipment		319	2 154
Interest received		802	1 295
NET CASH USED IN INVESTING ACTIVITIES		**(46 122)**	**(50 967)**

The notes form an integral part of these consolidated financial statements.

	Note	2017	2016
Cash flows from financing activities			
Repayment of hybrid capital third parties		–	(341 064)
Proceeds from hybrid capital		–	198 779
Distribution on hybrid capital third parties		(4 258)	(21 840)
Proceeds from / (payment) of loans to related parties		14 443	(14 171)
Proceeds from debentures		-	135 104
Changes in bank loans, net		(61 798)	(43 055)
Repayment of non-current financial liabilities		(1 039)	-
Capital increase		236	763
Payment of dividends to shareholders	6	(35 371)	(13 612)
NET CASH USED IN FINANCING ACTIVITIES		**(87 787)**	**(99 096)**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**1 233**	**(31 793)**
Movement in cash and cash equivalents			
At start of year		99 039	163 711
Increase / (decrease) in cash and cash equivalents		1 233	(31 793)
Effects of exchange rate changes on cash and cash equivalents		5 217	(32 879)
AT END OF YEAR	**14**	**105 489**	**99 039**

Non-cash transactions

In 2017 and 2016 no significant non-cash transactions took place.

The notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General

Hero AG (Hero) is a limited liability company headquartered in Lenzburg, Switzerland. Schwartau International GmbH, Bad Schwartau, Germany, a subsidiary of AOH Nahrungsmittel GmbH & Co. KG, Germany, holds 99.0% of the share capital of Hero and 1.0% are held by executive board members in relation with the long term incentive plan. The Group's primary activities are the production and selling of consumer food products in the product areas of jams, healthy snacks, baby and toddler food, baby and toddler milk and specialties which are sold in Europe, North America and Emerging Markets. At the end of 2017 the Group had 4'048 employees (2016: 3'900). All figures in the financial statements are presented in thousands of Swiss francs (TCHF) except where otherwise indicated.

These financial statements were approved by the Board of Directors on March 8, 2018, and are subject to approval by the annual general meeting of shareholders to be held on March 21, 2018.

Basis for Preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These principles have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements for the year ending December 31, 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historic cost convention, unless otherwise stated (i.e. revaluation of land, financial assets and liabilities held-for-trading). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's Accounting Principles.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Accounting Principles: Critical Accounting Estimates, Assumptions and Judgements.

Changes in accounting policies and disclosures

There were no changes in 2017.

Status of adoption of significant new or amended IFRS standards or interpretations

The following new IFRS standards will, based on a Hero analysis, be of relevance to the Group. There are no plans to adopt any standard or amendment prior to the mandatory effective date.

— IFRS 9 Financial Instruments (effective January 1, 2018) will change the classification and measurement of financial instruments; will require impairments to be based on a forward-looking model; will change the approach to hedging financial exposures and related documentation and also the recognition of certain fair value changes. However, the Group does not expect IFRS 9 to have a significant impact on its consolidated financial statements. The Group will implement the new standard on January 1, 2018 and recognize any impact in retained earnings January 1, 2018.

— IFRS 15 Revenue from contracts with customers (effective January 1, 2018) amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. However, the Group does not expect IFRS 15 to have a significant impact on its consolidated financial statements. The Group will implement the new standard on January 1, 2018 and will apply the modified retrospective method, which requires the recognition of the cumulative effect of initially applying IFRS 15, as at January 1, 2018, to retained earnings and not restate prior years.

— IFRS 16 Leases (effective January 1, 2019) substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The standard replaces IAS 17 Leases. The current operating lease commitments of CHF 13.7 million as of December 31, 2017 and disclosed in note 24 provide, subject to the provision of the standard, an indicator of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet.

There are no other IFRS standards or interpretations which are not yet effective which would be expected to have a material impact on the Group.

Consolidation

Consolidation Method

The consolidated financial statements include Hero AG, Switzerland and those companies over which Hero AG has control, which is generally the case with a shareholding of more than one half of the voting rights.

Companies controlled by the Group are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in profit or loss. If the contingent consideration is classified as equity, it is not subsequently remeasured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investments, where Hero has significant influence (generally accompanying a shareholding of between 20% and 50% of the voting rights) but neither control nor joint control, are accounted for using the equity method and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments meeting none of these criteria are treated as financial instruments (refer to section "Financial Instruments" for further details).

A list of investments, the investment percentage and the applicable consolidation method can be found in note 26.

Eliminations in the Course of Consolidation

All intra-group balances / transactions / unrealized gains / losses and dividends are eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the principles adopted by the Group.

Related Parties

Include AOH Nahrungsmittel Group companies (Germany), members of the Board of Directors and Executive Board and non-controlling interests shareholders.

Changes in the Scope of Consolidation

The scope of consolidation has not changed in the reporting period.

Foreign Currency Translation

The presentation currency for the Group is the Swiss Franc, which is also the functional currency of Hero AG, Switzerland. Financial statements denominated in foreign currencies have been translated into Swiss Francs as follows:

- Assets and liabilities, including goodwill, are translated at the closing rate at the date of the balance sheet
- Revenues and costs are translated using average exchange rates for the accounting period
- Exchange differences out of the translation of assets and liabilities and the related income statements are booked in other comprehensive income

Foreign Exchange Rate Table

The following table shows the most important foreign exchange rates used:

	2017	2016
AVERAGE EXCHANGE RATES		
EUR/CHF	1.1110	1.0900
USD/CHF	0.9847	0.9850
GBP/CHF	1.2679	1.3350
SEK/CHF	0.1152	0.1152
CLOSING EXCHANGE RATES		
EUR/CHF	1.1678	1.0732
USD/CHF	0.9764	1.0201
GBP/CHF	1.3157	1.2533
SEK/CHF	0.1186	0.1122

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation differences arising from Group company loans which have the characteristics of a long-term investment are recorded in other comprehensive income.

In the event of a sale of a foreign company all translation differences accumulated since the purchase of the said company are released and included in the calculation of disposal gain or loss and fully disclosed as such.

Open monetary balances denominated in foreign currencies and recorded in the accounts of Group companies at the balance sheet date are revalued using the prevailing exchange rate as at the balance sheet date. The differences resulting from these revaluations are recorded in the income statement for the period.

Accounting Policies

Revenue Recognition

Net sales to third parties are recorded net of trade discounts and sales-related taxes, and represent the fair value of consideration received or receivable from the sale of products and provision of services in the ordinary course of the Group's activities.

Revenue is recognized as follows:

Sales of goods

Sales of goods are recognized when significant risks and rewards of ownership of the goods are transferred to the buyer (i.e. a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured).

Interest income

Interest income is recognized on a pro rata temporis basis using the effective interest method.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, has been identified as the Group Executive Board.

Research and Development Costs

Research costs are recorded in the income statement in the period in which they are incurred. Development costs are recognized as intangible assets to the extent that they meet the recognition criteria of IAS 38. Following initial recognition of development expenditure as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Development costs are amortized on a straight-line-basis over the period of their expected benefit or tested for impairment annually. Other development costs are recorded in the income statement in the period in which they are incurred.

Deferred Taxes

Deferred income tax is calculated using the balance sheet liability method. Where the tax base of an asset or liability differs from its carrying amount, deferred tax liabilities or assets are recorded. Most of these temporary differences arise from differences in Group and local tax depreciation methods.

Unused tax credits and unused tax losses which may be carried forward to future accounting periods are capitalized as deferred tax assets in so far as it is probable that future taxable income will be generated in the same tax entity and same taxation authority and the said losses may be applied against such profits.

The carrying amount of deferred income taxes is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Locally enacted or substantively enacted tax rates are used in order to value the tax effect of temporary differences. When these tax rates change, deferred taxes are adjusted accordingly. Adjustments to deferred income taxes are directly booked to the income statement as part of the tax expense.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Deferred income tax relating to items recognized in other comprehensive income is recognized in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Current income tax relating to items recognized in other comprehensive income is recognized in other comprehensive income.

Government Grants and Other Subsidies

Government grants are recognized only when the Group complies with the applicable conditions and if there is reasonable assurance that the grants will be received. Government grants are deferred and recognized in the income statement over the period necessary to match them with the related costs which they are intended to compensate on a systematic basis, or the carrying amount of the asset to which the grant relates is reduced by the grant. The grant is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Inventories

Inventories are recorded at the lower of acquisition or production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary

course of business, less estimated cost of completion and the necessary cost to make the sale. Production costs include direct and indirect material and production costs. Inventory is valued using the weighted average method. A valuation allowance is recognized for any damaged or slow-moving goods.

Property, Plant and Equipment

Tangible fixed assets, other than land, are recorded at historical acquisition cost less accumulated depreciation, and/or accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expense is charged to the income statement during the financial period in which they are incurred. Depreciation is recorded on a straight-line basis over the course of the useful life of the asset. Land is not depreciated. The general useful lives for various asset categories can be summarized as follows:

- Buildings (25 to 50 years),
- Fixtures and fittings (20 years),
- Plant and machinery (8 to 15 years),
- Motor vehicles (4 to 10 years),
- Furniture (5 to 10 years),
- Information technology hardware (3 to 5 years).

Gains or losses arising from the disposal of property, plant and equipment assets are recorded in the income statement as part of operating profit.

Land is shown at fair value, based on periodic valuations by external independent valuers. Increases in the carrying amount arising on revaluation of land are credited to other comprehensive income in the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income in other reserves; all other decreases are charged to the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Leases

Leases where the Group has substantially retained all the risks and rewards of ownership are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Liabilities arising from operating leases (e.g. rental contracts) include costs for offices, motor vehicles, photocopiers. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Intangible Assets

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Brands with an indefinite useful life are carried at historical cost (generally fair value in a business combination) less accumulated impairment losses and are tested annually for impairment using a value in use calculation. Brands are classified as indefinite useful life brands if the brand has sufficient history and the Group has no intention of re-branding.

Brands and other intangible assets with a definite useful life are carried at historical cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the costs over their estimated useful lives:

- Brands (up to 20 years),
- Software (1 to 5 years),
- Customer relationships (up to 10 years),
- Distribution Network (up to 5 years),
- Other intangibles (3 to 5 years).

Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually or when there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

Provisions

Provisions arise from restructuring programs, legal claims, and potential liabilities from normal operations. A provision is recognized in cases where the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Severance and redundancy payments relating to restructuring are provided for when the Group has committed itself to such restructuring programs, when the location, function and number of employees to be laid off or re-deployed is known and when the affected employees have been informed. Provisions are not recognized for future operating losses. In case the effect of time value is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Pension Obligations

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

The pension plans in Switzerland have been set up according to the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit plans in the consolidated financial statements.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions as well as changes in the effect of the asset ceiling are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately as an expense in the income statement.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Long Term Incentive Plan

Effective January 1, 2014, the Group issued a long term incentive plan for the executive board members. There is a two year waiting period for newly employed executive board members before they may participate in the plan. Under the plan, the participants are offered the opportunity to invest up to 50% of their bonus payment in shares. After a restriction period of three years, participants may sell the shares back to Hero at a price based on a formula defined in the plan. In conjunction with the plan, participants may be granted loans to fund the share issue. As the shares are restricted and will ultimately revert to the company and the share price does not reflect the fair value of the Hero shares, the Group has accounted for the plan under an IAS 19 long-term benefits model. Under the IAS 19 model, management has estimated the future payment at the end of the restriction period and the expense is recognized over a 4-year vesting period in the income statement. At each reporting date the amount is re-assessed and the impact is recognized prospectively.

Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed in the notes to the financial statements.

Dividends

Dividend distribution to the Group's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders. Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where

such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Hybrid Capital

Hybrid capital comprises listed bonds issued to third parties. The listed bonds are undated securities in respect of which there is no maturity date and where there is no obligation on the part of Hero either to redeem at any future date the underlying nominal amounts or to pay any annual coupon insofar as no compulsory payment event occurs in any given accounting period. The key compulsory payment events listed in the terms and conditions of the bonds include the payment to Hero's shareholders of either a dividend or an amount in connection with a capital re-purchase. The bonds are subordinated obligations and are subordinate to all of Hero's present and future unsubordinated indebtedness. Coupon payments are recorded directly in equity.

Financial Instruments

General

The Group classifies financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial instruments are classified as current if they are expected to be realized within 12 months of the balance sheet date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the associated receivable. Loans and receivables comprise cash and cash equivalents, trade receivables and certain other receivables.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions. The ineffective portion relating to foreign currency contracts is recognised in profit or loss.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when a forecast sale occurs.

Fair Value Estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks, including the effects of: changes in debt, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and usually seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures. In selected cases the Group takes open positions in derivative or other financial instruments which are driven by other considerations than overall risk reduction.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and liquidity management.

Foreign Exchange Risk

The Group uses foreign currency-denominated cash and cash equivalents, borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 18 months.

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales mainly in SEK, EUR and GBP and forecast purchases mainly in EUR, GBP, USD. These forecast transactions are highly probable, and they comprise about 50-75% of the Group's total expected export sales and of its total expected purchases in foreign currencies.

While the Group also enters into other foreign exchange forward contracts with the intention of reducing the foreign exchange risk of financing transactions, these are not designated in hedge relationships and are measured at fair value through profit or loss.

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognised in the statement of profit or loss. Notional amounts are as provided in note 21.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The Group tries to reduce the currency exposure through borrowings in the corresponding currencies where possible and economically prudent.

The Group uses a risk computation similar to Value-at-Risk (VAR). It includes financial instruments (mainly currency forwards) as well as balance sheet positions and future operating cash flows (non-discounted) in foreign currency. The estimates are made assuming normal market conditions, using a 99% confidence interval. The correlations between currency pairs and the volatilities are observed over a 360 day period. The estimated potential intra-day loss in the VAR model amounts to TCHF 406.7 as per December 31, 2017 (2016: confidence interval 97.7%; TCHF 617).

Foreign Currency Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in the USD, GBP, SEK and EUR exchange rate, with all other variables held constant, of the Group's profit before tax.

	increase/ (decrease) in USD/EUR/ GBP/SEK rate	Effect on profit before tax in CHF 1000.–	Effect on equity in in CHF 1000.–
2017	5%	2'166	125
	(5%)	(2'166)	(125)
2016	5%	2 918	429
	(5%)	(2 918)	(429)

Interest Rate Risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's long-term borrowings are with fixed maturity and interest rates. The Group is only exposed to interest risk in case of re-financing of matured borrowings.

Credit Risk

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative and cash transactions are limited to highly creditworthy financial institutions. Other credit risk exposures are minimized by dealing only with a limited range of counterparties. The Group also makes loans to related parties. Where material

the Group seeks adequate pledges or guarantees. The maximum credit risk represents net carrying value of the loans and receivables included.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents [note 14]) on the basis of expected cash flows.

Liquidity Risk Table

The table summarizes the maturity profile of the Group's financial liabilities at December 31 based on contractual payments.

in CHF 1000.– at December 31, 2017	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	-	(180)	-	-	-	-	(180)
Forward contracts – cash outflow	-	201	-	-	-	-	201
Forward contracts – net	(2 290)	21	-	-	-	-	21
Borrowings	93 655	70 192	25 480	-	-	735	96 407
Debentures	264 731	3 002	3 002	133 002	1 363	136 363	276 732
Trade and other payables	259 394	259 394	-	-	-	-	259 394

in CHF 1000.– at December 31, 2016	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	-	(1 121)	-	-	-	-	(1 121)
Forward contracts – cash outflow	-	6 966	-	-	-	-	6 966
Forward contracts – net	5 775	5 844	-	-	-	-	5 844
Borrowings	163 448	141 249	480	25 480	-	-	167 209
Debentures	264 626	3 002	3 002	3 002	133 014	137 741	279 761
Other liabilities – non current	1 262	-	1 262	-	-	-	1 262
Trade and other payables	235 319	235 319	-	-	-	-	235 319

Critical Accounting Estimates, Assumptions and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Goodwill

The Group tests annually in December whether goodwill has suffered any impairment, in accordance with the valuation principles stated in Accounting Principle No. 5, Intangible Assets. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

These calculations use cash flow projections based on financial budgets approved by management and forecasts covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rates stated below. The growth rates generally correspond to the inflation rates plus general real gross domestic product (GDP) growth of the corresponding country. They are individually assessed and in case where management expects a significant deviation from general economic conditions they might be adjusted.

Management determined budgeted growth rates based on past performance and its expectations for the market development. Where general industry forecasts do not reflect the growth expecations of management for specific businesses, the growth rates used depart from forecasts included in such industry reports in order to better reflect the specific growth potentials expected by management.

These assumptions have been used for the analysis of each CGU.

The discount rates used are pre-tax and reflect specific risks relating to the relevant country.

The growth rate used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test. For all CGU's no reasonable possible change in any key assumptions would lead to an impairment.

In 2017, no goodwill was impaired.

Brands with indefinite life

The Group tests annually whether brands with indefinite life are impaired. These calculations require the use of estimates.

The discount rates used are pre-tax and reflect specific risks relating to the relevant country. The growth rates used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test.

In 2017, no impairment was identified.

Hero's major single goodwill and brand positions as well as managements key assumption are summarized below:

December 31, 2017 CGU	Goodwill	Indef. life Brand	Eternal growth	Wacc pre-tax	Growth rates p.a. years 2018-2023	Profit margin change between years 2018 and 2023	Impairment
	in CHF million		in %	in %	in %	in %	
Schwartauer Werke	172.4	21.3	2.5	7.2	2.3 - 2.5	(0.6)	no
Semper/Eastern Europe Infant Business	88.5	49.6	2.0	7.5	2.1 - 8.0	0.8	no
Signature Brands	71.3	32.8	2.3	10.3	(3.2) - 2.3	(1.7)	no
Benelux Infant	19.4	-	1.6	7.6	(7.7) - 1.6	2.1	no
Organix	25.9	22.0	2.0	8.1	2.0 - 3.0	1.0	no
Vitrac	2.7	-	7.1	23.7	7.1 - 17.7	(1.1)	no
Beech-Nut	-	17.4	2.3	10.3	2.2 - 10.4	–	no
Hero Brasil (former Kiviks)	5.4	4.4	4.0	18.1	4.0 - 20.2	2.1	no
Other	3.7	11.7	–	–	–	–	no
TOTAL	**389.3**	**159.2**					

December 31, 2016 CGU	Goodwill	Indef. life Brand	Eternal growth	Wacc pre-tax	Growth rates p.a. years 2017-2022	Profit margin change between years 2017 and 2022	Impairment
	in CHF million		in %	in %	in %	in %	
Schwartauer Werke	158.4	19.6	2.0	7.4	1.8 - 2.8	(0.4)	no
Semper/Eastern Europe Infant Business	83.8	47.2	2.1	7.5	1.7 - 8.1	(1.2)	no
Signature Brands	74.5	34.3	2.3	9.7	(0.1) - 5.9	(1.3)	no
Benelux Infant	19.4	-	1.3	8.0	(16.0) - 3.3	1.8	no
Organix	24.7	20.9	2.0	8.1	1.8 - 6.8	1.5	no
Vitrac	2.7	-	7.1	26.9	(3.3) - 9.7	(0.7)	no
Beech-Nut	-	18.2	2.4	9.7	1.8 - 15.5	–	no
Kiviks	5.7	4.7	4.5	15.3	4.5 - 24.6	(1.8)	no
Other	3.2	11.0	–	–	–	–	no
TOTAL	**372.4**	**155.9**					

Income taxes

As described in note 5, the Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognized tax loss carryforwards

The Group has recognized deferred tax assets in relation to the recoverability of tax loss carryforwards (note 11). The recoverability of such assets is based on the ability of the entity to which the losses relate to generate future taxable profits. These calculations require the use of estimates. Management re-evaluates the recoverability at each balance sheet date.

Valuation of financial instruments

As described in note 21, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 21 provides information about the key assumptions used in the determination of the fair value of financial instruments. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments and are constantly applied.

Provisions

The Group has provisions for various cases based on estimates (note 18). Such estimates are based on the Group's experience, taking also into account economic conditions. Management believes that the total provisions for these items is adequate, based upon currently available information. As these provisions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions recognized in the balance sheet in future periods and consequently the expenses recognized in the income statement in future periods.

Pension benefits

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations (note 17). An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

In connection with external financing the Group is required to maintain a minimum level of net equity. During 2017 and 2016 the Group complied with this requirement. See also comments in note 16 on "Covenants".

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new capital. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. No changes were made in the objectives, policies or processes during the years ended December 31, 2017, and December 31, 2016.

This gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings/ debentures" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2017, and December 31, 2016, were as follows:

in CHF 1000.-	2017	2016
Total borrowings / debentures	358 386	428 074
Less: cash and cash equivalents	(105 489)	(99 039)
Net debt	252 898	329 035
Equity attributable to the equity holders of the parent	686 021	672 236
Gearing ratio	37%	49%

The decrease in the gearing ratio is due to the reduction of net debt.

1. DETAILS ON OTHER INCOME / EXPENSE

in CHF 1000.–	Note	2017	2016
Government grants	4	409	405
Stock refunds		326	558
Compensation for damages		454	496
Reversal accruals and provision		108	1 150
Gain on disposal of assets		34	47
Insurance recovery		-	4 931
Other		708	482
TOTAL OTHER INCOME		**2 039**	**8 069**
Cost for organizational changes and restructuring		(2 337)	(855)
Compensation and destruction of channel inventory		(2 325)	(258)
Accruals and provisions		(693)	-
Loss on disposal of assets		(256)	-
Other		(672)	-
TOTAL OTHER EXPENSE		**(6 283)**	**(1 113)**

Cost of organizational changes and restructuring in 2017 primarly arose from organizational changes in the US business and Spain. In 2016, restructuring expenses mainly relate to reorganizational change in the scope of business in the country organizations of the US, Spain, UK, Germany, Eastern Europe and at corporate level.

In 2017, compensation and destruction of channel inventory mainly include one-off costs in relation to the destruction of baby & toddler milk channel inventory for our business in China.

Insurance recovery in 2016 represents an insurance refund for quality issues in the US.

2. FINANCE INCOME/EXPENSE

in CHF 1000.–	2017	2016
Interest income	801	1 298
Fair value gains on financial instruments held for trading	7 278	2 636
Other financial income	33	83
TOTAL FINANCE INCOME	**8 112**	**4 017**
Interest expense	(6 881)	(5 548)
Net foreign exchange losses	(3 601)	(7 023)
Fair value losses on financial instruments held for trading	-	(8 993)
Other financial expense	(5 110)	(3 890)
TOTAL FINANCE EXPENSE	**(15 592)**	**(25 454)**

3. ADDITIONAL INFORMATION ON THE NATURE OF EXPENSE

in CHF 1000.–	Note	2017	2016
Wages and salaries		(186 121)	(183 441)
Social security costs		(41 717)	(40 090)
Pension costs – defined contribution plans		(3 867)	(3 651)
Pension costs – defined benefit plans	17	(3 381)	(3 842)
TOTAL PERSONNEL EXPENSE		**(235 086)**	**(231 024)**

The Group employed 4'048 employees in 2017 (2016: 3'900).

Depreciation and amortization are included in the consolidated statement of income as follows:

Year ended December 31, 2017		Property, plant and equipment	Intangible assets
	Note	Depreciation	Amortization
Cost of sales		(27 641)	(198)
Distribution expense		(1 003)	-
Marketing and sales		(244)	(2 369)
Research and development		(687)	(412)
Administrative expense		(2 461)	(4 294)
Other expense		(306)	-
TOTAL	**7,8**	**(32 342)**	**(7 273)**

Year ended December 31, 2016		Property, plant and equipment	Intangible assets
	Note	Depreciation	Amortization
Cost of sales		(26 983)	(216)
Distribution expense		(931)	-
Advertising and promotion		(20)	-
Marketing and sales		(217)	(2 287)
Research and development		(765)	(794)
Administrative expense		(3 016)	(4 575)
TOTAL	**7,8**	**(31 932)**	**(7 872)**

4. GOVERNMENT GRANTS DEDUCTED FROM EXPENSE

in CHF 1000.–	2017	2016
Government grants for Beech-Nut infant food plant	2 007	2 007
Export subsidies in Egypt	733	560
Government grants for Schwartauer Werke jam factory	334	327
Government grants for research projects in Spain	177	-
Government grants for factory equipment in Spain	135	-
Spanish education grant	65	77
Other	186	97
TOTAL GOVERNMENT GRANTS	**3 637**	**3 068**

Government grants are deducted from the following type of expense:

in CHF 1000.–	Note	2017	2016
Government grants deducted from cost of sales		3 156	2 663
Government grants deducted from administrative expense		72	-
Government grants included in other income	1	409	405
TOTAL GOVERNMENT GRANTS		**3 637**	**3 068**

5. INCOME TAX

in CHF 1000.–	2017	2016
Current income tax expense	(16 649)	(12 173)
Current income tax expense relating to prior periods	(300)	(3 503)
Deferred tax expense	(59 993)	(3 340)
TOTAL INCOME TAX EXPENSE	**(76 942)**	**(19 016)**

Analysis of tax rate

The variation in the Group's average expected tax rate is caused by changes in profitability of the Group's subsidiaries in the various jurisdictions, as well as changes in local statutory tax rates. The main elements contributing to the difference between the Group's overall expected tax rate (the weighted average tax rate based on the results before tax of each subsidiary) and the effective tax expense are:

in CHF 1000.–	2017	2016
Income before taxes	97 866	92 402
Tax expense based on expected Group tax rate of the year	(21 636)	(16 623)
	22.1%	18.0%
Impact of expense not entitled for deduction for tax purposes	(3 900)	(3 603)
Impact of non taxable income and exclusively tax deductible expense	3 172	14 787
Impact of tax expense related to profits of other periods and other items	(198)	(3 326)
Reassessment of recognized tax losses of prior periods *	(3 203)	(8 848)
Impact of unrecognized tax losses of current period	-	(4 646)
Impact of deferred taxes on hybrid coupon	804	4 176
Impact of difference between statutory and deferred tax rate	226	(872)
Impact of tax law changes **	(52 247)	(61)
EFFECTIVE GROUP TAX EXPENSE	**(76 942)**	**(19 016)**

* Mainly relates to US and Swiss tax loss carry forwards which were reassessed in 2016 and 2017.

** The US tax law enacted in 2017 led to a reduction of the US tax rates and a reassessment of certain tax loss carryforward components.

6. DIVIDEND

At the Annual General Meeting in 2018 a dividend in respect of 2017 of CHF 1.63 per share amounting to a total dividend of CHF 10.1 million is to be proposed (2017: CHF 35.7 million). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2018. Dividends payable on treasury shares held in connection with the long-term incentive plan are treated as personnel expense.

7. PROPERTY, PLANT AND EQUIPMENT

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Cost or valuation					
BALANCE AT JANUARY 1, 2016	**32 594**	**259 204**	**355 663**	**37 449**	**684 910**
Additions	-	2 116	35 665	3 223	41 004
Decrease/disposals of assets	(30)	(1 033)	(3 251)	(1 818)	(6 132)
Reclassifications	-	741	54	(1 202)	(407)
Foreign exchange differences	(317)	58	(6 764)	(3 507)	(10 530)
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**32 247**	**261 086**	**381 367**	**34 145**	**708 845**
Additions	232	4 945	32 657	3 801	41 635
Decrease/disposals of assets	-	(147)	(2 159)	(1 311)	(3 617)
Revaluation	(1 161)	-	-	-	(1 161)
Reclassifications	-	2	(7)	(1 123)	(1 128)
Foreign exchange differences	387	(588)	9 493	1 414	10 706
BALANCE AT DECEMBER 31, 2017	**31 705**	**265 298**	**421 351**	**36 926**	**755 280**
Accumulated depreciation					
BALANCE AT JANUARY 1, 2016	**6**	**60 100**	**225 510**	**23 070**	**308 686**
Additions	1	7 967	20 779	3 185	31 932
Decrease/disposals of assets	-	(20)	(2 685)	(1 518)	(4 223)
Reclassifications	-	(5)	(125)	(29)	(159)
Foreign exchange differences	-	(1 016)	(6 021)	(2 081)	(9 118)
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**7**	**67 026**	**237 458**	**22 627**	**327 118**
Additions	3	8 069	21 575	2 695	32 342
Decrease/disposals of assets	-	(147)	(1 877)	(1 274)	(3 298)
Reclassifications	-	-	(1)	(645)	(646)
Foreign exchange differences	-	1 781	7 698	865	10 344
BALANCE AT DECEMBER 31, 2017	**10**	**76 729**	**264 853**	**24 268**	**365 860**
Carrying amount					
At January 1, 2017	32 240	194 060	143 909	11 518	**381 727**
At December 31, 2017	31 695	188 569	156 498	12 658	**389 420**

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Spain and Turkey (2016: Spain and Turkey).

If land were stated on the historical cost basis, the amounts would be as follows:

in CHF 1000.–	2017	2016
Land at historical cost	24 067	23 901
Land at historical depreciation	(10)	(7)
NET BOOK AMOUNT	**24 057**	**23 894**

Fair value of the land was determined by using market comparable method. This means that valuations performed by the appraiser are based on market transactions, adjusted for difference in the nature, location or condition of the specific land. The last external valuation for Spain was carried out in December 2017 by Gesvalt and for Turkey in September 2015 by TSKB. Both companies are accredited independent valuers. As significant unobservable valuation input the price per square meter in Spain was in a range between EUR 57 to EUR 165 and in Turkey between TRY 560 to TRY 880 depending on the land condition. In the fair value measurement hierarchy of the Group land is classified as level 3 instrument using significant unobservable inputs.

8. INTANGIBLE ASSETS

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT JANUARY 1, 2016	**425 836**	**224 018**	**97 404**	**66 260**	**813 518**
Additions	-	-	-	4 263	4 263
Decrease/disposals of assets	-	(8)	(2 753)	(593)	(3 354)
Reclassifications	-	-	-	282	282
Foreign exchange differences	(13 710)	(3 416)	1 038	(224)	(16 312)
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**412 126**	**220 594**	**95 689**	**69 988**	**798 397**
Additions	-	-	-	5 124	5 124
Decrease/disposals of assets	-	-	-	(544)	(544)
Reclassifications	-	11	-	1 072	1 083
Foreign exchange differences	16 444	3 094	(2 327)	(515)	16 696
BALANCE AT DECEMBER 31, 2017	**428 570**	**223 699**	**93 362**	**75 125**	**820 756**
Accumulated amortization					
BALANCE AT JANUARY 1, 2016	**44 155**	**57 709**	**81 732**	**57 500**	**241 096**
Additions	-	1 526	1 532	4 814	7 872
Decrease/disposals of assets	-	-	(2 753)	(533)	(3 286)
Foreign exchange differences	(4 465)	203	23	74	(4 165)
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**39 690**	**59 438**	**80 534**	**61 855**	**241 517**
Additions	-	973	1 580	4 720	7 273
Decrease/disposals of assets	-	-	-	(456)	(456)
Reclassifications	-	(29)	766	(135)	602
Foreign exchange differences	(414)	(133)	(1 678)	(518)	(2 743)
BALANCE AT DECEMBER 31, 2017	**39 276**	**60 249**	**81 202**	**65 466**	**246 193**
Carrying amount					
At January 1, 2017	372 436	161 156	15 155	8 133	**556 880**
At December 31, 2017	389 294	163 450	12 160	9 659	**574 563**

Other intangibles

Other intangibles mainly include licenses, software, patents and recipes.

Recognised development costs

In 2017, no development costs were capitalized (2016: TCHF 500).

Impairment tests for goodwill

Goodwill and intangible assets with indefinite useful lives are allocated to the respective cash-generating units (CGUs), which for Goodwill primarily represents the legal entity. The recoverable amount of a CGU is determined based on value-in-use calculations. Refer to accounting policies no. 8 for information about impairment testing and corresponding estimates.

Impairment of Goodwill and Brands

In 2017 as well as in 2016, the recoverable amounts exceeded the carrying amounts for all CGU's.

9. SEGMENT REPORTING

For management purposes, the Group is organized based on geographical areas and has three reportable operating segments: Europe, North America and Emerging Markets.

The segment Europe produces and sells mainly consumer food products such as jams, healthy snacks, baby and toddler food, baby and toddler milk and specialities.

The segment North America produces and sells mainly consumer food products such as baby and toddler food and specialities.

The segment Emerging Markets mainly includes Egypt, Russia, Turkey, Brazil and China and produces and sells mainly consumer food products such as jams, healthy snacks, baby and toddler food and baby and toddler milk.

Unallocated amounts relate to Headquarter costs/transactions in relation to the finance, executive management and market organization at Headquarter level.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

From January 2017, the Group's internal reporting to the EB and BOD reflects Operating profit as well as the Net working capital based on a 12 month average (2016: Trading operating profit excluded amortization, impairments and exceptional charges and net working capital was based on due date December 31).

These changes are reflected in the reportable segment information below, with the prior-year reported Operating profit and Average net working capital being adjusted to be consistent with the new definition.

Average net working capital is composed of income tax receivables, trade and other receivables, prepayments and inventories less trade and other payables, short-term income tax payables and short-term provisions.

Non-current assets comprise property, plant and equipment and intangible assets.

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2017 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	832 317	297 636	151 024	-	1 280 977
Operating profit	111 111	9 996	23 266	(39 027)	105 346
Depreciation and amortization	(20 335)	(16 122)	(3 158)	-	(39 615)
Average net working capital	40 461	56 176	24 518	1 078	122 233
Capex (tangible)	27 501	12 152	1 982	-	41 635

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land*	Germany	Spain	USA	Other	Total
Net sales	78 842	243 892	159 357	297 637	501 249	1 280 977
Non-current assets**	75 205	125 832	51 306	250 045	461 595	963 983

* Country of domicile

** Relates to property, plant and equipment and intangible assets

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Natural Spreads*	Healthy Snacks	Baby and toddler food	Baby and toddly milk	Speciali-ties	Total
Net sales	256 490	111 420	395 487	131 658	385 922	1 280 977

* Category name changed from Jams to Natural Spreads

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2016* in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	815 273	292 335	161 561	-	1 269 169
Operating profit	115 568	14 306	23 517	(39 552)	113 839
Depreciation and amortization	(20 659)	(15 168)	(3 977)	-	(39 804)
Average net working capital	46 535	62 823	27 885	1 949	139 192
Capex (tangible)	15 518	21 966	3 520	-	41 004

* Prior year reporting adjusted to bring in line with the new definition

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land*	Germany	Spain	USA	Other	Total
Net sales	77 909	233 703	162 407	292 336	502 814	1 269 169
Non-current assets**	77 184	110 645	46 485	263 075	441 218	938 607

* Country of domicile

** Relates to property, plant and equipment and intangible assets

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Jams	Healthy Snacks	Baby and toddler food	Baby and toddly milk	Specia-lities	Total
Net sales	259 007	102 812	374 219	128 683	404 448	1 269 169

10. NON-CURRENT RECEIVABLES

in CHF 1000.–	Note	2017	2016
Reimbursement rights of Schwartauer Werke	17	2 766	2 755
Loans to third parties	21	172	180
Long term incentive plan loan receivable	22	1 855	1 366
Prepaid customer incentives		2 389	2 140
Other non-current receivables		294	790
TOTAL NON-CURRENT RECEIVABLES		**7 476**	**7 231**

Loans to third parties represent a loan to a former employee.

11. DEVELOPMENT OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF 1000.–	Deferred tax assets 2017	Deferred tax liabilities 2017	Deferred tax assets 2016	Deferred tax liabilities 2016
Assets				
Property, plant and equipment	1 696	(32 539)	1 511	(43 971)
Intangible assets	2 184	(23 097)	3 877	(30 339)
Financial assets	111	(1 207)	121	(1 236)
Trade receivables, prepayments and other receivables	1 518	(3)	1 674	-
Inventories	1 421	(627)	2 768	(432)
Liabilities				
Net employee defined benefit liabilities	10 651	-	12 621	-
Accruals and provisions	4 733	(10 566)	6 131	(10 129)
Trade and other payables	638	(7)	2 351	(1)
Financial liabilities	20	(33)	41 532	(55)
Capitalized unused tax losses and tax credits	40 782	-	75 058	-
TOTAL DEFERRED TAXES	**63 754**	**(68 079)**	**147 644**	**(86 163)**
DEFERRED TAXES, NET	**-**	**(4 325)**	**61 481**	**-**

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2017	2016
Deferred tax assets	30 832	98 299
Deferred tax liabilities	(35 157)	(36 818)
DEFERRED TAX (LIABILITIES) / ASSETS, NET	**(4 325)**	**61 481**

Unrecognized deferred tax assets for unused tax losses

in CHF 1000.–	2017	2016
Unrecognized deferred tax assets expire in:		
reporting year +1	284	59
reporting year +2	-	637
reporting year +3	7 197	-
reporting year +4	111	4 574
reporting year +5 and beyond	16 802	23 926
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS FOR UNUSED TAX LOSSES	**24 394**	**29 196**

Net deferred tax assets

in CHF 1000.–	Note	2017	2016
Balance at January 1		61 481	59 833
Deferred tax expense		(59 993)	(3 340)
Deferred taxes directly recognized in OCI	15	(2 611)	2 766
Foreign exchange differences		(3 202)	2 222
BALANCE AT DECEMBER 31		**(4 325)**	**61 481**

At December 31, 2017, there was no recognized deferred tax liability (2016: 0) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to CHF 64.2 million (2016: CHF 59.2 million).

12. INVENTORIES

in CHF 1000.–	2017	2016
Raw materials and supplies	56 795	57 318
Work-in-progress	12 034	9 986
Finished goods	100 932	106 626
TOTAL INVENTORIES	**169 761**	**173 930**
Write down of inventories	(8 903)	(8 039)
Inventory expensed in cost of sales	(785 425)	(785 335)

13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

in CHF 1000.–	Note	2017	2016
Trade receivables from customers		160 277	153 572
Less: Allowance for bad and doubtful trade receivables		(3 488)	(3 062)
TRADE RECEIVABLES NET	**21**	**156 789**	**150 510**
Prepayments		6 350	6 143
Loans to related parties	22	-	13 952
VAT		7 978	8 561
Other receivables		6 596	11 771
TOTAL RECEIVABLES AND PREPAYMENTS		**177 713**	**190 937**

Allowance for bad and doubtful trade receivables

in CHF 1000.–	2017	2016
Balance at January 1	(3 062)	(3 843)
Charge for the year	(258)	(330)
Amounts written off	(81)	556
Unused amounts reversed	65	62
Exchange rate differences	(152)	493
BALANCE AT DECEMBER 31	**(3 488)**	**(3 062)**

Maturity of trade receivables

Year ended December 31, 2017 in CHF 1000.–	Total carrying amount	Of which are not overdue	Overdue < 30 days	Overdue 30-60 days	Overdue 60-90 days	Overdue 90-120 days	Overdue > 120 days
Trade receivables, gross	160 277	144 120	9 333	2 760	1 453	833	1 778
Allowance	(3 488)	(1 004)	(116)	(197)	(240)	(308)	(1 623)
TRADE RECEIVABLES, NET	**156 789**	**143 116**	**9 217**	**2 563**	**1 213**	**525**	**155**

Year ended December 31, 2016 in CHF 1000.–	Total carrying amount	Of which are not overdue	Overdue < 30 days	Overdue 30-60 days	Overdue 60-90 days	Overdue 90-120 days	Overdue > 120 days
Trade receivables, gross	153 572	137 411	7 520	4 008	1 297	789	2 547
Allowance	(3 062)	(1 100)	(93)	(144)	(136)	(55)	(1 534)
TRADE RECEIVABLES, NET	**150 510**	**136 311**	**7 427**	**3 864**	**1 161**	**734**	**1 013**

Other receivables consist primarily of balances resulting from government subsidies, deposits paid, refundable taxes and tax credits.

14. CASH AND CASH EQUIVALENTS

in CHF 1000.–	Note	2017	2016
Cash at banks		105 386	98 782
Cash equivalents		103	257
TOTAL CASH AND CASH EQUIVALENTS	**21**	**105 489**	**99 039**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 10.3 million (2016: CHF 11.1 million) held by some subsidiaries which are not freely transferable to the holding company because those deposits are used to secure bank facilities and guarantees or blocked by exchange control regulations. Cash equivalents contain cheques.

The weighted average effective interest rate on cash and cash equivalents in 2017 was 0.44% (2016: 0.63%).

15. SHARES, HYBRID CAPITAL AND OTHER RESERVES

Number of shares

	2017	2016
Total shares issued January 1	6 204 694	6 187 175
Capital increase	8 578	17 519
Total shares issued at December 31	**6 213 272**	**6 204 694**
Less: Treasury shares	(61 672)	(53 094)
TOTAL SHARES OUTSTANDING AT DECEMBER 31	**6 151 600**	**6 151 600**

Common stock represents all of the registered and authorized shares with a par value of CHF 10 per share. All issued shares are fully paid.

Treasury shares are held in connection with the long term incentive plan. Treasury shares held by key management are not available for distribution.

Hybrid capital in CHF 1000.–	**2017**	**2016**
Hybrid capital third parties	198 779	198 779
TOTAL HYBRID CAPITAL AT DECEMBER 31	**198 779**	**198 779**

Hybrid Capital Third Parties

On October 28, 2016 Hero issued CHF 200 million Perpetual Callable Subordinated Bonds. The bonds bear interest on their principal amount at a fixed rate of 2.125% p.a. from the payment date up to October 27, 2023, and thereafter in respect of each successive five-year period at a fixed rate per annum as determined by the Principal Paying Agent in accordance with condition 2.2 of the Terms of the Bonds. The terms and conditions of the bonds are such, that in accordance with IAS 32, the bonds qualify for treatment as equity in the financial statements of the Group. Payments of the coupons relating to the bonds are recorded as distribution on hybrid capital third parties.

Other reserves

in CHF 1000.–	Re-valuation reserve	Legal reserves	Cash flow hedge reserve	Pensions reserve	Equity loans tax impact	Foreign currency trans-lation reserve	Total
BALANCE AT JANUARY 1, 2016	**24 821**	**25 758**	**–**	**(30 736)**	**(2 709)**	**(185 488)**	**(168 354)**
Hedge accounting	–	–	(326)	–	–	–	(326)
Remeasurements	–	–	–	(10 859)	–	–	(10 859)
Tax effects	–	–	79	2 820	(133)	–	2 766
Foreign exchange differences	–	–	–	–	–	(48 671)	(48 671)
BALANCE AT DECEMBER 31, 2016 / JANUARY 1, 2017	**24 821**	**25 758**	**(247)**	**(38 775)**	**(2 842)**	**(234 159)**	**(225 444)**
Hedge accounting	–	–	511	–	–	–	511
Remeasurements	–	–	–	12 105	–	–	12 105
Revaluation of land	(1 161)	–	–	–	–	–	(1 161)
Tax effects	291	–	(77)	(3 078)	253	–	(2 611)
Foreign exchange differences	–	–	–	–	–	24 601	24 601
BALANCE AT DECEMBER 31, 2017	**23 951**	**25 758**	**187**	**(29 748)**	**(2 589)**	**(209 558)**	**(191 999)**

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of assets and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in other comprehensive income.

Legal reserves

Legal reserves are not available for distribution.

Cash flow hedge reserve

The effective portion of the gain or loss on hedging instruments is recognized in other comprehensive income and is transferred to profit and loss when the forecast transaction occurs.

Pensions reserve

Pensions reserve contains remeasurement gains and losses of defined benefit pension plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and on translation of equity loans.

16. BORROWINGS

in CHF 1000.–	Note	2017	2016
Current			
Bank borrowings and overdrafts		66 144	134 294
Loan liabilities third parties		289	251
Loan liabilities non-controlling interests shareholders	22	-	807
TOTAL CURRENT BORROWINGS	**21**	**66 433**	**135 352**
Non-current			
Bank borrowings	21	26 494	27 260
Loan liabilities third parties	21	728	836
Debentures	21	264 731	264 626
TOTAL NON-CURRENT BORROWINGS		**291 953**	**292 722**

Covenants

Hero is engaged in different kinds of financings and most of them are related to certain covenants. The main covenants are Net Debt / EBITDA and interest coverage. As per December 31, 2017 and 2016 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2017 was 2.42% (2016: 1.70%).

The interest rates for the majority of current bank overdrafts and loan liabilities were between 0.60% and 2.33%. Non-current borrowings had an weighted average fixed interest rate of 2.12% (2016: fixed interest rates between 1.12% and 1.92%).

Debentures

Debentures of CHF 130 million issued in 2013 mature on June 26, 2020 and carry an interest rate of 1.25%.

Debentures of CHF 135 million issued in 2016 mature on October 28, 2026 and carry interest of 1.0%.

Reconciliation of liabilities arising from financing activities	Non-current financial liabilities	Current financial liabilities
January 1, 2017	**292 736**	**135 352**
Changes in bank loans, net	-	(61 798)
Repayment of non-current financial liabilities	(1 039)	-
Amortization of bond discounts	105	-
Foreign currency translation effects	151	(7 121)
December 31, 2017	**291 953**	**66 433**

17. DEFINED BENEFIT OBLIGATIONS

Depending on the legal, economic and fiscal circumstances in each country, different retirement benefit systems are provided for the employees of the Group. As a rule, these systems are based on length of service and salary of the employees. Pension obligations in the Group relate to both defined benefit and defined contribution plans. Defined benefit plans are funded and unfunded. Most Group companies sponsor defined benefit pension schemes which are funded by payments to separate trustee-administered funds. The obligations of German companies are unfunded. The latest actuarial valuations under IAS 19 were carried out as at December 31, 2017, for all significant pension plans.
The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 85% (2016: 85%) of the Group's defined benefit obligations and 87% (2016: 87%) of the Group's plan assets.

Pension plans in Switzerland

Pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. Pension plans are overseen by a regulator as well as by a state supervisory body. A pension plan's most senior governing body (Board of Trustees) must be composed of equal numbers of employee and employer representatives.

Plan participants are insured against the financial consequences of old age, disability and death. The various insurance benefits are governed in regulations, with the BVG specifying the minimum benefits that are to be provided. The employer and employees pay contributions to the pension plan. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The employer can also make additional restructuring contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings.

The Swiss pension plan "Hero Pensionskasse" has the legal structure of a foundation. All actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries/wages, and the return on plan assets) and are regularly assessed by the Board of Trustees. In addition, an annual actuarial report is drawn up in accordance with the requirements of the BVG. The report is not produced using the projected unit credit method, as required by IFRS. The definitive funded status according to the BVG is determined in the first quarter of the following year. According to estimates, the funded status at December 31, 2017, is 108% (2016: 104%, final). In addition, a report is prepared annually in accordance with IFRS requirements.

The Board of Trustees is responsible for the investment of the assets. It defines the investment strategy whenever necessary – especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment

strategy, it takes account of the foundation's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target asset structure (investment policy). The Board of Trustees delegates the implementation of the investment policy – in accordance with the investment strategy as well as various principles and objectives – to an external Investment Trust. The funded plans also include "Pensionskasse der Direktionsmitglieder der Hero Schweiz AG" (an extra-mandatory, semi-autonomous management pension plan). The purpose of this pension plan for employees in management functions is to extend the insurance cover provided by the existing pension plan.

The Swiss pension plans are treated as defined benefit plans under IAS 19 because both the actuarial risks and the investment risks are borne not only by the insured but also by the company.

Pension plan Schwartauer Werke, Germany

Schwartauer Werke grants pension benefits to its employees in addition to the state plan. The plan is an unfunded plan and the risks associated to the plan are covered by pension liabilities of Schwartauer Werke, and reimbursement rights under an insurance policy. The rights to reimbursement are under an insurance policy that exactly matches the amount and timing of the benefits payable under the pension scheme. They are disclosed as an asset (see note 10). The book value of the reimbursement rights in 2017 is TCHF 2'766 (2016: TCHF 2'755).

Employee benefits are mainly based on three components: 1) direct obligation with no contributions of employees; 2) indirect obligations with no contributions of employees; 3) direct obligation with contributions of employees.

All employees under regular and permanent employment are entitled to participate in the plan. Employees need to have a minimum age of 30 years and a minimum time of service of three years. Employees are entitled to retirement capital, early retirement capital, old-age pension, invalidity pension and survivor benefits depending on the employees reinsurance value.

Multi-employer plans

The Group has multi-employer defined benefit plans in the US, The Netherlands and Sweden. For these plans there is no consistent and reliable basis for allocating the obligation, plan assets and cost of the plans to the individual entities participating in the plan. Therefore, defined benefit accounting cannot be used and these plans are treated as a defined contribution plans in accordance with IAS 19. Expected contributions for 2018 are TCHF 2'034.

The most significant multi-employer plan is Beech-Nut Bakery and Confectionery Union and Industry International Health Benefits and Pension Fund. It is funded by employer contributions made pursuant to collective bargaining agreements between employers and the Bakery, Confectionary, Tobacco Workers and Grain Millers International Union. The plan is funded on an hours worked basis. The rate is set based on the pension rules. The plan rates are set by the Pension Board

of Trustees. This Board consists of 6 employers and 6 union officials. Beech-Nut's share in the scheme is approximately 0.3% of the plan (2016: 0.3%).

The scheme shows based on latest information a USD 5.6 billion deficit (2016: USD 5.2 billion deficit). Therefore the scheme is in a "workout plan" – a federal requirement for funds less than 65% funded. The work-out plan requires the fund to get above 65% funding within 10 years and it requires an actuarial certified plan. This work-out plan has triggered a reset of pension contributions for employers at the next renegotiation of the union contract.

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements:

Post-employment amounts in the financial statements: in CHF 1000.–	**2017**	**2016**
Balance sheet obligations for:		
Defined pension benefits	74 384	83 456
LIABILITY IN THE BALANCE SHEET	**74 384**	**83 456**
Income statement charge included in operating profit for:		
Defined pension benefits	3 381	3 842
INCOME STATEMENT CHARGE	**3 381**	**3 842**
Remeasurements for:		
Defined pension benefits	(12 105)	10 859
OTHER COMPREHENSIVE INCOME	**(12 105)**	**10 859**

Amounts recognized in the balance sheet:

in CHF 1000.–	2017	2016
Switzerland		
Present value of funded obligations	100 239	103 795
(Fair value of plan assets)	(90 217)	(87 527)
Deficit of funded obligations	10 022	16 268
Impact of asset ceiling	1 776	2 362
LIABILITY IN THE BALANCE SHEET	**11 798**	**18 630**
Germany		
Present value of unfunded obligations	48 978	49 627
LIABILITY IN THE BALANCE SHEET	**48 978**	**49 627**
Other		
Present value of funded obligations	15 256	16 312
(Fair value of plan assets)	(13 700)	(13 259)
Deficit of funded obligations	1 556	3 053
Present value of unfunded obligations	10 763	10 980
Total deficit of defined benefit pension plans	12 319	14 033
Impact of asset ceiling	1 291	1 166
LIABILITY IN THE BALANCE SHEET	**13 610**	**15 199**
Total		
Present value of funded obligations	115 494	120 107
(Fair value of plan assets)	(103 917)	(100 786)
Deficit of funded obligations	11 577	19 321
Present value of unfunded obligations	59 740	60 607
Total deficit of defined benefit pension plans	71 317	79 928
Impact of asset ceiling	3 067	3 528
LIABILITY IN THE BALANCE SHEET	**74 384**	**83 456**

Movement in the net defined benefit obligation over the year:

in CHF 1000.–	Present value of obligation	Fair value of plan assets	Total	Impact of minimum funding requirement/ asset ceiling	Total
BALANCE AT JANUARY 1, 2016	**176 219**	**(105 053)**	**71 166**	**3 312**	**74 478**
Current service cost	2 372	-	2 372	-	2 372
Interest expense/(income)	2 475	(1 005)	1 470	-	1 470
	4 847	**(1 005)**	**3 842**	**-**	**3 842**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	(2 532)	(2 532)	-	(2 532)
Loss from change in demographic assumptions	459	-	459	-	459
Loss from change in financial assumptions	11 855	-	11 855	-	11 855
Experience losses	296	2	298	-	298
Change in asset ceiling, excluding amounts included in interest expense	344	-	344	435	779
	12 954	**(2 530)**	**10 424**	**435**	**10 859**
Contributions:					
Employers	-	(2 221)	(2 221)	-	(2 221)
Plan participants	1 282	(1 282)	-	-	-
Payments from plans:					
Benefit payments	(13 437)	10 570	(2 867)	-	(2 867)
Foreign exchange differences	(1 149)	735	(414)	(221)	(635)
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**180 716**	**(100 786)**	**79 930**	**3 526**	**83 456**
Current service cost	2 460	-	2 460	-	2 460
Interest expense/(income)	1 751	(830)	921	-	921
	4 211	**(830)**	**3 381**	**-**	**3 381**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	(5 026)	(5 026)	-	(5 026)
Gain from change in demographic assumptions	(349)	-	(349)	-	(349)
Gain from change in financial assumptions	(3 531)	-	(3 531)	-	(3 351)
Experience gains	(2 442)	-	(2 442)	-	(2 442)
Change in asset ceiling, excluding amounts included in interest expense	(515)	279	(236)	(521)	(757)
	(6 837)	**(4 747)**	**(11 584)**	**(521)**	**(12 105)**
Contributions:					
Employers	-	(2 095)	(2 095)	-	(2 095)
Plan participants	1 164	(1 164)	-	-	-
Payments from plans:					
Benefit payments	(8 826)	5 691	(3 135)	-	(3 135)
Foreign exchange differences	4 808	14	4 822	60	4 882
AT DECEMBER 31, 2017	**175 236**	**(103 917)**	**71 319**	**3 065**	**74 384**

Two plans have a surplus that is not recognized on the basis that future economic benefits are not available to the entity in the form of a reduction in future contributions or a cash refund. Additionally, for one/two plans a minimum funding liability has been recognised.

Significant actuarial assumptions:

	Switzerland		Germany		Other*	
in %	2017	2016	2017	2016	2017	2016
Discount rate	0.50	0.50	1.70	1.20	2.50	2.32
Salary growth rate	1.00	1.00	3.00	3.00	0.03	0.04
Pension growth rate	0.00	0.00	2.00	2.00	1.39	1.28

* weighted average

Assumptions regarding future mortality:

Average life expectancy in years for a pensioner retiring at age 65:

	Switzerland		Germany		Other*	
in years	2017	2016	2017	2016	2017	2016
Retiring at the end of the reporting period:						
Male	22	22	19	19	21	21
Female	24	24	24	23	24	24
Retiring 20 years after the end of the reporting period:						
Male	24	24	22	22	23	23
Female	26	26	26	26	25	25

* weighted average

Sensitivity of the defined benefit obligation:

2017		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(10 358)	(6.0%)	11 648	6.6%
Salary growth rate	0.50%	969	0.6%	(969)	(0.6%)
Pension growth rate	0.25%	4 002	2.3%	(1 659)*	(0.9%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		7 205	4.1%	(6 384)	(3.6%)%

*Since it is legally not enforceable, a decrease of the pension growth rate is not applicable for the pension plans in Switzerland.

Sensitivity of the defined benefit obligation:

2016		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(10 841)	(6.0%)	12 267	6.8%
Salary growth rate	0.50%	990	0.5%	(990)	(0.5%)
Pension growth rate	0.25%	4 189	2.3%	(4 015)	(2.2%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		7 275	4.0%	(6 632)	(3.7%)%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Composition of plan assets:

Plan assets are comprised as follows:

in CHF 1000.–	2017	in %	2016	in %
Equity instruments	25 735	24.8	24 534	24.3
Bonds	57 004	54.9	56 446	56.0
Property	18 956	18.2	17 243	17.1
Cash and cash equivalents	2 222	2.1	1 599	1.6
Other	-	-	964	1.0
TOTAL	**103 917**	**100.0**	**100 786**	**100.0**

The assets of the Swiss pension funds which represent 87% (2016: 87%) of the Group's plan assets are comprised of:

- 24% (2016: 23%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 54% (2016: 56%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 21% (2016: 20%) Property with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (level 2 fair value classification).
- 2% (2016: 1%) Cash and cash equivalents with quoted prices in an active market (level 1 fair value classification).

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

The majority of the plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. In case of the funded plans, the group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its pension scheme risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in bonds, although the Group also invests in property, equity, cash and alternative investments.

Expected contributions

Expected contributions to post-employment benefit plans for the year ending December 31, 2018 are TCHF 3'279.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

Weighted average duration:

	Switzerland		Germany		Other*	
	2017	2016	2017	2016	2017	2016
in years	10	10	14	15	14	14

* weighted average

18. PROVISIONS

in CHF 1000.–	Litigation	Employee related	Other	Total
BALANCE AT DECEMBER 31, 2016/ JANUARY 1, 2017	**5 554**	**10 219**	**3 490**	**19 263**
Additional provisions	1 914	3 468	625	6 007
Utilized	(200)	(91)	(640)	(931)
Unused amounts reversed/reclassifications	(162)	(653)	(479)	(1 294)
Foreign exchange differences	7	251	66	324
BALANCE AT DECEMBER 31, 2017	**7 113**	**13 194**	**3 062**	**23 369**

Analysis of total provisions				
Current provisions	32	-	2 542	**2 574**
Non-current provisions	7 081	13 194	520	**20 795**

Litigation

The amounts represent a provision for certain legal claims brought against the Group.

Employee related

This position represents mainly a provision for jubilee, early retirement, indemnity payments and the long term incentive plan.

Other provisions

Other provisions are set up for obligations which do not fall into one of the before mentioned group of provisions including non income taxes (CHF 1.2 million; 2016: CHF 1.5 million) .

19. OTHER NON-CURRENT LIABILITIES

in CHF 1000.–	Note	2017	2016
Deferred government grant income		1 437	5 083
License liability	21	-	1 262
Withholding taxes		703	870
Other liabilities		884	627
TOTAL OTHER NON-CURRENT LIABILITIES		**3 024**	**7 842**

20. TRADE AND OTHER PAYABLES

in CHF 1000.–	Note	2017	2016
Trade payables	21	141 225	121 777
Social security		4 083	4 647
Government grants		3 428	3 582
VAT and other taxes		4 975	6 120
Accrued expense	21	112 734	108 066
Other payables	21	5 431	5 476
TOTAL TRADE AND OTHER PAYABLES		**271 876**	**249 668**

Other payables consist primarily of obligations arising from customer credit balances.

21. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements:

		Carrying amount		Fair value	
in CHF 1000.–	Note	2017	2016	2017	2016
Financial assets - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		259	166	259	166
Financial assets at fair value through profit or loss – held for trading					
Current					
Foreign exchange contracts not designated as hedges		2 353	765	2 353	765
Loans and receivables					
Non-current					
Non-current receivables	10	172	180	*	*
Current					
Trade receivables	13	156 789	150 510	*	*
Loans to related parties	13	-	13 952	*	*
Cash and cash equivalents	14	105 489	99 039	*	*
Financial liabilities - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		74	492	74	492
Financial liabilities at fair value through profit or loss – held for trading					
Current					
Foreign exchange contracts not designated as hedges		247	6 214	247	6 214
Other financial liabilities					
Non-current					
Borrowings	16	27 222	28 096	27 226	28 081
Debentures	16	264 731	264 626	264 527	264 370
Other liabilities	19	-	1 262	-	*
Current					
Trade and other payables	20	259 390	235 319	*	*
Borrowings	16	66 433	135 352	*	*

* The fair values approximate the carrying amounts, largely due to the short-term maturities of these instruments.

Fair value

The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of financial assets has been calculated using market interest rates. The fair values of non-current borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Cash Flow Hedge

The cash flow hedges of the expected future sales and purchases in 2018 were assessed to be highly effective and a net unrealised gain of TCHF 511, with a deferred tax liability of TCHF 77 relating to the hedging instruments, is included in OCI. (2016: net unrealised loss of TCHF 326, with deferred tax asset of TCHF 79). The amounts retained in OCI at 31 December 2017 are expected to mature and affect the statement of profit or loss in 2018.

Debentures

The Group issued CHF 135.0 million bonds on October 28, 2016. The bonds bear 1.00% interest p.a. The maturity date is October 28, 2026. The bonds are traded at the SIX Swiss Exchange. The bonds constitute direct, unconditional and unsubordinated obligations for Hero.

The Group issued CHF 130.0 million bonds on June 26, 2013. The bonds bear 1.25% interest p.a. The maturity date is June 26, 2020. The bonds are traded at the SIX Swiss Exchange. The bonds constitute direct, unconditional and unsubordinated obligations for Hero.

Forward foreign exchange contracts

The notional amounts of the outstanding foreign exchange contracts include commitments to sell for a notional amount of CHF 76.5 million (2016: CHF 47.0 million) and commitments to buy for a notional amount of CHF 209.6 million (2016: CHF 432.3 million).

in CHF 1000.–	2017	2016
Contracts with positive fair values		
Forward foreign exchange contracts	76 583	46 227
Contracts with negative fair values		
Forward foreign exchange contracts	(207 396)	(437 257)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the reporting period ending December 31, 2017, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements. The Group held no level 1 and level 3 financial instruments in 2017 and 2016.

As at December 31, 2017, the Group held the following financial instruments measured at fair value:

at December 31, 2017	**Assets measured at fair value**	**Liabilities measured at fair value**
in CHF 1000.–	Level 2	Level 2
Forward foreign exchange contracts in cash flow hedges	259	74
Forward foreign exchange contracts not designated as hedges	2 353	247
at December 31, 2016		
in CHF 1000.–	Level 2	Level 2
Forward foreign exchange contracts in cash flow hedges	166	492
Forward foreign exchange contracts not designated as hedges	765	6 214

Liabilities for which are fair values disclosed	**2017**	**2017**	**2016**	**2016**
in CHF 1000.–	Level 1	Level 2	Level 1	Level 2
Borrowings	-	27 222	-	28 096
Debentures	264 731	-	264 626	-

22. RELATED AND ASSOCIATED PARTY TRANSACTIONS

in CHF 1000.–	Note	2017	2016
Income / (expense)			
Interest income from AOH Nahrungsmittel Group		6	2
Interest expense to AOH Nahrungsmittel Group		–	(17)
Receivables			
Other short-term receivables from AHO Nahrungsmittel Group		–	5
Short-term loans to AOH Nahrungsmittel Group	13	–	13 952
Payables and liabilities			
Short-term loan liabilities to non-controlling interests shareholders	16	–	807
Key management personnel			
Salaries and other short-term employee benefits		(3988)	(5 775)
Post-employment benefits		(303)	(1 782)
Long term incentive plan expense		(732)	(709)
Long term incentive plan dividend payment		(305)	(78)
Long term incentive plan provision		7 339	5 882
Long term incentive plan loan receivable	10	1 855	1 366

Key management personnel

The key management personnel are defined as the Executive Board.

Transactions with associated companies are conducted on commercial terms and conditions and at market prices. Transactions with associated companies include mainly financing activities.

23. CONTINGENT LIABILITIES

in CHF 1000.–	2017	2016
Contingent liabilities in favor of third parties	4 758	10 675

Contingent liabilities are composed primarily of a third-party guarantee granted in connection with the relocation of the Lenzburg site and various bank and custom guarantees. One element of the Lenzburg site guarantee is an amount of up to CHF 4.0 million, which would be payable in the event that contaminated material must be removed from the site.

24. COMMITMENTS

in CHF 1000.–	2017	2016
Commitments for the acquisition of tangible fixed assets	10 021	3 024
Commitments for raw materials	77 063	66 165
TOTAL CAPITAL COMMITMENTS	**87 084**	**69 189**

Commitments for operating lease are as follows:

in CHF 1000.–	2017	2016
Amount due within one year	5 392	5 237
Between one and five years	7 429	6 974
After five years	920	601
TOTAL OPERATING LEASE COMMITMENTS	**13 741**	**12 812**
TOTAL OPERATING LEASE EXPENSE RECOGNIZED IN THE INCOME STATEMENT	**(7 079)**	**(4 205)**

25. EVENTS AFTER THE BALANCE SHEET DATE

On March 8, 2018 the Board of Directors resolved to pay the annual coupon of 2.125% on the hybrid capital third parties of nominal CHF 200.0 million which is TCHF 4'250.

There have been no other significant events between December 31, 2017, and the date of authorization of the consolidated financial statements that would require any adjustment or disclosure.

26. PRINCIPAL GROUP COMPANIES

Country	Name of company	Location	Share capital in thousands local currency		Equity interest in %	Consolidation method *	Activity**
Brazil	Hero Brasil S.A.	Itatiba	BRL	32 000	50.0	F	P; S
China	Autumn Harvest Ltd.	Hong Kong	HKD	1	100.0	F	S
	Hero (Shanghai) Trading Co.Ltd.	Shanghai	CNY	1 254	100.0	F	S
Czech Republic	Hero Czech s.r.o.	Prague	CZK	200	100.0	F	S
Denmark	Semper Danmark ApS	Frederiksberg	DKK	50	100.0	F	S
Egypt	Hero Nutritional Food Industries SAE (Vitrac)	Cairo	EGP	93 288	100.0	F	P; S
	Hero Middle East and Africa Trading LLC	Cairo	EGP	50	100.0	F	S
Finland	Oy Semper Ab	Espoo	EUR	3	100.0	F	S
Germany ***	Hero GmbH & Co. KG	Bielefeld	EUR	237 414	100.0	F	S
	Schönauer IAV AG	Bad Schwartau	EUR	404	100.0	F	H
	Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau	EUR	57 500	100.0	F	P; S; R
Italy	Hero Italia SpA	Verona	EUR	3'616	100.0	F	S
Netherlands	Hero Kindervoeding B.V.	Breda	EUR	18	100.0	F	S
	Hero Nederland B.V.	Breda	EUR	14 520	100.0	F	P; S
	Organix Nederland B.V.	Breda	EUR	18	100.0	F	S
	Koninklijke Maatschappij de Betuwe B.V.	Breda	EUR	1 010	100.0	F	H
Norway	Semper AS	Lysaker	NOK	933	100.0	F	S
Portugal	Hero Portugal Lda	Amadora	EUR	4 607	100.0	F	S
Russia	Hero Rus LLC	Moscow	RUB	10	100.0	F	S
Slovakia	Hero Slovakia s.r.o.	Nitra	EUR	7	100.0	F	S
Spain	Hero España SA	Alcantarilla	EUR	22 538	100.0	F	P; S; R
Sweden	Semper AB	Sundbyberg	SEK	45 000	100.0	F	P; S
Switzerland	Hero AG	Lenzburg	CHF	62 132	100.0	F	H; P; S
	Hero Beteiligungen AG	Lenzburg	CHF	30 433	100.0	F	H
Turkey	Hero Gida San.ve Tic. AS	Istanbul	TRY	63 632	100.0	F	P; S
United Kingdom	Hero UK Ltd.	Liverpool	GBP	–	100.0	F	S
	Organix Brands Ltd.	Bournemouth	GBP	47	100.0	F	S
United States of America	Beech-Nut Nutrition Corporation	Amsterdam, NY	USD	1	100.0	F	P; S
	Hero USA Inc.	Amsterdam, NY	USD	15 000	100.0	F	H
	Signature Brands LLC	Ocala	USD	–	100.0	F	P; S

* Consolidation: F = fully consolidated

** Activity: H = holding company and/or performs finance function; P = performs manufacturing and/or production activities; S = performs sales and/or marketing activities; R = performs research and development activities.

*** For the purpose of German commercial law, these consolidated Group financial statements release the companies from their obligation to publish their own financial statements in Germany, in accordance with Section 264 sub-section 3 of the German HGB (commercial code).

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To the General Meeting of
Hero AG, Lenzburg

Zurich, 8 March 2018

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hero AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 56 to 121) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial

statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Deferred tax balances and current income tax positions

Area of focus Significant judgment is involved in determining deferred tax balances and current income tax positions. The assessment is complex, since the Group engages in many intercompany transactions and arrangements concerning multiple tax jurisdictions. The amounts involved are material. Due to the significance of the deferred tax balances and current income tax positions and the judgment involved in determining these, in particular as it relates to the United States, this matter was considered significant to our audit. Refer to notes 5 and 11 of the consolidated financial statements for the Group's disclosures on current and deferred taxes.

Our audit response We assessed the Group's internal controls over its tax processes and key assumptions applied. We considered the Group's transfer pricing concept, changes thereto and the corresponding documentation. We assessed the Group's correspondence with tax authorities and inquired regarding ongoing tax audits and potential disputes. We considered developments in tax legislation and whether these were reflected in the Group's assumptions. We evaluated whether the key assumptions applied in the Group's assessment of recoverability of deferred tax assets is consistent with management's budgets and forecasts. We involved tax specialist to assist in examining the Group's tax methodologies and analyzing the underlying key assumptions.

Goodwill and indefinite lived intangible assets

Area of focus Goodwill and indefinite lived intangible assets represent 37% of the Group's total assets and 79% of the Group's total shareholders' equity as at 31 December 2017. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying value of goodwill and indefinite lived intangible assets is tested annually for impairment. The Group performed its annual impairment test of goodwill and indefinite lived intangible assets in the fourth quarter of 2017 and determined that there was no impairment. Key assumptions concerning the impairment test are disclosed in the consolidated financial statements (refer to notes: Critical accounting estimates, assumptions and judgments). In determining the recoverable amount of cash generating units, the Group must apply judgment in estimating - amongst other factors - future revenues and margins, long-term growth and discount rates. Due to the significance of the carrying values for goodwill and indefinite lived intangible assets and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

Our audit response	We assessed the Group's internal controls over its annual impairment test and key assumptions applied as well as the authorization of the impairment test by the Board of Directors. We evaluated management's interpretation of cash generating units. We involved valuation specialists to assist in examining the Group's valuation model and analyzing the underlying key assumptions, including future revenues and margins, long-term growth and discount rates. We assessed the historical accuracy of the Group's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to corroborating information, including industry reports and data from competitors.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss

law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a para. 1 item 3 CO and the 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.

Ernst & Young Ltd

André Schaub
Licensed audit expert
(Auditor in charge)

Mirco Scruzzi
Licensed audit expert

CONTINUED PROFITABLE GROWTH PATH

STATUTORY FINANCIAL STATEMENTS OF HERO AG, LENZBURG

Content

INCOME STATEMENT

for the year ended December 31
Hero AG, Lenzburg
in CHF 1000.–

	2017	2016
Net proceeds from sales of goods and services	180 598	178 240
Dividend income	27 302	30 553
Cost of materials	(79 609)	(77 029)
Employee expenses	(37 063)	(38 346)
Other operational costs	(37 306)	(37 587)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**53 922**	**55 831**
Depreciation and valuation adjustments	(9 480)	(10 608)
Earnings before interest and taxes (EBIT)	**44 442**	**45 223**
Financial income	13 813	57 800
Financial costs	(11 767)	(58 448)
Operating result before taxes	**46 488**	**44 575**
Non-operational (costs) / income	(438)	1 150
Earnings before taxes	**46 050**	**45 725**
Direct taxes	(4 033)	(276)
ANNUAL PROFIT	**42 017**	**45 449**

BALANCE SHEET

as at December 31, before appropriation of profit
Hero AG, Lenzburg
in CHF 1000.–

Assets	Note	2017	2016
Cash and cash equivalents	1	45 369	27 737
Trade receivables	3	18 372	20 516
Other current receivables	3	179 864	179 477
Inventories	1	10 309	9 498
Accrued income and prepaid expenses		11	-
Current assets		**253 925**	**237 228**
Financial assets	3	335 445	347 010
Investments	2	408 519	422 410
Tangible fixed assets	1	35 826	36 610
Intangible assets		47 677	54 324
Non-current assets		**827 467**	**860 354**
TOTAL ASSETS		**1 081 392**	**1 097 582**

Liabilities	Note	2017	2016
Trade payables	3	11 360	12 261
Current interest-bearing liabilities	3	219 522	233 159
Other current liabilities	3	7 393	10 615
Deferred income and accrued expenses	1	18 494	20 461
Current provisions	1	817	7 095
Current liabilities		**257 586**	**283 591**
Non-current interest-bearing liabilities	1, 3	489 731	489 626
Non-current provisions	1	10 513	7 868
Non-current liabilities		**500 244**	**497 494**
TOTAL LIABILITIES		**757 830**	**781 085**
Share capital		62 133	62 047
Capital contribution reserve		63 632	62 993
Legal reserve		25 758	25 758
Profit carry forward		130 022	120 250
Net income for the year		42 017	45 449
Voluntary retained earnings		172 039	165 699
TOTAL EQUITY		**323 562**	**316 497**
TOTAL LIABILITIES		**1 081 392**	**1 097 582**

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

Accounting principles

General

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

Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Bad debt reserve

Bad debt allowances are based on internal guidelines that require individual value adjustments to be undertaken. Taking account of their age structure and based on historical experience, certain residual balances are subject to additional allowances of a suitable percentage.

Inventory

Inventories are recorded at the lower of acquisition or production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the necessary cost to make the sale. Production costs include direct and indirect material and production costs. Inventory is valued using the weighted average method. A valuation allowance is recognized for any damaged or slow-moving goods.

Tangible fixed assets

Tangible fixed assets are depreciated on a straight line method over the course of the useful economic life of the asset. Land is not depreciated. The general useful economic lives for various asset categories can be summarized as follows:

• Land	indefinite
• Buildings	20 to 50 years
• Fixture and fittings	10 to 15 years
• Plant and machinery	3 to 10 years
• Motor vehicles	4 to 10 years
• Furniture	5 to 10 years
• IT hardware	3 to 5 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

Software:

Software is amortized on a reducing-balance method over the course of the useful economic life of the asset.

Brands:

Brands and other intangible assets with a definite useful life are carried at historical cost less accumulated amortization. Amortization is calculated using the following method to allocate the costs over their estimated useful lives:

• Brands	up to 25 years	straight-line method
• Software	1 to 5 years	reducing-balance method
• Other intangible assets	5 to 25 years	straight-line method

Investments

The carrying value of investments comprises costs less accumulated write-downs and are tested annually for impairment.

Long term incentive plan

Effective January 1, 2014, the Group issued a long term incentive plan for the executive board members. There is a two years waiting period for newly employed executive board members before they may participate in the plan. Under the plan, the participants may be offered the opportunity to invest up to 50% of their bonus payment in shares. After a restriction period of three years, participants may sell the shares back to Hero AG at a price based on a formula defined in the plan.

In conjunction with the plan, participants may be granted loans to fund the share issue. As the shares are restricted, it will ultimately revert to the company and the share price does not reflect the fair value of the Hero AG shares, the Group has accounted for.

The shares which allow the executive board members to participate in the plan are revalued yearly by using a predefined enterprise valuation model.

Non-current interest-bearing liabilities

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as prepaid expenses and amortized on a straight-line basis over the bond's maturity period. Premiums are recognized as accrued expenses and amortized on a straight-line basis over the loan's maturity period.

1. INFORMATION, CLASSIFICATIONS AND EXPLANATIONS TO POSITIONS IN THE BALANCE SHEET

in CHF 1000.–	2017	2016
Bank & cash	45 369	27 737
Cash and cash equivalents	**45 369**	**27 737**
Packaging material	1 150	997
Raw material	1 182	942
Finished goods	7 977	7 559
Inventories	**10 309**	**9 498**
Land	4 749	4 749
Buildings	22 071	22 748
Plant and machinery	8 752	8 943
Other equipment and vehicles	255	170
Tangible fixed assets	**35 826**	**36 610**
Interest	1 216	1 369
Promotions	282	107
Goods received no invoice received	927	1 114
Advertising	609	362
Personnel	7 114	6 784
Service	2 868	1 802
Others	5 478	8 923
Deferred income and accrued expenses	**18 494**	**20 461**

in CHF 1000.–	2017	2016
Non income tax	621	675
Litigation	-	156
Others	196	6 264
Current provisions	**817**	**7 095**
Bank	25 000	25 000
Perpetual and subordinated bond	200 000	200 000
Straight bond	264 731	264 626
Non-current interest-bearing liabilities	**489 731**	**489 626**
Litigation	7 064	5 150
Others	3 449	2 718
Non-current provisions	**10 513**	**7 868**

2. INVESTMENTS

Company	Domicile	Ownership*	2017 Share capital in %	2017 Share of vote in %	2016 Share capital in %	2016 Share of vote in %
Autumn Harvest Ltd.	Hong Kong, China	I	100.0	100.0	100.0	100.0
Beech-Nut Nutrition Corporation	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero (Shanghai) Trading Co. Ltd.	Shanghai, China	D	100.0	100.0	100.0	100.0
Hero Beteiligungen AG	Lenzburg, Switzerland	D	100.0	100.0	100.0	100.0
Hero Brasil S.A.	Itatiba, Brazil	D	50.0	50.0	50.0	50.0
Hero Czech s.r.o.	Prague, Czech Republic	I	100.0	100.0	100.0	100.0
Hero Espagna SA	Alcantarilla, Spain	I	100.0	100.0	100.0	100.0
Hero Foods Canada INC	Etobicoke, Canada	D	100.0	100.0	100.0	100.0
Hero Gida San.ve Tic.AS	Istanbul, Turkey	I	100.0	100.0	100.0	100.0
Hero GmbH & Co KG	Bielefeld, Germany	D	100.0	100.0	100.0	100.0
Hero of America Inc.	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero USA Inc.	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero Italia SpA	Verona, Italy	I	100.0	100.0	100.0	100.0
Hero Kindervoeding B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Hero Middle East and Africa Trading LLC	Cairo, Egypt	I	100.0	100.0	100.0	100.0
Hero Nederland B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Hero Nutritional Food Industries SAE	Cairo, Egypt	I	100.0	100.0	100.0	100.0
Hero Portugal Lda	Amadora, Portugal	I	100.0	100.0	100.0	100.0
Hero Rus LLC	Moscow, Russia	D	100.0	100.0	100.0	100.0
Hero Slovakia s.r.o.	Nitra, Slovakia	I	100.0	100.0	100.0	100.0
Hero UK Ltd.	Liverpool, United Kingdom	I	100.0	100.0	100.0	100.0
Hero Verwaltungs GmbH	Bielefeld, Germany	D	100.0	100.0	100.0	100.0
Koninklijke Maatschappij de Betuwe B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Organix Brands Ltd.	Bournemouth, United Kingdom	I	100.0	100.0	100.0	100.0
Organix Nederland B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Oy Semper Ab	Espoo, Finland	I	100.0	100.0	100.0	100.0
Schönauer IAV AG	Bad Schwartau, Germany	I	100.0	100.0	100.0	100.0
Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau, Germany	I	100.0	100.0	100.0	100.0
Semper AB	Sundbyberg, Sweden	I	100.0	100.0	100.0	100.0
Semper AS	Lysaker, Norway	I	100.0	100.0	100.0	100.0
Semper Denmark Aps	Kopenhagen, Denmark	I	100.0	100.0	100.0	100.0
Signature Brands LLC	Ocala, USA	I	100.0	100.0	100.0	100.0
Sluicing AG	Lenzburg, Switzerland	D	100.0	100.0	100.0	100.0

* Ownership: D = Hero AG owns this investment directly; I = The investment is indirectly held via a subsidiary in the direct ownership of Hero AG.

3. RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

in CHF 1000.–	2017	2016
Group companies	6 116	8 175
Third	12 257	12 341
Trade receivables	**18 372**	**20 516**
Group companies	174 590	168 513
Third	5 274	10 964
Other current receivables	**179 864**	**179 477**
Participants and management bodies	1 855	1 366
Group companies - loans	333 590	345 644
Financial Assets	**335 445**	**347 010**
Group companies	851	2 901
Third	10 510	9 360
Trade payables	**11 360**	**12 261**
Group companies	156 056	101 500
Third	63 466	131 659
Current interest-bearing liabilities	**219 522**	**233 159**
Group companies	3 872	6 292
Third	3 521	4 323
Other current liabilities	**7 393**	**10 615**
Third	489 731	489 626
Non-current interest-bearing liabilities	**489 731**	**489 626**

4. EXCESS RESERVES

in CHF 1000.–	2017	2016
Release of excess reserves (build up [+] / release [–])	(184)	(294)

5. PARTICIPATION RIGHTS AND OPTIONS IN THE OWNERSHIP OF MANAGEMENT BODIES AND EMPLOYEES

	2017 number	2017 Total value in TCHF	2016 number	2016 Total value in TCHF
Participation rights in the ownership of				
Management bodies	61 672	4 249	53 094	3 524
Option rights in the ownership of*				
Management bodies	11 205	350	8 301	700

* Provisionally determined

6. OTHER INFORMATION

in CHF 1000.–	2017	2016
Lease obligations not recorded in the balance sheet	483	440
Guarantees in the name of Hero AG in the favour of third parties	19 614	5 598
Contingent liabilities	4 300	4 300

7. NUMBER OF EMPLOYEES

	2017	2016
The average number of full time employees was	between 50 to 249	between 50 to 249

8. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between December 31, 2017, and the date of authorization of the financial statements that would require any adjustment or disclosure.

9. BONDS

Type of bond	Subordinated bond
Nominal value issued	CHF 200 million
Valor number	34172587/ISIN CH0341725874
Interest rate	2.125%
Maturity period	No fixed maturity
Maturity date	No fixed maturity

Type of bond	Senior bond
Nominal value	CHF 130 million
Valor number	21488315/ISIN CH0214883156
Interest rate	1.25 %
Maturity period	June 26, 2013 to June 26, 2020
Maturity date	June 26, 2020

Type of bond	Senior bond
Nominal value	CHF 135 million
Valor number	34172588/ISIN CH0341725882
Interest rate	1.00%
Maturity period	October 28, 2016 to October 28, 2026
Maturity date	October 28, 2026

PROPOSAL OF THE BOARD ON THE APPROPRIATION OF RETAINED EARNINGS

in CHF 1000.–	2017	2016
Profit of the year	42 017	45 449
Amount carried forward from last year	130 022	120 959
Reclassification into capital contribution reserve	-	(709)
AVAILABLE FOR DISTRIBUTION	**172 039**	**165 699**
Total dividend payment 2017: CHF 1.63 on 6'213'272 registered shares of CHF 10.– par value	(10 128)	(35 677)
BALANCE CARRIED FORWARD	**161 911**	**130 022**

In the name of the Board of Directors:

Dr Hasso Kaempfe

Chairman Board of Directors

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To the General Meeting of
Hero AG, Lenzburg

Zurich, 8 March 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Hero AG (the Company), which comprise the balance sheet, income statement and notes (pages 130 to 139), for the year ended 31 December 2017.

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 2017 comply with Swiss law and the company's articles of incorporation.

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

matter below, our description of how our audit addressed the matter is provided in that context.

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

Investments and related income statement accounts

Area of Focus	Primary functions of the Company include holding investments in its subsidiaries as well as financing and monitoring the group's activities. For statutory purposes, the Company is required to assess the valuation of its investments and determine potential impairments on an individual basis (refer to notes – accounting principles). Furthermore, the Company is required to evaluate the recoverability of its loans to subsidiaries. We consider investments and loans to subsidiaries significant to our audit as the amounts concerned are material and the assessments involve judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates.
Our audit response	We examined the Company's valuation model and analyzed the underlying key assumptions, including future revenues and margins, long-term growth and discount rates. We assessed the historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to corroborating information, including expected inflation rates and market growth.

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

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

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

Ernst & Young Ltd

André Schaub
Licensed audit expert
(Auditor in charge)

Mirco Scruzzi
Licensed audit expert

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