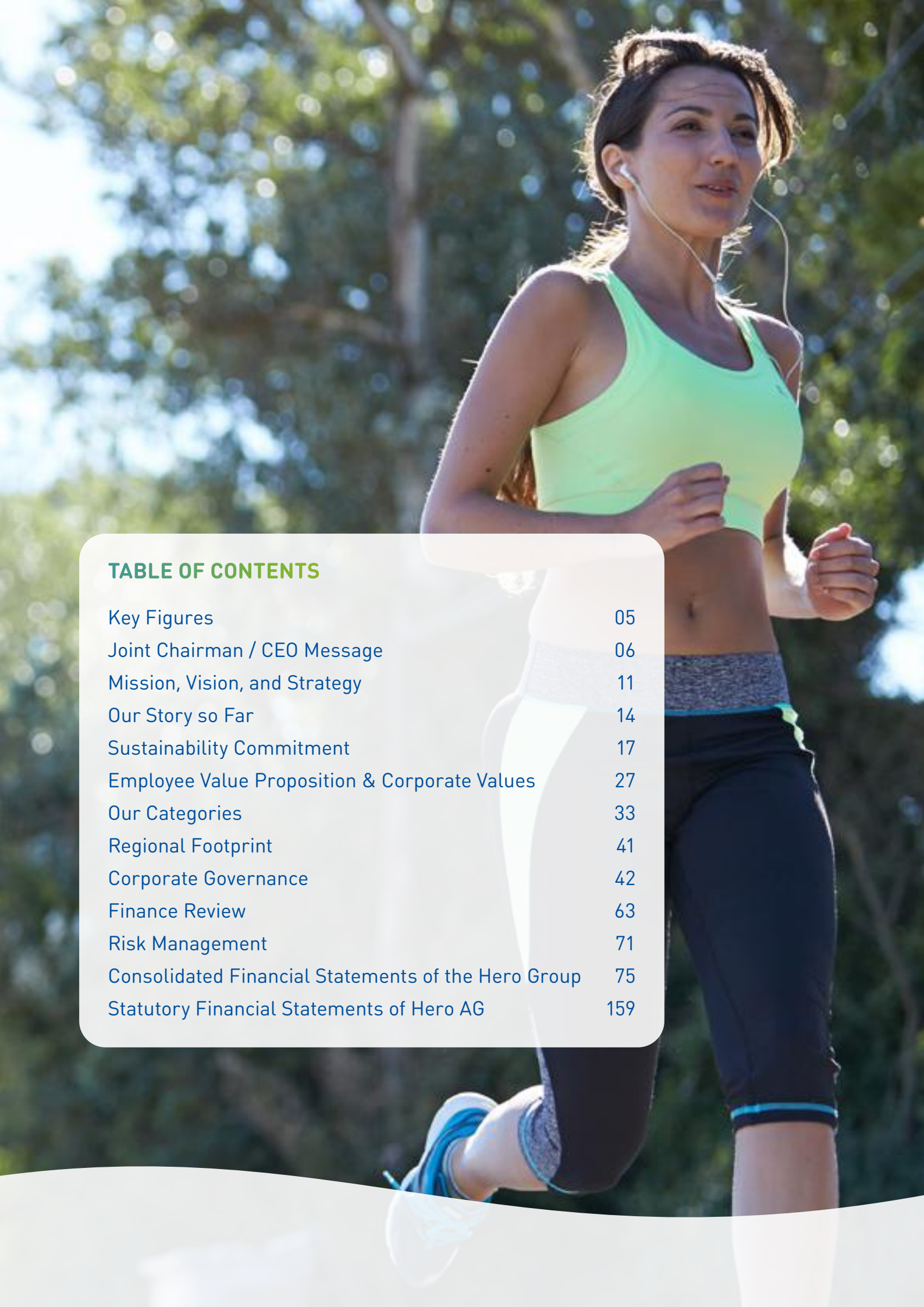
HERO ANNUAL REPORT 2019

Hero



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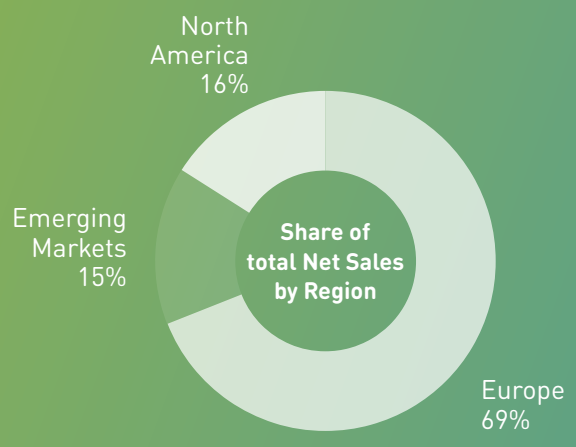
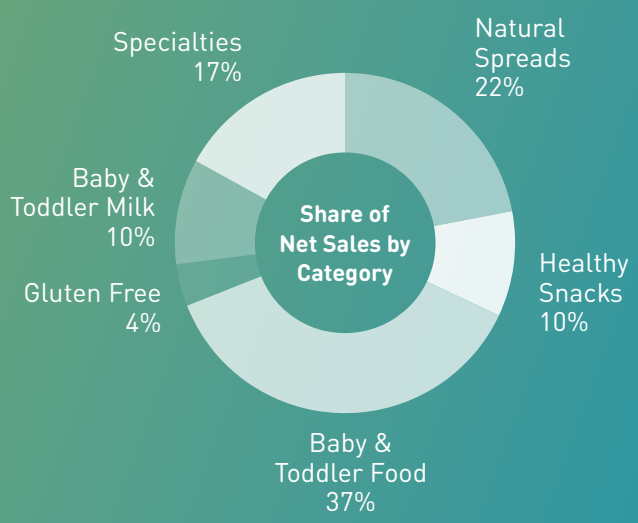
KEY FIGURES

in CHF million	2019	2018	2017
Net Sales	**1 188.2**	**1 158.3**	**1 147.5**
Organic Growth*	2.2	0.2	4.7
EBIT	**83.1**	**91.1**	**83.9**
in % Net Sales	7.0	7.9	7.3
Net Income from Continuing Operations	**62.0**	**60.6**	**50.5**
in % Net Sales	5.2	5.2	4.4
Net Income	**63.3**	**62.9**	**20.9**
in % Net Sales	5.3	5.4	1.8
Total Equity	**742.7**	**726.1**	**696.6**
Equity Ratio in %	52.0	53.5	47.5
EBITDA	**126.6**	**125.4**	**117.6**
Net Debt	**120.2**	**104.1**	**252.9**
Net Debt / EBITDA	0.9	0.8	2.2
Full-time Employees	**4 156**	**4 070**	**4 133**

* adjusted for currency, acquisition and divesture effects





JOINT CHAIRMAN / CEO MESSAGE

2019

Growth was a priority for the Hero Group in 2019. After a rather flat sales development in 2018, we are happy to report that we were able to accelerate our organic sales growth to 2.2% overall, and to 3.2% in our branded core categories alone. This organic growth was driven by a very strong growth momentum in our Healthy Snacks category across all major markets (+12.2%) as well as a very good development of branded business in our largest category of Baby & Toddler Food (+4.7%).

Giovanni Ciserani Chairman

With an organic growth of 7.8% in North America and 3.4% in Emerging Markets, we grew our footprint outside Europe in line with our strategy. In Europe, we were able to come back to slight positive organic growth in 2019 (+0.7% vs. 2018).

In the beginning of 2019, we entered into a strategic partnership with the German organic baby and toddler food company goodforgrowth GmbH, whose portfolio includes the brand Freche Freunde. This move has strengthened our core category footprint and added to our company growth.

Rob Versloot CEO

In total, we reached Net Sales of CHF 1,188.2 million in 2019, including currency and M&A effects. This is 2.6% higher than the previous year.

Our EBIT remained at a healthy level of CHF 83.1 million in 2019. The decline versus prior year (CHF 91.1 million) is largely related to unfa-

vorable currency translation (e.g. weaker EUR vs. CHF) as well as some non-recurring income in 2018 (e.g. US grants). Operationally, we are very pleased with the positive profit development in the US. At the same time, Hero increased investment in its brands in 2019 as well as in its future Supply Chain, the main project of which is a modern baby and toddler milk production facility in Sweden.

On Net Income level, we improved our profit slightly to CHF 63.3 million (vs. PY of CHF 62.9 million). Excluding the effects from our divestment of Signature Brands in 2018, the Net Income from continuing operations increased from CHF 60.6 million to CHF 62.0 million in 2019, with the company benefiting from positive developments in the financial result and taxes.

Outlook 2020

In 2020, we will continue to focus on accelerating organic growth in our core categories. Moreover, the company is furthering its efforts to explore partnership and acquisition opportunities that strengthen our position in these categories. In October 2019, we entered a Joint Venture with the Angelini Group. This partnership will allow us to enter the Italian baby and toddler food market in the first half of 2020.

In addition, in 2019 we decided to undertake deliberate investments in the coming years to make our company future-proof. Key investment areas will be our brands and innovations, supply chain, sustainability, and digitalization, including a modern business process and ERP system landscape.

Board of Directors / Executive Board

After nearly a decade on the Hero Group Board of Directors, Dr Hasso Kaempfe steps down in March 2020. The decision comes as Dr Kaempfe reaches the age limit of 70 (in May 2020) as per the provisions of the incorporated statutes of the Hero Group. Dr Kaempfe served as Chairman of the Board from January 2013 until March 2019, handing over the reins to Giovanni Ciserani. Dr Kaempfe remained on the Board to ensure a smooth transition to Ciserani.

From his part, Ciserani joined the Hero Board of Directors in March 2017. He is highly respected in the FMCG world and served as Group President, Global Fabric & Home Care, and Global Baby & Feminine Care with Procter & Gamble – a company where he spent nearly his entire career – until November 2018.

Margaret Versteden joined the Board of Directors in March 2019. She is Chief Commercial Officer at bol.com, the leading eCommerce platform in the Benelux, and brings to the Board a wealth of experience in strategic consulting, eCommerce and digitalization.

Finally, Christian Schierbaum came on board as CMO and member of the Executive Board in September 2019. He has an extensive professional background in the FMCG industry and joined the Hero Group from Mondelez, where the most recent position he held was President Marketing Europe and President Gum & Candy Europe.

Our people

The year in review was characterized by change as the company prepares itself to face the challenges of the future. We recognize that this has put pressure on all our employees around the world. They have shown that our faith and trust in them was not misplaced, and for the work they have done, the effort they put in, the motivation and enthusiasm with which they came to work every day, we would like to sincerely and humbly say thank you.

On behalf of our colleagues in the Board of Directors and Executive Board, we would like to express our appreciation to our shareholders who continue in their relentless support for the organization.

And finally, we would like to thank all our 200+ million consumers who have put their faith and loyalty in our brands and products. They are the reason we do what we do.

Sincerely,

Giovanni Ciserani
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 packaging 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 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

The Power of One

We work on a simple premise – acquire the best talent in all areas of responsibility and let them do what they do best. This unleashes a torrent of creative thinking, positive energy, and great results.

Launched in 2017, the Power of One (PO1) initiative is about harmonizing our ways of working, leaveraging scale and synergies where it makes sense.

We are strengthening our collaboration among the different units of the Group, tapping into our collective wisdom to make better decisions. We are doing this by being more integrated, standardizing core processes and systems so we can work together more effectively.

OUR STRATEGY

Focus on core categories

At Hero, we aim to drive organic growth of our core categories, namely Baby & Toddler Food and Milk, Natural Spreads, and Healthy Snacks, supported by our business in Gluten Free, 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 as outlined in our Power of One initiative.

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 all our parts is larger than the individual pieces.

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 our trusted strategic partners in the fields with whom we continuously collaborate.

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 two gentlemen, Gustav Henckell and Karl Roth*, founded Hero in 1886. They enchanted consumers by conserving all the goodness they 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.

For us, it is Mother Nature who makes food – all we do is conserve the goodness for our consumers.

Our customers may be 82 years old, or 82 months old, or 82 days old. 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 natural spreads, healthy snacks, and baby/infant foods. With brands synonymous with quality, such as Hero, Hero Baby, Organix, Beech-Nut, Freche Freunde, 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.

* Gustav Zeiler was the original founder with Henckell, but he passed away three years after the founding of the company. Karl Roth joined soon after

SUSTAINABILITY COMMITMENT

CLIMATE POSITIVE 2030

SUSTAINABILITY

Our case for change

Few if any days go by without sustainability featuring in the news. And with good reason.

Over the past century, we have collectively not been very kind to our planet. The time has come for everyone, the Hero Group included, to increase our efforts to reduce our impact.

For many years, we have been working towards this very goal. Now we want to step up a gear and do more. We owe it to the planet because it is nature that provides us with the raw materials we need to develop our own products and delight our consumers.

It's not just about packaging – the scope is far broader than that.

Our commitment to sustainability

Our sustainability commitment is at the centre of our Group mission to delight consumers by conserving the goodness of nature. We have always looked to nature as our partner and feel we need to do even more to drive change. Therefore, we are making a commitment to be net positive by 2030 in our environmental impact – we will give back more than we use.

CONSERVING THE GOODNESS OF NATURE

Climate Positive 2030

1

SUSTAINABLE SOURCING

Conserving raw materials via strategic sustainable sourcing.

We will need to do this in close partnership with our suppliers and farmers to ensure we have a positive impact on the biodiversity and health of our soil.

2

NATURAL RESOURCES

Conserving natural resources via net neutral production on all our products.

We will do this within our production facilities, but also work with our co-manufacturers to drive this ambition together.

3

NATURALLY HEALTHY FOOD

Conserving nature's goodness via naturally healthy food. We will leverage our brands to educate and collaborate with consumers on a holistic diet good for us and for the planet.

We will enhance our portfolio to give consumers more naturally healthy options - more of the good like nuts and wholegrain and less of the bad like refined sugar and red meat.

Leopold Oetker, Member of the Hero Group Board of Directors, has taken a leading role in defining our commitment on behalf of the Oetker family, the Group's shareholders. He is also passionate about sustainability.

Leopold Oetker
Member of the Board of Directors
Hero Group / Shareholder

Today, the population stands at eight billion. By 2050, when we hand over the company to the next generation, it is estimated that there will be 10 billion people. Today, as a society we use more raw materials, make more products, and produce more waste than ever before – the impact is undeniable with far more CO_2 emissions, more water usage, and increased waste.

We, as a Group, are a company that is taking responsibility.

We can be proud of what we've done in terms of sustainability so far, but we can and should do more to have a bigger impact. We are all stakeholders in this. The planet demands it. As a family-owned company, we want to make sure future generations can love and enjoy nature for all its goodness.

The case for sustainability is very compelling. We can't refuse change because we are comfortable doing things in the way we have always done them. Action needs to be taken immediately – otherwise, it'll be too late. We have to step up our efforts now to ensure a better future not only for the company, but for the planet itself.

Giovanni Ciserani
Chairman of the Board of Directors
Hero Group

At Hero, we live by our mission to delight consumers by conserving the goodness of nature. Our sustainability strategy is derived from our mission, and we commit ourselves to become climate positive in the future. This means that we will up our game when it comes to sustainable sourcing and net neutral production and further shift our portfolio to naturally healthy food.

Rob Versloot
Chief Executive Officer
Hero Group

Examples: What have we done so far?

Sustainable sourcing

They're small, but without them we would face serious problems. Bees are among the world's most prolific pollinators. Our *bee careful* initiative focuses on this very important though small creature for our ecosystem. We have done research to develop a toolkit that creates bee-inspired ecosystems aimed at improving biodiversity and enhancing yields. We have more details on this initiative in following pages.

We are also building strong relationships with our farmers to increase the percentage of raw materials sourced directly. Over the last five years, we have moved from 50% to 75% for our factory in Schwartau, and we are close to 50% in Spain. These partnerships allow us to work together to positively impact biodiversity through sharing best practices in sustainable farming. Additionally, in the last year, we have built up a value chain for mango, pineapple, and banana leading to develop LDC (low developing country) suppliers and supporting producers working under recognized certifications, such as Smeta, Rainforest, and Ecovad, or diectly with the FAO. For example, our main mango supplier in Mali has an incentive to provide irrigation infrastructure financing to smallholder farmers in a context of limited farmer access to bank financing and increasing off-taker competition for farmers' production.

Net neutral production

Saving energy is not only good for the environment, it's also good for the bottom line. Since 2010, our energy consumption has fallen from 380 CO_2e/mt to 258 CO_2e/mt – a drop of around 32%. Water consumption at our production facilities has nearly halved in the same period, down from 10.4 cbm/mt to 5.8 cbm/mt, a reduction of 44%. In addition, we have introduced a waste reduction program to report, track, and handle waste. At the same time, our efforts are geared towards reducing waste to a minimum. Initiatives are in place to deliver 100% recyclable packaging.

Naturally healthy food

Our research has shown the correlation between more naturality and sustainability for people and the planet. We have developed a database on all our products covering critical health and naturalness KPIs. This was used to create specific guidelines by category to ensure innovation meets requirements for naturally healthy food. We initiated projects to renovate our portfolio, for example by removing sugar and additives in our entire Spanish baby food line up. This includes changing the process of cereal production to be non-hydrolysed.

We can be proud of what we have done so far, but we must do more to have an even bigger impact. We have the right colleagues to go on this journey. The time to step up our action is now.

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, it is still extremely serious.

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 support farmers and educate on bees as natural pollinators – which also drive yield improvements
- To assist in targeted research that highlights the challenges and actions required to support the ecosystem that bees and other critical insects support
- To disseminate knowledge in schools and other institutions
- To provide support to beekeepers and prospective beekeepers

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.

bee careful®

Examples of outstanding projects

Over the past three years, many projects were carried out by Hero Group subsidiaries. As one of the biggest projects, the bee research stations in Schwartau and Würzburg (both in Germany), and Bournemouth (UK) are a key component of the initiative. These stations were co-funded by the Hero Group companies Schwartau and Organix. The teams in Germany and the UK are working together with HOBOS to perform comparative research analyses using the data from the research stations. These studies include insights into universal or location-dependent factors influencing bee biology and health, which can be helpful for beekeepers all over the world.

In other projects, Schwartau has launched a 'bee-helper' natural spread with which the company raises awareness with over two million consumers for the importance of meadow orchards for pollinators. The company has contributed to funding the expansion of these orchards and helped plant 500,000m^2 of bee-friendly wildflower meadows.

Hero MEA (Middle East & Africa) has initiated a long-term project to help save a distinctive type of Egyptian bee from extinction, while Hero Benelux has funded a bee education center and is involved in projects aimed at increasing the biodiversity in the city of Breda where they have their offices.

In southern Europe, Hero Spain is spreading the word about bee health by increasing external communication and aligning it with a new honey product made from their own bee-hives.

EMPLOYEE VALUE PROPOSITION & CORPORATE VALUES

Make your mark – every day

At the Hero Group, we don't employ the best talent and then tell them what to do. That doesn't make sense. We give our people opportunities so they can be proud to say that every day at work, they 'make their mark' on the business and contribute to something bigger. We like to give our talent the tools and skills they need and then get out of their way.

We have created our Employee Value Proposition (EVP) based on our company principles and values, and as an extension of our mission to conserve the goodness of nature. We did this because it is what distinguishes us from others.

As part of the EVP, we extracted three attributes that define every employee at Hero and potential talent. The three attributes are Purpose, Impact, and Growth.

PURPOSE

We are on a mission to conserve the goodness of nature. To do so, we strive to conduct our business sustainably and seek to do the right thing. Always.

IMPACT

We value good ideas – that's why we want the best talent. Employees can make a difference as we give them the freedom to act, to be entrepreneurial, to make a difference. This is reflected in our employees' responsibilities. Our mantra is: Be yourself, be impactful.

GROWTH

We all win if we grow together. It's all about professional and personal growth. The best way we can grow as a company is if we help our employees grow as people, hence the availability of learning and development opportunities. They can design their own development.

PURPOSE

José Martínez Ortíz

Head of Procurement Packaging
Supply Chain
Southern Europe Cluster

There are no borders – the world is one company. When I sit in my office, I have a clear purpose – to help the companies in the Group to be more efficient and sustainable. I'm proud to be able to help our companies fulfil our sustainable mission.

IMPACT

Jose Antonio López Ortiz

Audit & Costing Manager Finance
Hero Spain

I have led and managed a deep change in the finance culture of the company, with responsibilities ranging from the development of a new financial view of the business with the split of the P&L between the Market Business unit and Supply Chain Business unit, and also the adaptation of the Spanish cost structure to the new Hero Group requirements. I have fully embraced the change and feel my contribution has made a difference. We faced the difficulties together and strongly supported the company, walking the extra mile to implement the new financial perspective of the business.

IMPACT

Yana Lelina

Group Brand Manager
Hero Russia

Hero is really a great place to be in. In big companies, you often feel like a small cog in a big machine. But here I enjoy doing something meaningful. As a relatively small company, there may be fewer people but higher personal responsibility. And this is what I like the most. You can come up with something, and the next day you are already discussing it with the General Manager. This happened, for example, with the idea of marketing team to test the effect of TV for our Corny brand. We came up with the idea in late August and were already on air at the end of October. This is what really motivates me to go the extra mile.

IMPACT

Claudio Scicchitano

Head of Business
& Process Development
Hero Switzerland

"The rules of soccer are very simple, basically it is this: If it moves, kick it. If it doesn't move, kick it until it does." – (Phil Woosnam, footballer Wales). Hero gave me the chance to score goals by moving things and kicking ideas into new directions. As a consequence, I got the opportunity to join the Swiss management team at just 28. In this new role, I constantly improve our processes to delight our consumers by conserving the goodness of nature.

GROWTH

Lucía Berruezo Martínez

Field Manager Sales
Hero Spain

I joined Hero as an intern in the Logistics department in 1998. After a few years, I was appointed Key Account Manager, responsible for important accounts such as Carrefour. Today, I am Head of Field Sales with more than 20 people in my team, and leading one of the most demanding projects in our Sales department. With the help of the company, I was able to design my own professional development at Hero, and this has led to my successful career path.

GROWTH

Cícero Gomes

HR Manager
Hero Brazil

Since I joined Hero Brazil 28 years ago, I saw a small company becoming market leader. Working for the company has allowed me to develop my professional background through many activities over different departments. I was motivated by my leaders to complete my post-graduate studies in HR, and this gave me a new professional opportunity to focus on taking care of the company's human heritage. The connection between Hero's values and my personal ones have led to a good synergy and pleasant working relationship.

GROWTH

Axel Dathe

Head of Production
Hero Switzerland

Over the years, I have had uncountable motivating challenges, and also a lot freedom to act. After 15 years in different innovation, quality, and production roles at Schwartau, I was ready for a new challenge. This came when I was given the opportunity to become Head of Production at Hero Switzerland. I accepted. This new challenge has opened my horizon even wider and has helped broaden my network within Hero. It was a big step for my wife and me, but it has been very satisfying to be able to change my work and life perspective in this manner.

GROWTH

Lisa Marie von Lojewski

Senior Brand Manager Natural Spreads
Schwartau

In the marketing departments at Hero, employees get the chance to take over responsibility from the first day. Two years ago, I took over the role as Senior Brand Manager Natural Spreads. During this time, I have been asked to bring in my own ideas, manage the full natural spreads portfolio at Schwartau, and lead a four-member team. Hands-on learning and internal training programs have helped me enormously to grow into this responsibility. Together with my team, but also by collaborating with connected departments like Sales, Category Management, and Innovation & Quality, we develop ideas and find solutions for upcoming challenges. These experiences, as well as being coached by colleagues, help us to grow professionally – every day.

Values

We are a diverse group of people coming from different backgrounds, but we are all bound by the values we share at Hero. Our core values are **Entrepreneurship, Change, Speed, Empowerment** and **Family**. Our values have allowed us to grow and adapt throughout the years, remaining competitive without losing the spirit of our existence. They have given us the courage to take timely decisions while keeping us close to our consumers, and allowed us to assume collective responsibility for our choices. Importantly, our values have created a family spanning the entire globe, one with differences of opinion, with trust, collaboration, joy... and sometimes tears. We all, however, work towards one common goal, our mission to delight consumers by conserving the goodness of nature.

Change

If the business situation demands it, we will change our focus and adapt ourselves to the new circumstances.

Entrepreneurship

We serve our (internal) customers and consumers with top quality products that serve their local needs in the best possible way.

Speed

We challenge ourselves to do things faster in support of change and entrepreneurship.

Empowerment

We share power and trust each other to deliver against standards and targets as a means to personal development and/or motivation.

Family

We care about our business, each other, our stakeholders and about having a family life besides a business responsibility.

OUR CATEGORIES

At the Hero Group, we are all about conserving the goodness of nature, from the very youngest up to our seniors.

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 formulae for babies and toddlers.

Our **Natural Spreads** includes jams, honey, and more, while the trend towards snacking has seen our **Healthy Snacks** category go from strength to strength, both in terms of bars and pouches.

Our core categories are complemented by our **Gluten Free** products, an area which is increasing in popularity not only among people who live with coeliac disease or are gluten intolerant, but also others who choose to eat gluten-free products as a lifestyle. We also have a **Specialties** section, which includes specific local offerings.

Natural Spreads

At Hero, it's all about goodness of nature, and we are experts in conserving the best of what nature provides for our natural spreads. Transforming fresh fruits in the gentlest of ways for our jams to keep their authentic fruit taste is an integral part of our goal to continuously improve quality.

One of our category highlights in 2019 was the launch of La Artesana in Spain – a new jam concept with large fruit pieces aimed at satisfying the ongoing homemade and premiumization trends.

In Germany, we focused on sugar, which is one of the main barriers to jam consumption. As a result, we launched a new reduced-sugar range and created a recipe consistent with our Goodness of Nature ideals (no preservatives, no sweeteners). In Egypt, we successfully entered both the peanut butter and honey markets with appropriate offerings, and gained first-hand experience in these new fields of Natural Spreads.

The Natural Spreads category, a mainstay of the Hero Group, made up 21.7% of our Net Sales in 2019, slightly down from 22.5% in 2018. The category reported sales of CHF 258.1 million with an organic growth increase of 1.3% compared to the previous year.

Healthy Snacks

The Healthy Snacks category continued to grow last year. It made up 10.6% of the total Group sales, up from the previous year (10.0%). Organically, the category grew considerably in the year under review, up 12.2%, and reported sales of CHF 125.6 million.

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.

In 2019, double-digit growth was achieved through highly visible, insight and occasion-based media campaigns in our main markets (Germany, Russia, Denmark, and the Netherlands) as well as line extensions (BIG Blueberry, Oatpower Blueberry-Chia) and sub-range roll-outs (B'tween Zero in the Netherlands).

In Q3, Germany launched two premium concepts (Premium Nut bar & Protein bar), which effectively respond to international market trends: Single bar format and the willingness to pay more for relevant functional benefits and superior quality. Both product lines are now in the roll-out phase.

For 2020 and beyond, we will continue growing the business with insight-driven NPDs (New Product Developments) based on our ambitious Goodness of Nature quality standards, brand-building communication, and shopper-centric promotions.

Baby & Toddler Food (BTF)

Our mission is to delight babies and toddlers with the goodness of natural foods so that they can grow up enjoying a healthy, natural and varied diet. Babies' diets play a lasting role in shaping their long-term health and food choices. At Hero, thanks to our wide array of loved and trusted brands in the BTF category across North America, Europe, Turkey, and MEA (Middle East & Africa), we know that we have a key role to play in helping parents bring up a new generation of babies who will love natural healthy foods. Our wide-ranging portfolio covers cereals, meals, and snacks of the highest quality, and are adapted to babies' requirements from four months upwards. We leverage our extensive infant nutrition knowledge and expertise to constantly better our product offering through improved recipes, more sustainable packaging, and new technologies to help us maintain our leading positions in key markets.

In a difficult category context of declining birth rates and rapidly evolving consumer needs, Hero managed to accelerate its growth momentum in 2019 overall and in key markets such as the US, Sweden, and MEA. In January 2019, we added yet another great brand to our portfolio via a strategic partnership with goodforgrowth GmbH (Freche Freunde) in Germany. This latest addition continued its high growth trajectory in the year under review.

Of the lead Group categories, BTF is the largest and continues to grow with a total of 36.7% of our sales for 2019, up from 33.8% last year and 31.0% in 2017.

While commanding more than one-third of Group sales for 2019, the branded category boasted an organic growth of 4.7% compared to the previous year with a revenue of CHF 436.5 million, up CHF 44.5 million.

Baby & Toddler Milk (BTM)

'Delighting moms (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 babies have the best start in life. For those times when breastfeeding is not possible, Hero has developed a range of infant milk formulae.

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

As moms 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 total Group sales in 2019, down from 11.2% in 2018. The category reported a negative organic growth of -4.4% with sales of CHF 122.8 million.

Gluten Free

Gluten Free has been an important product group within Hero for many years. Our gluten-free brands Juvela (UK/Ireland) and Semper (Nordics, the Netherlands, Switzerland) offer great tasting gluten-free alternatives for people who are diagnosed with coeliac disease, and 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.

Sales in 2019 for the Gluten Free category stood at CHF 44.3 million, making up 3.7% of the total Group for 2019, down from 4.2% in 2018.

Specialties

The Hero Group product portfolio includes specialized products for niche markets. This section includes products in our gastronomy range, local offerings, and co-packing.

The total sales in this category made up 16.9% of total Group sales in 2019, down from 18.2% in 2018. This is in line with the Group strategy to focus on core categories. This category reported a slight organic growth of 0.3% in 2019 compared to the previous year.

REGIONAL FOOTPRINT

Europe remains the largest sales area for the Hero Group, accounting for 68.7% of the total. Sales in Europe in 2019 totaled CHF 816.1 million, an organic increase of 0.7% compared to the previous year.

The share of sales in the US increased to 16.3% in 2019 (2018: 15.2%). After achieving a growth of 8.3% in 2018, our US sales for the Group were up considerably again. In 2019, sales increased by 7.8%, reaching CHF 193.3 million.

Emerging Markets, which include China, Egypt, Russia, Turkey, Brazil, as well as Export markets, made up 15% of the Hero Group sales in 2019. Sales for this region grew by 3.4% to CHF 178.7 million.

In terms of production, the Hero Group has its own facilities in Egypt (Cairo), Germany (Bad Schwartau), Spain (Alcantarilla), Sweden (Götene and Korsnäs), Switzerland (Lenzburg), Turkey (Ankara), and the US (Amsterdam, NY). Furthermore, the Group relies on external production and co-packers to produce its products. These include facilities in Belgium, Denmark, France, the Netherlands, Spain, Switzerland, the UK, and the US.

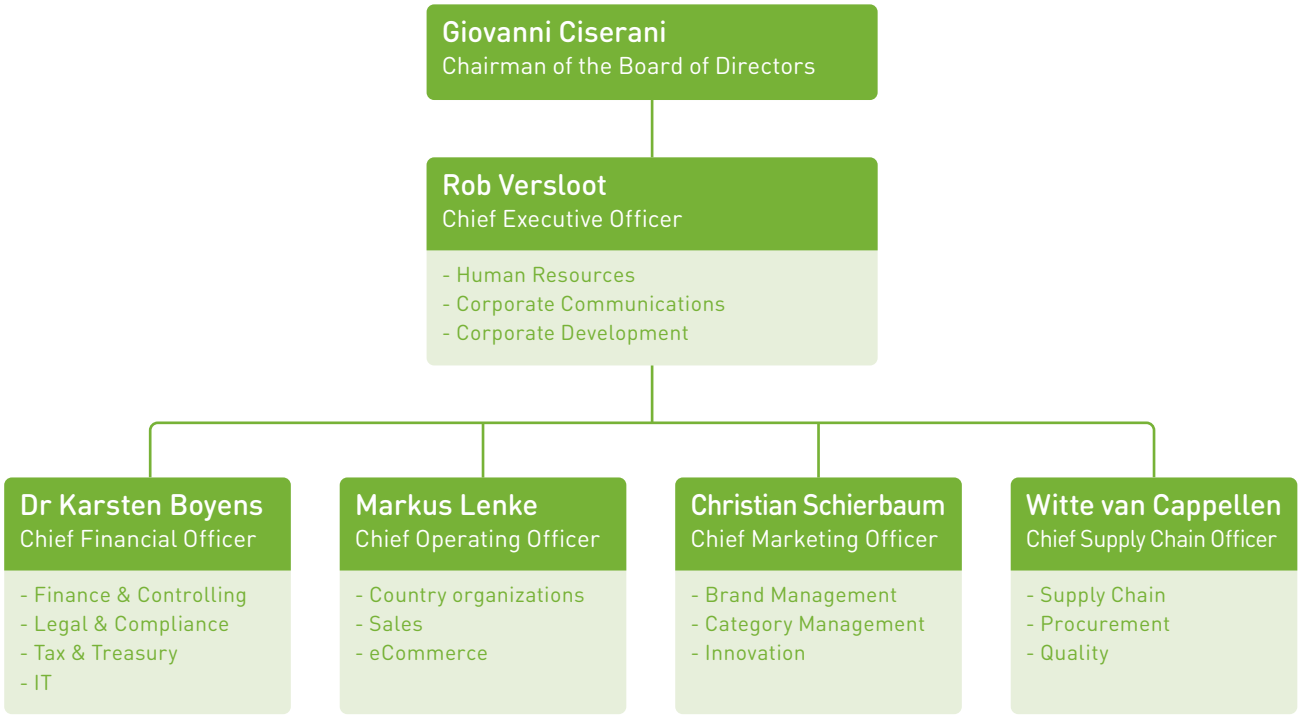
CORPORATE GOVERNANCE

Introduction

The Hero Group is committed to modern corporate governance principles. Professional processes and responsible management 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. Unless otherwise indicated, the following information on corporate governance relate to conditions on the balance sheet date as at December 31, 2019.

Group structure

The chart below shows the organization of the Hero Group as at December 31, 2019:



The significant companies belonging to the Hero Group are listed in note 30 of the consolidated financial statements.

Shareholders and capital structure

Shareholders

Schwartau International GmbH, Bad Schwartau, Germany holds 99.0% of the share capital of Hero AG*. The Dr Arend Oetker family, Germany, is the ultimate shareholder of Schwartau International GmbH, Bad Schwartau. A total of 0.5% of the share capital is held by Executive Board members in relation with the long-term incentive plan, and the remaining 0.5% of the shares are held as treasury shares by the company.

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. Each share carries the right to one vote. No preferential rights exist.

Contingent capital

As of December 31, 2019, the share capital may be increased through the issuance of a maximum of 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 (refer to section Board and Management Compensation).

As of December 31, 2019, there were 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 on 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 250 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

left to right:

Dr Hasso Kaempfe Chairman until March 2019 | **Dr Arend Oetker** Honorary Chairman | **Leopold Oetker**
Herbert J. Scheidt Vice-Chairman | **Dr Hagen Duenbostel** | **Margaret Versteden** | **Giovanni Ciserani** Chairman from March 2019

The Hero Group Board of Directors and Executive Board are separate decision-making bodies with distinct functions and responsibilities.

All members of the Hero Board of Directors are non-executive members who were not previously a member of the Hero Group management or the management team of one of the subsidiaries.

The company statutes foresee that the Hero Board of Directors consists of three to seven members who are elected during the Annual General Meeting for a period of two years.

Members of the Board of Directors must step down from the Hero Group Board of Directors at the Annual General Meeting following their 70th birthday. Members of the Board of Directors may hold a maximum of six other mandates in Swiss-listed entities. Otherwise, there is no restriction in terms of election or number of mandates.

As he soon reaches the age limit of 70 years, Dr Hasso Kaempfe handed over the chair of the Board of Directors to Giovanni Ciserani in March 2019. Dr Kaempfe stays on as a Member of the Board until the company's General Assembly in 2020. In addition, Margaret Versteden was elected as a new Board Member in March 2019. The Board of Directors consists of Giovanni Ciserani (Chairman), Herbert J. Scheidt (Vice-Chairman), Dr Hagen Duenbostel, Dr Hasso Kaempfe, Leopold Oetker, and Margaret Versteden. Dr Arend Oetker holds the post of Honorary Chairman.

Internal organization

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 outside Switzerland. The Board of Directors has delegated individual tasks to two sub-committees; the Finance & Audit Committee and the Human Resources Committee, which analyze specific issues in more depth on behalf of the Board.

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 main responsibilities of the Finance & Audit Committee include the monitoring and the assessment of the company's financial situation, the integrity of financial statements, risk management, internal controls in the area of financial reporting, and the effectiveness and independence of the external audit firm. It also observes the compliance with norms and regulations and assesses capital market transactions, including the financing of mergers and acquisitions. The Finance & Audit Committee meets at least two times a year. In the year under review, the Finance & Audit Committee met four times.

Board of Directors Name	Function	Nationality	Committee membership*	Initial election Term expires	Term expires
Giovanni Ciserani	Chairman	Italian	HRC	2017	2020
Herbert J. Scheidt	Vice-Chairman	Swiss/German	FAC, HRC	2010	2020
Dr Hagen Duenbostel	Member	German	FAC	2012	2020
Dr Hasso Kaempfe	Member	German	HRC	2012	2020
Leopold Oetker	Member	German	FAC	2016	2020
Margaret Versteden	Member	Dutch	HRC	2019	2020

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

The Human Resources Committee mainly reviews and proposes the compensation system and remuneration for the Executive Board, vice presidents, and general management of the subsidiaries. It proposes the composition and changes to the Executive Board to the Board of Directors and reviews the organization structure and personal development programs. A total of five meetings were held during 2019.

Responsibilities between the Board of Directors and Group Management

The Board of Directors is responsible for the overall direction of the company, including the supervision and control over the executive management in accordance with Art. 716a of the Swiss Code of Obligations.

The Board of Directors defines the strategic goals, the means to achieve these goals, and the persons dealing with the operating management of the company.

It has delegated all operative management functions to the Executive Board with the exception of those tasks assigned to other bodies as prescribed by law and the articles of incorporation. The Board of Directors has detailed the responsibilities and authorities of the Executive Board in the company's organizational regulations.

For further description of the Executive Board members' responsibilities, refer to page 54.

Information and control instruments relating to the Executive Board

The Hero Board of Directors is informed about current business developments, the financial situation, and key business events by members of the Executive Board at every meeting.

In addition, every member of the Board of Directors may request additional information about business matters and developments from the Chairman or the members of the Executive Board at any time.

Depending on the agenda of the business visit, delegations of the Board of Directors accompany the Executive Board during business reviews of subsidiary companies.

Changes to the Board of Directors after the balance sheet date

As he soon reaches the age limit as per the provisions of the incorporated statuses of the Hero Group, Dr Hasso Kaempfe, Member of the Board, steps down from his position at the General Assembly in March 2020.

Dr Arend Oetker

Owner & Honorary Chairman

Dr Arend Oetker has held the position of Honorary Chairman of the Board of Directors of the Hero Group since March 2013. Before, he had served as Chairman of the Board of Directors of the Hero Group from 1997 to 2013.

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

Dr Oetker is Managing Director and shareholder of Dr Arend Oetker Holding GmbH & Co. KG, as well as shareholder and Honorary Supervisory Board Member of KWS SAAT SE & Co. KGaA (plant breeding) and Supervisory Board Member of Cognos AG (education).

He is Honorary 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).

Giovanni Ciserani

Chairman

Giovanni Ciserani joined the Hero Group Board of Directors in 2017 and took on the role of Chairman of the Board of Directors, succeeding Dr Hasso Kaempfe, in March 2019. He also holds the chair of the Group's Human Resources Committee.

Verona-born Ciserani 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, where he was nominated Alumnus of the Year in 2014, Ciserani spent his entire career at P&G, where he worked for more than 30 years. He retired from P&G at the end of 2018. His last position was as Sector Group President Global Fabric and Home Care, Global Baby and Feminine Care, P&G.

Ciserani also serves on the Board of Angelini Holding.

Herbert J. Scheidt

Vice-Chairman

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

Scheidt holds an MA in Economics from the University of Sussex (UK) and an MBA from the University of New York (US).

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.

In addition to the Hero Group, Scheidt is also Chairman of the Board of Directors of the Swiss Bankers' Association (Basel), Vice-Chairman of the Board of Directors of Economiesuisse (Zürich), Member of the Board of Directors of the SIX Group (Zürich), and Member of the Board of European Banking Federation (Brussels).

Dr Hagen Duenbostel

Dr Hagen Duenbostel joined the Hero Board of Directors in 2012 and is a Member of the Hero Finance & Audit Committee.

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

He is CEO and Executive Board Member of KWS SAAT SE & Co. KGaA, a provider of agricultural seed based in Einbeck, Germany. He has been with the company since 1998 in various capacities and became CFO of KWS in 2003. He began his professional career in auditing at PricewaterhouseCoopers AG in 1995.

Dr Hasso Kaempfe

Dr Hasso Kaempfe is a Member of the Hero Human Resources Committee. He handed over the chair of the Board of Directors to Giovanni Ciserani in March 2019. He 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 took the first state examination in law at the Philipps-University in Marburg (Germany) and subsequently obtained his doctorate in law. He completed his education with the second state examination at the Hanseatic Higher Regional Court of Hamburg (Germany) and was admitted to the bar of the Hamburg Courts of Justice as a lawyer.

He was the long-standing Executive Chairman of Mast-Jägermeister SE in Wolfenbüttel, Germany, 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 & Co. KGaA, Pieroth Wein AG, Burg Layen, and he is Member of the Advisory Boards of Heinrich Schulze GmbH, Braunschweig, MCF Corporate Finance GmbH, Oyster Bay GmbH, both 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 (Sweden).

Leopold Oetker

Shareholder

Leopold Oetker joined the Hero Board of Directors in 2016. Since March 2019, he has been a member of the Hero Finance & Audit Committee.

Oetker successfully completed his studies in Culture Studies and History in Berlin (Germany) and Copenhagen (Denmark).

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. He is involved in charitable work, helping underprivileged children in his hometown Berlin.

Margaret Versteden

Margaret Versteden joined the Hero Board of Directors in March 2019. She is a member of the Human Resources Committee.

Versteden has a Bachelor's in Business Systems (IT) from Monash University in Melbourne, Australia, and an MBA from INSEAD, France.

She is the Chief Commercial Officer of bol.com, the leading retail platform of the Netherlands and Belgium, responsible for both the commercial and innovation activities of the platform. Versteden joined bol.com from Bain & Company, where she was a managing partner, specializing in FMCG, retail, and eCommerce. Prior to this, Versteden also worked at Nike as General Manager for Central and Northern Europe, and as strategy consultant at BCG in Australia, South East Asia and Europe for 10 years.

Executive Board

left to right:

Karsten Boyens CFO | **Rob Versloot** CEO | **Christian Schierbaum** CMO | **Witte van Cappellen** CSCO | **Markus Lenke** COO

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 the Group's companies, as well as extracting maximum synergies from the Group's structures.

Christian Schierbaum joined the Hero Group Executive Board in September 2019 following Najoh Tita-Reid as new Chief Marketing Officer (CMO).

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 Group CEO in September 2012. Before joining Hero, Versloot worked for Royal Numico / Danone. He held various commercial, general, and regional leadership roles at the company in the Netherlands, Brazil, Indonesia, and Russia.

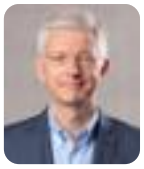
Versloot holds a Master's in Business Administration & Management from the University of Groningen in the Netherlands.

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, and IT.

Dr Boyens holds a Master's in Business Administration from the WHU – Otto Beisheim School of Management in Koblenz (Germany), 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 has held different commercial and general manager positions within the company, and was appointed Regional Vice President in July 2010. He 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 of both Schwartauer Werke and Semper in the Nordics.

Lenke holds a Master's in Business Administration from the University of Hamburg, Germany.

Christian Schierbaum
CMO

Christian Schierbaum joined the Hero Group as Chief Marketing Officer (CMO) in September 2019. He brings with him more than 20 years of commercial experience which he acquired in various marketing, sales, and business leadership roles within leading consumer goods companies, such as Wella, Reckitt Benckiser, and Mondelez.

Most recently, he served as member of the Mondelez Europe Leadership Team, heading the overall marketing function for Europe as well as leading the Gum & Candy business across Europe.

Schierbaum holds a Master's in Business Studies at the Justus-Liebig-University Giessen in Germany.

Witte van Cappellen
CSCO

Witte van Cappellen joined the Hero Group in 2000 as Director Operations before taking over as General Manager of Hero Netherlands and subsequently Hero Benelux. In 2009, he assumed the role of Head of Semper and was appointed as Cluster General Manager Northern Europe, which includes the Hero businesses in the Nordics and Organix UK, in 2015. Van Cappellen held the position 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
Christian Schierbaum	German	Chief Marketing Officer
Witte van Cappellen	Dutch	Chief Supply Chain Officer

Board and Management Compensation

Principles and elements of compensation

Hero's compensation system aims to support the company's strategy. The remuneration is therefore aligned with the company's commercial plans, includes performance components, and is competitive to attract and retain talent. The basic remuneration reflects the required skills and responsibilities of a role while the variable remuneration component at management level fosters sustainable business development and the company's success.

The Board of Directors determines the principles of the remuneration system and annual compensation for the Board of Directors and Executive Board at the recommendation of the Human Resources Committee. This process is carried out annually. The Human Resources Committee reviews the annual compensation in comparison to a benchmark of Swiss Mid Cap companies as defined by the SIX Swiss Exchange. The peer group excludes companies in the financial and healthcare industry.

Compensation of the Board of Directors

The remuneration paid to the Board of Directors is not performance related but comprises a fixed compensation paid in cash. It includes a flat fee for Board of Directors membership plus a fee for sub-committee membership, and is therefore aimed at reflecting the time and work which members invest to fulfil their duties.

Compensation of the Executive Board

Remuneration for the members of the Executive Board comprises a fixed, a variable short-term, and a variable long-term component.

The fixed remuneration component is based on the function, experience, and skillset of the executive member.

The variable cash component of the Executive Board's remuneration is based on the company's results and individual performance targets. It is an equal amount to the fixed compensation in case of goal achievement. A total of 60% of the variable cash remuneration is linked to a percentage of the three-year average of net income, while 40% is linked to personal goals. The payout on the personal goals component is capped at 150%.

In addition, there is a variable component linked to the long-term achievement of strategic KPI's. Besides these remuneration components, the Executive Board members may participate in the long-term success of the company by investing up to 50% of their short-term cash bonus payment in shares of Hero AG (long-term incentive plan). For newly-employed Executive Board members, there is a two-year waiting period [refer to Accounting policies of the consolidated financial statements on page 96 of this annual report for an explanation of the provisions of this long-term incentive plan].

Shareholders' participation rights

Shareholders must be registered to be able to exercise their vote. Beside the registration requirement, there are no restrictions on voting rights of the shareholders. A shareholder may provide a written power of attorney to be represented at a shareholders' meeting.

Unless otherwise stipulated by law, resolutions and elections by the General Meeting require an absolute majority of the represented votes. Elections, for which there is no absolute majority in the first ballot, require the relative majority in the second vote.

The Ordinary General Meeting is held annually, within the first six months after the end of the financial year. It is convened by the Board of Directors. Shareholders representing at least 10% of voting rights (alone or together) may require the convention of a General Meeting.

Each shareholder may request an item to be put on the agenda at the General Meeting. Such requests must be submitted in writing to the Board of Directors at least eight weeks prior to the General Meeting.

Change of control measures

There are no contractual agreements either for members of the Board of Directors nor members of the Executive Board relating to a change of control event.

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. Therefore, 2019 was the last year for André Schaub to be in charge of the audit of Hero.

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.

The agreed fees with Ernst & Young AG for the statutory audit of the consolidated financial statements for the year ending December 31, 2019 amounts to CHF 1,045,000. In 2019, Ernst & Young AG charged a total of CHF 30,000 for additional services. The additional services mainly include income tax and VAT advice.

Information policy

The Hero Group pursues open and continuing communications with its shareholders, employees, clients, the financial investors, and the general public. Hero strives to provide transparent information about the company, its values, strategy, and business development.

Hero publishes an annual report that includes information about its operating activities, corporate governance, and the financial result.

In addition, Hero organizes an investors conference every year. 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 additional information about important Group events via its corporate website.


Hero

FINANCE REVIEW

Summary

In 2019, Hero successfully focused on accelerating growth in strategic areas:

- The branded business of our core categories Natural Spreads, Healthy Snacks, Baby & Toddler Food as well as Baby & Toddler Milk reached an organic growth of 3.2% in 2019.
- We also enhanced our footprint outside Europe with an over-proportionate organic growth rate of 6.0%.
- Further, we have set a priority on developing the eCommerce channel which resulted in a strong growth rate of 29% in 2019 in this strategic channel.

Overall, Net Sales reached CHF 1,188.2 million, an increase of 2.6% over 2018. Adjusted for currency and M&A effects, organic Net Sales growth was 2.2%.

In 2019, Hero invested an additional 0.5 percentage points of its Net Sales into advertising, supporting its brands for future growth. At the same time, the company reported a slight improvement in results with a Net Income from continuing operations of CHF 62.0 million (prior year CHF 60.6 million).

Despite the acquisition and investments to further the growth of the company, Net Debt remained at the relatively low level with CHF 120.2 million, translating into a Net Debt / EBITDA ratio of 0.9. This is a solid basis for further investments to grow the company in the future.

Net Sales – Regions

Hero achieved good Net Sales growth levels in North America and Emerging Markets, thereby enlarging the share of markets outside Europe to 31.3% (prior year 30.1%).

After a decline in 2018, Hero achieved an organic Net Sales growth of 0.7% in **Europe**. Our new partnership with goodforgrowth GmbH in the German Baby & Toddler Food market reached strong double-digit growth. In addition, we realized good Net Sales growth levels in various European markets, such as Germany, the Nordics, Switzerland, and Italy. On the other hand, Hero continues to face challenges in some declining markets, such as the Baby & Toddler Food category in Spain and the UK prescription market for gluten-free products.

Hero's business in **North America** represented 16.3% (prior year 15.2%) of total Net Sales in 2019. After a strong 2018, our US subsidiary Beech-Nut with a focus on natural and organic baby and toddler food, achieved another strong result with a 7.8% increase in Net Sales compared to the prior year.

Net Sales in **Emerging Markets** grew 3.4% adjusted for currency effects. The biggest growth contributors for this development were Middle East & Africa (MEA) and Russia, both of which grew double-digits, while we faced some headwinds in specific export markets. The share of the Emerging Markets business represented 15.0% of total Sales in 2019 (prior year 14.9%).

in CHF million	Net sales 2019	Net sales 2018*	△ 2019 vs 2018 in %	Acquisition effect	Currency effect	Organic Growth
Europe	816.1	808.6	0.9%	4.2%	-4.0%	0,7%
North America	193.3	176.5	9.5%	-	1.7%	7.8%
Emerging Markets	178.7	173.1	3.2%	-	-0.2%	3.4%
HERO GROUP	**1 188.2**	**1 158.3**	**2.6%**	**2.9%**	**-2.6%**	**2.2%**

* adjusted for the effect of discontinued operations

Net Sales – Categories

Net Sales in Hero's biggest category **Baby & Toddler Food** (BTF) grew 3.7% adjusted for currency and acquisition effects, with the branded business even stronger at 4.7%. The main drivers of this successful development were our Beech-Nut business in the US, our Semper business in the Nordics as well as our new partnership in Germany with the main brand Freche Freunde. Including the acquisition effects the Net Sales share of our BTF business grew from 33.8% in 2018 to 36.7% in 2019.

Organic Net Sales in the **Natural Spreads** category increased by 1.3% in 2019. Egypt and Italy were the main contributors to that growth. Natural Spreads represented 21.7% of Net Sales in 2019 (vs. 22.5% the year before).

As in prior years, **Healthy Snacks** was the fastest growing core category for Hero. In 2019, currency adjusted Net Sales of the category grew double-digit by 12.2%. What we are very pleased about is that this strong development is visible across all our major markets. Germany, the Nordics, Russia, and the Netherlands have been the strongest drivers of growth in this category. After another strong year, Healthy Snacks accounted for 10.6% of Hero Net Sales (PY 10.0%).

Hero's **Baby & Toddler Milk** (BTM) category closed the period under review with an organic decline of 4.4% compared to prior year. Stock adjustments within our Chinese distribution as well as some out-of-stock situations in our European markets related to Supply Chain changes were the reasons for the sales decline in 2019. On the other hand, Hero posted double digit growth in the category in the Middle East. In 2019, BTM contributed 10.3% (PY 11.2%) to Hero's Net Sales.

Hero's **Gluten Free** category continued to be impacted by the regulatory environment in the UK prescription market where many regions still apply restrictions of prescribing gluten-free products for people with a coeliac disease diagnosis. As a result, the organic Net Sales of the Gluten Free category declined by 4.6% versus prior year. Gluten Free's share of total Net Sales in 2019 stood at 3.7% (PY 4.2%).

Hero's organic Net Sales in **Specialties** grew slightly by 0.3% in continuing business compared to prior year. In December 2019, Hero sold its

chilled liquid fruit business in the Benelux. While we saw growth in our Specialties business in the US, we faced a drop of our B2B business in Sweden. In 2019, the share of Hero's non-core Specialties category further reduced and made up 16.9% of Net Sales (PY 18.2%).

Operating result

The Hero Group **Operating Profit** reached CHF 83.1 million in the current year compared to CHF 91.1 million in 2018. The appreciation of the Swiss Franc against foreign currencies led to negative currency translation effects. Furthermore, we had lower levels of non-recurring income in 2019 compared to prior year (e.g. grants in the US). Operationally, we saw a very positive profit development in the US while we faced declines in the China related BTM business.

In 2019, **Gross Profit** increased by CHF 6.5 million to CHF 396.8 million on the back of higher nominal Net Sales. The Gross Profit Margin landed at 33.4% (PY 33.7%). Like-for-like, excluding M&A as well as government grant effects, we achieved a slight progress in Gross Margin of +12bp. While we achieved continued improvements in Gross Margin in several core markets supported by product portfolio optimization and supply chain efficiencies, in 2019 we also invested in a state-of-the-art Baby & Toddler Milk production facility in Sweden which limited our Gross Margin during the transition.

Total **Operating Expenses** stood at CHF 316.9 million or 26.7% of Net Sales, up from CHF 302.5 million (26.1% of Net Sales) the year before. The increase of the Operating Expenses from 26.1%

in CHF million	Net sales 2019	Net sales 2018*	△ 2019 vs 2018 in %	Acquisition effect	Currency effect	Organic Growth
Natural Spreads	258.1	260.1	-0.7%	-	-2.0%	1.3%
Healthy Snacks	125.6	115.8	8.4%	-	-3.8%	12.2%
Baby & Toddler Food	436.5	392.0	11.4%	8.6%	-1.0%	3.7%
Baby + Toddler Milk	44.3	48.8	-9.2%	-	-1.3%	-4.4%
Gluten Free	122.8	130.3	-5.7%	-	-4.6%	-4.6%
Specialties	200.7	211.3	-5.0%	-	-5.3%	0.3%
HERO GROUP	**1 188.2**	**1 158.3**	**2.6%**	**2.9%**	**-2.6%**	**2.2%**

* adjusted for the effect of discontinued operations

to 26.7% of Net Sales is based on the Hero Group's investment in Advertising & Promotion supporting its brands to boost growth. Besides this, the higher nominal value of Operating Expenses is due to the consolidation of our partnership goodforgrowth GmbH for the first time in 2019.

Other Operating Income / (Expense) stood at CHF 3.3 million net. Other Operating Income of the year totals CHF 16.0 million and includes valuation adjustments of the earn-out and put option liability for the acquisition of goodforgrowth GmbH, income from a VAT settlement, and government grants. At the same time the company saw Other Operating Expense of CHF 12.7 million related to restructuring expenses, and property and grant related expenses to governments.

Financial result and taxes

The net **Finance Expense** for the year amounts to CHF 5.4 million, a reduction of CHF 3.9 million expense compared to 2018. The reduction of the net Finance Expense over prior year is mainly due to interest income from the seller promissory note relating to the sale of Signature Brands the year before as well as interest income from the cash balances. The interest expense of CHF 5.3 million (prior year CHF 5.8 million) remained at low levels on the back of the low interest environment in Europe. Foreign exchange losses accounted for CHF 1.5 million compared to CHF 0.8 million in 2018.

In 2019, **Income Tax Expense** amounted to CHF 15.7 million resulting in a tax rate of 20.2%. The reduction of income tax expense is a result of using previously not recognized tax loss carry-forwards.

Net Income

The Group's **Net Income** for the year was slightly up from prior year at CHF 63.3 million (prior year CH 62.9 million). Net Income from continuing operations was further improved by 2.3% to CHF 62.0 million (prior year CHF 60.6 million). As in prior year, the profit for the year from discontinued operations of CHF 1.2 million relates to the sale of the specialty business in the US in 2018. The CHF 1.2 million results mainly from a sales price adjustment based on final closing numbers at the beginning of 2019.

Cash Flow

The **Cash Flow from operating activities** stood at CHF 104.8 million (prior year of CHF 32.9 million was strongly impacted by the sale of Signature Brands) on the back of lower investments in the Net Working Capital of the company. Cash outflows from investing activities amounted to -CHF 83.2 million and include the acquisition of the shares in goodforgrowth GmbH beginning of 2019 as well as major investments to increase the production capacity for BTM products and investments in fresh fruit processing for the Natural Spreads category. For financing activities, the company reported a cash outflow of CHF 34.9 million resulting from loan and financial lease payments.

Net Debt and Equity

The company's **Net Debt** position remained at the relatively low level of CHF 120.2 million. The slight increase from CHF 104.1 million at the end of 2018 came together with the acquisition of shares in goodforgrowth GmbH and the introduction of the new leasing standard IFRS 16 in 2019. Consequently, the Net Debt / EBITDA ratio remains at a very solid level of 0.9 (prior year 0.8). Hero's Equity increased from CHF 726.1 million to CHF 742.7 million, translating into an Equity Ratio of 52.0% (prior year 53.5%). The financing structure of the Group remains very solid and provides a good basis for the future.

Outlook

In 2020, we will focus on accelerating organic growth in our core categories and on investing in strategic areas to make Hero future-proof.

While growth prospects in developed markets, especially Europe, remain moderate, Hero is confident to grow its core business further, supported by new product concepts, growth outside Europe, and the eCommerce channel.

Key investment areas will be our brands and innovations, supply chain, sustainability, and digitalization, including a modern business process and ERP system landscape. We are committed to dedicating sufficient funds to these strategic priorities while maintaining healthy profit and cash flow levels.

RISK MANAGEMENT

The aim of Hero's risk management process is to identify potential risks at an early stage and to avoid or substantially limit their potential impact on the Group. The process is designed to help the company achieving its results and to support the long-term strategy.

Hero's risk management process includes an annual top-down assessment at Group level and a parallel bottom-up review by the subsidiaries to create a good understanding of the company's strategic and operational risks. The individual assessments are aggregated and evaluated in terms of possible damage that would result should the risk event materialize. Ownership is allocated for each risk area to drive specific actions to mitigate the potential damage.

The results of the Group Enterprise Risk Management process are presented and discussed with the Board of Directors annually.

Risk Factors

The factors identified below are considered currently the most relevant for our business and performance.

Food safety

Any major event triggered by a serious food safety or other compliance issue could have a negative effect on Hero's reputation or brand image.

The Group has policies, processes, controls, and regular monitoring in place to ensure high-quality products and the prevention of health risks arising from handling, preparation, and storage throughout the value chain.

Raw material supply

The unpredictability of harvest yields impacts the reliability to source the necessary volumes of raw material with the specific quality requirements needed for production. Raw material prices might increase. This leads to decreasing sales and margin losses.

Hero follows a sustainable sourcing strategy for key raw materials. Our large network of suppliers minimizes supply risks, and we evaluate direct contracting with farmers and monitor supplier performance.

Digital Disruption

A shift of the consumer goods market into digital models lowers market entry barriers and consumers can be more easily reached by new players. This can result in decreasing sales.

Hero maintains and develops strong customer relationships. At the same time, Hero is investing in extending market insights, eCommerce, and digital marketing capabilities throughout the Group.

IT Systems & Security

The Group depends on accurate, timely data along with increasing integration of digital solutions, services and models, both internal and external. The threat of cyberattacks disrupting the reliability, security and privacy of data, as well as the IT infrastructure, continues to increase. Contingency plans along with policies and controls are in place with the aim of protecting and ensuring compliance on both infrastructure and data.

Hero will increasingly invest in its IT infrastructure as well as a more harmonized, modern ERP system. Unrealistic scoping and planning or an insufficient resource allocation can lead to project overspend, delays, harmonization goals not being achieved, and business process disruption. Hero counts on proper project management and change management tools, allocates internal and external resources with appropriate capabilities, and assigns priorities to ensure project goals are achieved.

Financial risks

Given its international operations, the Hero Group is exposed to financial risks; these comprise exchange rate, interest rate, and credit and liquidity risks.

The Hero Group maintains several pension funds. Underperformance of pension funds might lead to underfunded positions with potential negative impact on Hero's results.

The individual risks are closely controlled and monitored. Central tasks to reduce financial risk within the Group are managing financial requirements long-term as well as risk mitigation through hedging where appropriate.

Insurance program

The Hero Group risk policy also includes a comprehensive insurance scheme to protect against risks. This is achieved with the help of an international insurance program against third-party liability, property damage, and business interruption.

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERO GROUP

Content

CONSOLIDATED INCOME STATEMENT

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

	Note	2019	2018
Continuing operations			
Net Sales		**1 188 161**	**1 158 262**
Cost of sales		(726 971)	(701 940)
Distribution expense		(64 412)	(66 025)
Gross profit		**396 778**	**390 297**
Advertising and promotion		(123 240)	(114 241)
Marketing and sales		(97 195)	(95 115)
Research and development		(11 648)	(12 495)
Administrative expense		(84 838)	(80 636)
Other income	1	15 957	7 482
Other expense	1	(12 682)	(4 228)
Operating profit		**83 132**	**91 064**
Finance income	2	4 168	1 809
Finance expense	2	(9 544)	(11 096)
Income before tax		**77 756**	**81 777**
Income tax expense	5	(15 707)	(21 150)
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**62 049**	**60 627**
Discontinued operations			
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	25	**1 244**	**2 244**
INCOME FOR THE YEAR		**63 293**	**62 871**
Attributable to:			
Equity holders of the parent		62 846	62 101
Non-controlling interests		447	770
INCOME FOR THE YEAR		**63 293**	**62 871**

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.–

	2019	2018
INCOME FOR THE YEAR	**63 293**	**62 871**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(26 879)	(18 597)
Income tax effects	(26)	(67)
	(26 905)	(18 664)
Net (loss) / gain on cash flow hedge	(1 332)	345
Income tax effects	105	(122)
	(1 227)	223
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(28 132)**	**(18 441)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land	657	-
Income tax effects	(66)	(91)
	591	(91)
Remeasurement losses on defined benefit plans	(11 081)	(469)
Income tax effects	2 996	207
	(8 085)	(262)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**(7 494)**	**(353)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(35 626)**	**(18 794)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**27 667**	**44 077**
Total comprehensive income attributable to:		
Equity holders of the parent	27 967	44 924
Non-controlling interests	(300)	(847)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**27 667**	**44 077**

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	2019	2018
Non-current assets			
Property, plant and equipment	7	373 821	369 966
Intangible assets	8	477 250	440 952
Right-of-use-assets	26	21 101	-
Investments in associated companies and joint-ventures	28	1 791	148
Non-current receivables	10	23 427	34 724
Deferred tax assets	11	12 126	9 896
TOTAL NON-CURRENT ASSETS		**909 516**	**855 686**
Current assets			
Inventories	12	166 410	161 396
Financial assets at fair value	21	208	809
Income tax receivables		3 137	4 386
Trade receivables, prepayments and other receivables	13	172 721	145 156
Cash and cash equivalents	14	175 041	190 803
TOTAL CURRENT ASSETS		**517 517**	**502 550**
TOTAL ASSETS		**1 427 033**	**1 358 236**

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

in CHF 1000.–

Equity and liabilities	Note	2019	2018
Shareholders' equity			
Share capital	15	62 133	62 133
Share premium		63 632	63 632
Hybrid capital	15	198 779	198 779
Treasury shares		(4 249)	(4 249)
Other reserves	15	(260 662)	(225 783)
Retained earnings		668 173	622 136
Equity attributable to the equity holders of the parent		**727 806**	**716 648**
Non-controlling interests		**14 930**	**9 448**
TOTAL EQUITY		**742 736**	**726 096**
Non-current liabilities			
Borrowings	16, 21	1 436	1 347
Debentures	16, 21	135 000	264 838
Lease liabilities	26	14 653	-
Deferred tax liabilities	11	28 668	24 805
Net employee defined benefit liabilities	17	78 520	71 170
Provisions	18	11 364	16 305
Other liabilities	19, 21	19 194	1 357
Total non-current liabilities		**288 835**	**379 822**
Current liabilities			
Trade and other payables	20, 21	239 571	214 084
Borrowings	16, 21	7 222	28 716
Debentures	16, 21	129 947	-
Lease liabilities	26	6 963	-
Derivative financial liabilities	21	1 021	387
Provisions	18	7 674	3 473
Income tax payables		3 064	5 658
Total current liabilities		**395 462**	**252 318**
TOTAL LIABILITIES		**684 297**	**632 140**
TOTAL EQUITY AND LIABILITIES		**1 427 033**	**1 358 236**

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, 2018	**62 133**	**63 632**	**198 779**	**(4 249)**	**(191 999)**	**557 725**	**10 569**	**696 590**
Income for the year	–	–	–	–	–	62 101	770	62 871
Other comprehensive income	–	–	–	–	(17 177)	–	(1 617)	(18 794)
Total comprehensive income	**–**	**–**	**–**	**–**	**(17 177)**	**62 101**	**(847)**	**44 077**
Distribution on hybrid capital third parties	–	–	–	–	–	(4 270)	–	(4 270)
Dividend payments to the parent	–	–	–	–	–	(10 027)	-	(10 027)
Dividend payments to non-controlling interests	–	–	–	–	–	-	(274)	(274)
Discontinued operations reclassification	–	–	–	–	(16 607)	16 607	–	–
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**62 133**	**63 632**	**198 779**	**(4 249)**	**(225 783)**	**622 136**	**9 448**	**726 096**
Income for the year	–	–	–	–	–	62 846	447	63 293
Other comprehensive income	–	–	–	–	(34 879)	–	(747)	(35 626)
Total comprehensive income	**–**	**–**	**–**	**–**	**(34 879)**	**62 846**	**(300)**	**27 667**
Distribution on hybrid capital third parties	–	–	–	–	–	(4 270)	–	(4 270)
Dividend payments to non-controlling interests	–	–	–	–	-	-	(404)	(404)
Recognition of put option over non-controlling interests	–	–	–	–	–	(12 539)	–	(12 539)
Capital contribution of non-controlling interests	-	-	-	-	-	-	1 012	1 012
Acquisition of a subsidiary	–	–	–	–	–	-	5 174	5 174
BALANCE AT DECEMBER 31, 2019	**62 133**	**63 632**	**198 779**	**(4 249)**	**(260 662)**	**668 173**	**14 930**	**742 736**

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	2019	2018
Cash flows from operating activities			
Income for the year		63 293	62 871
Adjustments for:			
Tax expense	5, 25	15 707	39 996
Depreciation property, plant and equipment	7	31 629	32 182
Depreciation right-of-use-assets	26	6 754	-
Amortization	8	5 102	5 514
Pre-tax gain on disposal of Signature Brands	25	(1 244)	(16 372)
Fair value result, net		(8 916)	2 195
Interest income	2	(4 125)	(1 562)
Interest expense	2	6 077	5 797
Net loss in foreign exchange		3 952	(361)
Cash flows before changes in net working capital		**118 229**	**130 260**
Inventories		(4 756)	(26 657)
Trade and other receivables		(1 886)	(1 503)
Trade and other payables		15 345	(26 359)
Accruals and provisions		3 384	(20 827)
Changes in net working capital		**12 087**	**(75 346)**
Interest paid		(5 427)	(6 068)
Income tax paid		(20 090)	(15 953)
NET CASH FROM OPERATING ACTIVITIES		**104 799**	**32 893**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	27	(28 222)	-
Capital contribution to joint-ventures	28	(1 650)	-
Purchase of property, plant and equipment	7	(44 553)	(43 295)
Purchase of intangible assets	8	(2 912)	(3 221)
Payment other		(65)	(68)
Loans repayments received		516	461
Disposal of subsidiaries, net of cash disposed	25	1 244	173 027
Disposal of intangible assets		84	-
Repayment of seller promissory note	21	12 593	-
Loan payment to shareholders		(22 248)	-
Proceeds from sale of property, plant and equipment		124	589
Interest received		1 885	1 157
NET CASH (USED IN) / FROM INVESTING ACTIVITIES		**(83 204)**	**128 650**

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

	Note	2019	2018
Cash flows from financing activities			
Distribution on hybrid capital third parties		(4 270)	(4 270)
Proceeds from bank loans		4 299	5 861
Repayment of bank loans		(26 370)	(68 221)
Repayment of non-current financial liabilities		(1 067)	(425)
Payment of lease liabilities		(7 030)	-
Capital increase of non-controlling interests		1 012	-
Payment of dividends to shareholders		-	(10 027)
Payment of dividends to non-controlling interests		(404)	(274)
NET CASH USED IN FINANCING ACTIVITIES		**(33 830)**	**(77 356)**
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(12 235)**	**84 187**
Movement in cash and cash equivalents			
At start of year		190 803	105 489
(Decrease) / increase in cash and cash equivalents		(12 235)	84 187
Effects of exchange rate changes on cash and cash equivalents		(3 527)	1 127
AT END OF YEAR	**14**	**175 041**	**190 803**

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, 0.5% are held by executive board members in relation with the long term incentive plan and 0.5% are held by Hero. The Group's primary activities are the production and selling of consumer food products in the product areas of natural spreads, healthy snacks, baby and toddler food, baby and toddler milk, gluten-free products and specialties which are sold in Europe, North America and Emerging Markets. At the end of 2019, the Group had 4 156 full time employees (2018: 4 070). 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 10, 2020, and are subject to approval by the annual general meeting of shareholders to be held on March 24, 2020.

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, 2019, 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, certain financial assets and liabilities at fair value). 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

New and amended standards and interpretations

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially

unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at January 1, 2019, is as follows:

in CHF 1000.–

Assets	
Righs-of-use assets	20 107
Liabilities	
Lease liabilities	20 107
Equity	**0**

The Group has lease contracts for various items of offices and warehouses, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. In 2018 the Group had no finance leases.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets of CHF 20.1 million were recognized and presented separately in the statement of financial position.
- Additional lease liabilities of CHF 20.1 million were recognized and presented separately in the statement of financial position.
- The net effect on equity of these adjustments is zero.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

in CHF 1000.–

Commitments - Operating Leases disclosed 2018	**21 344**
Weighted average incremental borrowing rate in %	2.7%
Discounted operating lease commitments as at January 1, 2019	19 780
Commitments relating to short-term leases	(610)
Commitments relating to low-value assets	(1 065)
Leases not included in commitments as at December 31, 2018	1 471
Commitments for software licences not included in lease accounting	(3 169)
Additional discounted lease payments due to practical expedient (IFRS 16.15)	3 700
LEASE LIABILITY AS AT JANUARY 1, 2019	**20 107**

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Where necessary the Group recorded a provision.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group.

Future changes in IFRS

There are no plans for early adoption of published standards, interpretations or amendments prior to their mandatory effective date. The Group does not expect that other changes in IFRS, which are not yet effective, will have a material impact on the Group's consolidated financial statements.

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 other 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 is 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, are 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.

Where the Group writes a put option over non-controlling interests, the Group assesss whether it has present access to returns associated with the ownership interests subject to the put option. If the Group concludes that it does not have present acccess, the non-controlling interests are not derecognised and continue to receive an allocation of profit and loss and other comprehensive income. The Group recognises a liability for the present value of the put option redemption amount against retained earnings and any subsequent changes are accounted for in profit or loss (other income/other expense). The put option liability is derecognised on settlement or expiry.

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 30.

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.

Changes in the Scope of Consolidation

Effective January 3, 2019, Hero acquired 70% of good-forgrowth GmbH, Germany. Hero has control over the company and it is consolidated with a non-controlling interest of 30%. Refer to note 27 for the financial effects of this transaction.
On October 31, 2019 Hero formed a joint-venture together with a partner. Hero holds 50% in the joint-venture. The joint-venture is accounted for using the equity method. Refer to note 28 for the financial effects of this transaction.

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:

	2019	2018
AVERAGE EXCHANGE RATES		
EUR/CHF	1.1124	1.1545
USD/CHF	0.9936	0.9779
GBP/CHF	1.2690	1.3050
SEK/CHF	0.1051	0.1126
CLOSING EXCHANGE RATES		
EUR/CHF	1.0851	1.1269
USD/CHF	0.9682	0.9855
GBP/CHF	1.2718	1.2546
SEK/CHF	0.1035	0.1100

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 - Revenue from contracts with customers

The Hero Group manufactures and sells baby and toddler food, baby and toddler milk, healthy snacks, natural spreads and gluten-free food products. Besides this core activity, Hero trades with other food products and manufactures goods for other business partners. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. Revenue from contracts with customers is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. This amount reflects the list price after deductions of returns, trade discounts, price promotions to customers, sales taxes and other pricing allowances. Payments made to customers for commercial services are booked as an expense.

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery and therefore, there is no significant finance component included in the contracts.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. To measure the variable consideration for the expected future rebates, the Group applies its best estimate and constrains revenue if necessary.

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

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 (up to 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 recognized 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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. The Group elected to apply the practical expedient IFRS 16.15.

In calculating the present value of lease payments, the Group uses either the interest rate in the lease contract or its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

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 fulfill 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.

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.

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.

Long Term Incentive Plans

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 recognized in the income statement.

As per January 1, 2019, the Group introduced a new incentive plan for the members of the Group executive board and the members of the leadership cycle including the general managers of the subsidiaries and functional heads of Hero. The plan is linked to the achievement of strategic KPI's and the performance of the share price of Hero which is calculated based on a formula defined in the plan. There is a minimum performance threshold of the strategic KPI's and the amount of pay-out is capped. The new incentive plan is therefore aimed at providing an incentive to make significant contributions to the long-term performance

and growth of Hero and shall increase the ability of Hero to attract, motivate and retain individuals of exceptional skills. Every year, a new plan is initiated in which the members of the plan are granted to participate with 15% of their base salary. The plan members have the option to increase their participation in the plan by decreasing the short-term incentive bonus of the current year. The performance cycle of each plan is three full calendar years, starting in the year of the grant date and ending with the year preceding the vesting date.

For any participants not being a member of the Group executive board, the plan is settled in cash at the end of the vesting period. For the members of the Group executive board, the plan is settled in shares at vesting. At each balance sheet date, management estimates the pay-out at the end of the vesting period. The expense is recognized over the 3-year performance cycle in the income statement. 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.

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.

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 or subsequently measured at amortised cost. The classification depends on contractual cash flow characteristics and the Group's business model for managing them. 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 to avoid an accounting mismatch.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Financial assets at amortised cost

Financial assets with fixed or determinable payments that are held to collect contractual cash flows and give rise on specified dates to cash flows representing solely payments of principal and interest. They arise when the Group provides goods or services to customers with no intention of trading the associated receivable or when the Group lends funds to other parties. Trade receivables are initially measured at the transaction price that is expected to be received and subsequently measured at amortised cost. Financial assets at amortised cost comprise cash and cash equivalents, trade receivables and certain other receivables. The allowance for bad debts is based on the expected credit loss model. Hero incorporates forward-looking information into its historical customer default rates, grouping receivables by customer sector and credit rating and taking into account the existence of collateral, if any. For trade receivables, Hero applies the simplified approach and recognises lifetime expected credit losses.

Borrowings (Financial liabilities at amortised cost)

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 amount 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.

Interest income

Interest income is recognized using the effective interest method.

Dividend income

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

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized 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 recognized in OCI.

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 including 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 hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

Cash flow hedges are accounted for, as described below:

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

Amounts recognized in OCI are accounted for depending on the nature of the underlying hedged transaction.

If the hedged transaction subsequently results in the recognition of a non-financial item, the amount is removed from the cash flow hedge reserve and included in the initial cost of the non-financial asset or liability.

For other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss in the same periods during which the hedged cash flows affect profit or loss.

Fair Value Estimation

The fair value of publicly traded derivatives and trading securities measured at fair value is based on quoted market prices at the balance sheet date. 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 carrying amounts of short-term financial assets and liabilities are generally assumed to approximate to their fair values. For disclosure purposes, the fair value of financial liabilities 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 credit risk, 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 to hedge certain exposures.

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 recognized 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 265.0 as per December 31, 2019 (2018: confidence interval 99%; TCHF 944.5).

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.

	2019	2018
Increase/(decrease) in USD/EUR/GBP/SEK rate	5% (5%)	5% (5%)
Effect on profit before tax in CHF 1000.–	640 (640)	1 413 (1 413)
Effect on equity in CHF 1000.–	206 (206)	3 922 (3 922)

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 refinancing 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 the net carrying value of the loans and receivables.

Credit risks arise from the possibility that customers may not be able to settle their trade receivables or other financial assets, like the seller note, as agreed. Hero considers a financial asset in default when contractual payments are ovr 120 days past due. However, in certain cases, Hero may also consider a financial asset to be in default when internal or external information indicates that Hero is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

There is no significant concentration of credit risk for trade receivables as no customer accounts for more than 10% or more of net sales of the Group. The credit risk for the seller note is based on the rating of comparable companies, in addition a repayment of USD 12.7 million was received in 2019. In 2019 there is no indication of credit default risk of the seller note.

To manage this risk, the Group periodically assesses country and customer credit risk, assigns individual credit limits, and takes actions to mitigate credit risk where appropriate. The provisions for expected credit losses for customers are based on a forward-looking expected credit loss, which includes possible default events on the trade receivables over the entire holding period of the trade receivables. In measuring the expected credit losses, trade receivables are grouped based on shared credit risk and days past due. In determining the expected credit loss rates, the Group considers

current and forward-looking macroeconomic factors that may affect the ability of the customers to settle the receivables, and historical loss rates for each category of customers.

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, 2019	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	(208)	(208)	-	-	-	-	(208)
Forward contracts – cash outflow	1 021	1 021	-	-	-	-	1 021
Forward contracts – net	813	813	-	-	-	-	813
Borrowings	8 658	8 377	26	850	5	333	9 591
Debentures	264 947	132 975	1 350	1 350	1 350	141 750	278 775
Lease liabilities	21 616	7 115	5 109	3 507	1 986	4 943	22 660
Put option liability	10 731		10 731				10 731
Earn-out liability	9 494	2 390	7 104				9 494
Trade and other payables	230 429	230 429	-	-	-	-	230 429
Total	**547 502**	**382 912**	**24 320**	**5 707**	**3 341**	**147 026**	**563 306**

in CHF 1000.– at December 31, 2018	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	(809)	(809)	-	-	-	-	(809)
Forward contracts – cash outflow	387	387	-	-	-	-	387
Forward contracts – net	(422)	(422)	-	-	-	-	(422)
Borrowings	30 063	842	30 328	9	9	582	31 770
Debentures	264 838	2 975	132 975	1 350	1 350	141 750	280 400
Trade and other payables	202 732	202 732	-	-	-	-	202 732
Total	**496 789**	**205 705**	**163 303**	**1 359**	**1 359**	**142 332**	**514 058**

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 Policies, 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 expectations 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 2019, 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 2019, no impairment was identified.

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

December 31, 2019 CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2019-2024	Profit margin change between years 2019 and 2024	Impairment
	in CHF million		in %	in %	in %	in pp	
Schwartauer Werke	160.2	19.8	2.1	6.1	1.7 - 1.9	(0.3)	no
Semper/Eastern Europe Infant Business	77.3	45.9	1.9	6.2	2.1 - 5.6	1.6	no
Benelux Infant	19.4	-	2.0	6.1	(1.9) - 2.0	0.1	no
Organix	25.0	21.3	2.0	7.1	0.3 - 7.9	3.0	no
Vitrac	3.0	-	7.0	24.1	7.1 - 12.1	0.5	no
Beech-Nut	-	17.2	2.3	14.5	2.2 - 10.0	-	no
Hero Brasil	4.4	3.6	3.5	13.2	3.5 - 13.9	5.7	no
goodforgrowth	29.2	20.6	2.1	6.2	2.1 - 36.0	3.6	no
Other	3.5	11.4	-	-	-	-	no
TOTAL	**322.0**	**139.8**					

December 31, 2018 CGU	Goodwill	Indef. life Brand	Perpetual 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 pp	
Schwartauer Werke	166.3	20.6	2.6	6.6	1.5 - 2.8	-	no
Semper/Eastern Europe Infant Business	81.9	48.7	2.0	6.9	2.3 - 4.4	(0.1)	no
Benelux Infant	19.4	-	2.1	6.8	(4.5) - 5.7	4.5	no
Organix	24.7	21.0	2.0	7.7	1.4 - 7.6	1.9	no
Vitrac	2.7	-	7.0	20.8	7.0 - 18.1	0.9	no
Beech-Nut	-	17.6	2.2	14.7	1.2 - 19.5	-	no
Hero Brasil	4.6	3.8	4.0	15.3	4.0 - 17.4	2.3	no
Other	3.7	11.5	-	-	-	-	no
TOTAL	**303.3**	**123.2**					

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.

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.

Fair value measurement of earn-out and measurement of put option over of non-controlling interests

Contingent consideration (earn-out), resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on best estimates of net sales and EBIT in 2020 and 2021. The put option is measured at the present value of the redemption amount. The key assumptions and impact on financial statements are disclosed in note 21.

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 2019 and 2018 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, 2019, and December 31, 2018.

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, 2019, and December 31, 2018, were as follows:

in CHF 1000.-	2019	2018
Total borrowings / debentures	295 220	294 901
Less: cash and cash equivalents	(175 041)	(190 803)
Net debt	120 179	104 098
Equity attributable to the equity holders of the parent	727 807	716 649
Gearing ratio	17%	15%

1. DETAILS ON OTHER INCOME/EXPENSE

in CHF 1000.–	Note	2019	2018
Change in fair value of earn-out liability		4 427	-
Change in put option liability		1 810	-
Gain from VAT settlement		3 222	-
Government grants	4	2 872	402
Reversal of accruals and provisions		1 848	3 534
Compensation for damages		652	106
Gain on disposal		630	13
Stock refunds		374	342
Insurance recovery		-	2 449
Other		122	636
TOTAL OTHER INCOME		**15 957**	**7 482**
Cost for organizational changes and restructuring		(5 584)	(1 653)
Government obligation payments	4	(4 223)	-
Accruals and provisions		(474)	-
Compensation and destruction of channel inventory		(402)	-
Loss on disposal of assets		-	(1 013)
Other		(1 999)	(1 562)
TOTAL OTHER EXPENSE		**(12 682)**	**(4 228)**

In 2019, the reversal of accruals and provisions relate to the reassessment of legal cases. Cost for organizational changes are mainly related to changes in the Northern Europe Supply Chain environment as well as due to organizational changes in the commercial organization of the UK. Government obligation payments in 2019 are mainly related to property tax and other cost relate to consulting services within our Emerging Markets cluster.

In 2018, the reversal of accruals and provisions relate to the settlement of legal cases. The insurance recovery represents an insurance refund for quality issues in the US.

Cost of organizational changes in 2018 primarily arose from organizational changes in the US Supply chain organization as well as changes in HQ functions.

2. FINANCE INCOME/EXPENSE

in CHF 1000.–	Note	2019	2018
Interest income		4 125	1 562
Gains from financial instruments at fair value through profit and loss		24	83
Other financial income		19	164
TOTAL FINANCE INCOME		**4 168**	**1 809**
Interest expense		(5 277)	(5 797)
Interest expense leases	26	(800)	-
Net foreign exchange losses		(1 531)	(808)
Losses from financial instruments at fair value through profit and loss		-	(2 278)
Other financial expense		(1 936)	(2 213)
TOTAL FINANCE EXPENSE		**(9 544)**	**(11 096)**

3. ADDITIONAL INFORMATION ON THE NATURE OF EXPENSE

in CHF 1000.–	Note	2019	2018
Wages and salaries		(181 904)	(182 702)
Social security costs		(41 234)	(39 336)
Pension costs – defined contribution plans		(4 913)	(4 852)
Pension costs – defined benefit plans	17	(3 088)	(3 444)
TOTAL PERSONNEL EXPENSE		**(231 139)**	**(230 334)**

The Group employed 4'156 full time employees in 2019 (2018: 4'070).

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

Year ended December 31, 2019		Right-of-use assets	Property, plant and equipment	Intangible assets
	Note	Depreciation	Depreciation	Amortization
Cost of sales		(2 515)	(27 978)	(8)
Distribution expense		(162)	(577)	(32)
Marketing and sales		(1 161)	(344)	(2 629)
Research and development		(283)	(504)	(271)
Administrative expense		(2 633)	(2 226)	(2 154)
Other expense		-	-	(8)
TOTAL	7,8,26	**(6 754)**	**(31 629)**	**(5 102)**

Year ended December 31, 2018		Property, plant and equipment	Intangible assets
	Note	Depreciation	Amortization
Cost of sales		(26 391)	(11)
Distribution expense		(661)	(175)
Marketing and sales		(196)	(2 386)
Research and development		(621)	(324)
Administrative expense		(2 312)	(1 296)
Other expense		-	(9)
TOTAL CONTINUING OPERATIONS		**(30 181)**	**(4 201)**
Discontinued operations		(2 001)	(1 313)
TOTAL	7,8	**(32 182)**	**(5 514)**

4. GOVERNMENT GRANTS

in CHF 1000.–	Note	2019	2018*
Government grants/obligations for Beech-Nut infant food plant, net		(1 739)	6 317
Export subsidies in Egypt		997	671
Government grants for Schwartauer Werke jam factory		334	347
Government grants for factory equipment in Spain		142	133
Government grants for research projects in Spain		-	14
Spanish education grant		77	83
Other		113	164
TOTAL GOVERNMENT GRANTS		**(76)**	**7 729**

Government grants are deducted from the following type of expense/income:

in CHF 1000.–		2019	2018*
Government grants deducted from cost of sales		1 275	7 184
Government grants included in other income	1	2 872	402
Government obligation payments included in other expense	1	(4 223)	-
Government grants deducted from administrative expense		-	111
Government grants included in financial expenses		-	32
TOTAL GOVERNMENT GRANTS		**(76)**	**7 729**

* restated

5. INCOME TAX

in CHF 1000.–	2019	2018
Current income tax expense	(15 526)	(17 270)
Current income tax expense relating to prior periods	(2 465)	(597)
Deferred tax income / (expense)	2 284	(3 283)
TOTAL INCOME TAX EXPENSE	**(15 707)**	**(21 150)**

Analysis of tax rate

The variation in the Group's average expected tax rate is caused by changes in volumes, product mix and 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.–	2019	2018
Income before taxes	**77 756**	**81 777**
Tax expense based on expected Group tax rate of the year	(19 392)	(19 722)
	24.9%	24.1%
Impact of expense not entitled for deduction for tax purposes	(740)	(3 524)
Impact of non taxable income and exclusively tax deductible expense	2 631	1 688
Impact of tax expense related to profits of other periods and other items	(2 465)	(549)
Utilization of previously unrecognized tax losses	1 781	132
Reassessment of recognized tax losses of prior periods *	1 951	219
Impact of deferred taxes on hybrid coupon	804	804
Impact of difference between statutory and deferred tax rate	384	(284)
Impact of tax law changes**	(661)	86
EFFECTIVE GROUP TAX EXPENSE	**(15 707)**	**(21 150)**

* Mainly relates to US tax loss carry forwards which were reassessed in 2019 and 2018.
** Mainly relates to the US.

6. DIVIDEND

At the Annual General Meeting in 2020 a dividend in respect of 2019 of CHF 6.92 per share amounting to a total dividend of CHF 43 million is to be proposed (in respect of 2018 none). These financial statements do not reflect this dividend payable, which will be accounted for in shareholder's equity as an appropriation of retained earnings in the year ending December 31, 2020. Any dividends payable for 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, 2018	**31 705**	**265 298**	**421 351**	**36 926**	**755 280**
Additions	-	3 979	34 771	4 545	43 295
Decrease/disposals of assets	-	(122)	(3 331)	(367)	(3 820)
Discontinued operations	(2 499)	(19 129)	(27 881)	(3 192)	(52 701)
Foreign exchange differences	(2 138)	(4 030)	(10 566)	(1 038)	(17 772)
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**27 068**	**245 996**	**414 344**	**36 874**	**724 282**
Acquisition of subsidiary (Note 27)	-	-	-	98	98
Additions	-	4 153	34 604	5 796	44 553
Decrease/disposals of assets	-	(522)	(1 389)	(649)	(2 560)
Revaluation	657	-	-	-	657
Reclassifications	-	(218)	18	200	-
Foreign exchange differences	(1 161)	(5 447)	(12 826)	(579)	(20 013)
BALANCE AT DECEMBER 31, 2019	**26 564**	**243 962**	**434 751**	**41 740**	**747 017**
Accumulated depreciation					
BALANCE AT JANUARY 1, 2018	**10**	**76 729**	**264 853**	**24 268**	**365 860**
Additions	3	7 968	21 087	3 124	32 182
Decrease/disposals of assets	-	(122)	(2 774)	(335)	(3 231)
Discontinued operations	-	(7 431)	(21 769)	(2 078)	(31 278)
Foreign exchange differences	(1)	(1 604)	(7 002)	(610)	(9 217)
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**12**	**75 540**	**254 395**	**24 369**	**354 316**
Additions	2	7 243	21 189	3 195	31 629
Decrease/disposals of assets	-	(494)	(1 354)	(590)	(2 438)
Foreign exchange differences	(1)	(2 093)	(7 799)	(418)	(10 311)
BALANCE AT DECEMBER 31, 2019	**13**	**80 196**	**266 431**	**26 556**	**373 196**
Carrying amount					
At January 1, 2019	27 056	170 456	159 949	12 505	**369 966**
At December 31, 2019	26 551	163 766	168 320	15 184	**373 821**

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Spain and Turkey (2018: Spain and Turkey). If land were stated on the historical cost basis, the amounts would be as follows:

in CHF 1000.–	2019	2018
Land at historical cost	19 786	19 609
Land at historical depreciation	(13)	(12)
NET BOOK AMOUNT	**19 773**	**19 597**

Fair value of the land was determined by using market comparable method. This means that valuations performed by the appraiser are based on active market prices, 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 October 2019 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 in average TRY 800 (2018: 560 - 880 TRY) depending on the land condition. In the fair value measurement hierarchy of the Group land is classified as level 3 intstrument 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, 2018	**428 570**	**223 699**	**93 362**	**75 125**	**820 756**
Additions	-	-	-	3 221	3 221
Decrease/disposals of assets	-	-	-	(20)	(20)
Discontinued operations	(71 394)	(40 439)	(45 327)	(27 469)	(184 629)
Foreign exchange differences	(14 677)	(5 587)	(1 038)	(982)	(22 284)
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**342 499**	**177 673**	**46 997**	**49 875**	**617 044**
Additions	-	-	-	2 912	2 912
Acquisition of subsidiary (Note 27)	30 244	21 370	3 413	235	55 262
Decrease/disposals of assets	-	-	-	(1 979)	(1 979)
Foreign exchange differences	(17 419)	(4 845)	(395)	2 436	(20 223)
BALANCE AT DECEMBER 31, 2019	**355 324**	**194 198**	**50 015**	**53 479**	**653 016**
Accumulated amortization					
BALANCE AT JANUARY 1, 2018	**39 276**	**60 249**	**81 202**	**65 466**	**246 193**
Additions	-	974	1 228	3 312	5 514
Decrease/disposals of assets	-	-	-	(20)	(20)
Discontinued operations	-	(7 554)	(39 316)	(27 370)	(74 240)
Foreign exchange differences	(89)	(77)	(463)	(726)	(1 355)
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**39 187**	**53 592**	**42 651**	**40 662**	**176 092**
Additions	-	974	1 345	2 783	5 102
Decrease/disposals of assets	-	(445)	-	(1 455)	(1 900)
Foreign exchange differences	(5 850)	(80)	(130)	2 532	(3 528)
BALANCE AT DECEMBER 31, 2019	**33 337**	**54 041**	**43 866**	**44 522**	**175 766**
Carrying amount					
At January 1, 2019	303 312	124 081	4 346	9 213	**440 952**
At December 31, 2019	321 987	140 157	6 149	8 957	**477 250**

Other intangibles

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

Recognized development costs

In 2019, TCHF 871 development costs were capitalized (2018: TCHF 0).

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 for information about impairment testing and corresponding estimates.

Impairment of goodwill and brands

In 2019 as well as in 2018, the recoverable amounts exceeded the carrying amounts for all CGUs.

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 natural spreads, healthy snacks, baby and toddler food, gluten free, baby and toddler milk and specialties.

The segment North America produces and sells mainly consumer food products in the area of baby and toddler food.

The segment Emerging Markets mainly includes China, Egypt, Russia, Turkey, Brazil and other export countries which produce and sell mainly consumer food products such as natural spreds, healthy snacks, baby and toddler food and baby and toddler milk. As of 2019, businesses from less developed European countries are allocated to Emerging Markets. 2018 figures have been restated accordingly.

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.

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, 2019 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	816 140	193 348	178 673	-	1 188 161
Operating profit	86 155	4 327	20 660	(28 010)	83 132
Depreciation and amortization***	(26 354)	(13 289)	(3 842)	-	(43 485)
Avg. net working capital	37 626	29 310	29 346	940	97 222
CAPEX (tangible)	37 895	3 636	3 022	-	44 553

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land**	Germany	Spain	USA	Other	Total
Net sales	81 659	223 474	149 299	193 348	540 381	1 188 161
Non-current assets***	63 064	129 287	47 868	174 023	457 930	872 172

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Natural Spreads	Healthy Snacks	Baby and toddler food	Gluten free	Baby and toddly milk	Special-ties	Total
Net sales	258 145	125 565	436 535	44 329	122 847	200 740	1 188 161

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2018 in CHF 1000.–	Europe*	North America	Emerging Markets*	Un-allocated	Total
Net sales	808 604	176 514	173 144	-	1 158 262
Operating profit	101 883	456	25 599	(36 874)	91 064
Depreciation and amortization	(20 123)	(11 243)	(3 016)	-	(34 382)
Avg. net working capital - continuing operations	41 318	23 507	24 779	(652)	88 952
CAPEX (tangible) - continuing operations	35 092	4 859	2 477	-	42 428

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land**	Germany	Spain	USA	Other	Total
Net sales	79 833	251 678	157 665	176 514	492 572	1 158 262
Non-current assets***	68 139	128 042	47 620	179 991	387 126	810 918

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Natural Spreads	Healthy Snacks	Baby and toddler food	Gluten free	Baby and toddly milk	Special-ties	Total
Net sales	260 058	115 797	391 982	48 835	130 296	211 294	1 158 262

* restated to reflect organizational changes
** Country of domicile
*** Relates to property, plant and equipment, intangible asset and right-of-use assets as of 2019

10. NON-CURRENT RECEIVABLES

in CHF 1000.–	Note	2019	2018
Reimbursement rights of Schwartauer Werke	17	2 279	2 501
Long term incentive plan loan receivable	22	995	1 330
Seller promissary note	21	19 696	30 551
Other non-current receivables		457	342
TOTAL NON-CURRENT RECEIVABLES		**23 427**	**34 724**

11. DEVELOPMENT OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF 1000.–	Deferred tax assets 2019	Deferred tax liabilities 2019	Deferred tax assets 2018	Deferred tax liabilities 2018
Assets				
Property, plant and equipment	1 110	(31 908)	1 344	(32 602)
Intangible assets	4 699	(20 874)	3 185	(13 434)
Right-of-use assets	-	(4 465)	-	-
Financial assets	1 033	(900)	84	(645)
Trade receivables, prepayments and other receivables	1 085	-	1 126	-
Inventories	554	(699)	671	(558)
Liabilities				
Net employee defined benefit liabilities	12 176	-	10 626	-
Accruals and provisions	2 652	(7 627)	5 401	(9 301)
Trade and other payables	42	(15)	373	(15)
Lease liabilities	4 578	-	-	-
Financial liabilities	436	(5)	5	(9)
Capitalized unused tax losses and tax credits)	21 586	-	18 840	-
TOTAL DEFERRED TAXES	**49 951**	**(66 493)**	**41 655**	**(56 564)**
DEFERRED TAXES, NET	**-**	**(16 542)**	**-**	**(14 909)**

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2019	2018
Deferred tax assets	12 126	9 896
Deferred tax liabilities	(28 668)	(24 805)
DEFERRED TAX (LIABILITIES) / ASSETS, NET	**(16 542)**	**(14 909)**

Unrecognized deferred tax assets for unused tax losses

in CHF 1000.–	2019	2018
Unrecognized deferred tax assets expire in:		
reporting year +1	4 453	-
reporting year +2	384	6 481
reporting year +3	-	681
reporting year +4	-	-
reporting year +5 and beyond	32 876	30 301
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS FOR UNUSED TAX LOSSES	**37 713**	**37 463**

Net deferred tax assets / (liabilities)

in CHF 1000.–	Note	2019	2018
Balance at January 1		(14 909)	(4 325)
Deferred tax income / (expense) continuing operations	5	2 284	(3 283)
Change in scope of consolidation	27	(7 153)	6 743
Deferred tax expense discontinued operations	25	-	(15 707)
Deferred taxes directly recognized in OCI	15	3 009	(73)
Reclasses		18	-
Foreign exchange differences		209	1 736
BALANCE AT DECEMBER 31		**(16 542)**	**(14 909)**

At December 31, 2019, there was no recognized deferred tax liability (2018: 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 51.3 million (2018: CHF 42.7 million).

12. INVENTORIES

in CHF 1000.–	2019	2018
Raw materials and supplies	56 533	53 597
Semi-finished goods	10 697	9 734
Finished goods	99 180	98 065
TOTAL INVENTORIES	**166 410**	**161 396**
Write down of inventories	(2 195)	(1 838)
Inventory expensed in cost of sales	(726 971)	(701 940)

13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

in CHF 1000.–	Note	2019	2018
Trade receivables from customers		130 496	122 772
Less: Allowance for expected credit losses		(2 413)	(2 246)
TRADE RECEIVABLES NET	**21**	**128 083**	**120 526**
Prepayments		7 331	7 653
Loans to related parties	22	21 702	-
VAT		9 401	10 298
Other receivables		6 204	6 679
TOTAL RECEIVABLES AND PREPAYMENTS		**172 721**	**145 156**

Allowance for expected credit losses

in CHF 1000.–	2019	2018
Balance at January 1	(2 246)	(3 488)
Charge for the year	(157)	(47)
Amounts used / written off	(24)	361
Unused amounts reversed	11	452
Discontinued operations	-	367
Exchange rate differences	3	109
BALANCE AT DECEMBER 31	**(2 413)**	**(2 246)**

Maturity of trade receivables

Year ended December 31, 2019 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	130 496	117 103	8 584	1 679	948	293	1 889
Allowance for expected credit losses	(2 413)	(745)	(42)	(12)	(127)	(14)	(1 473)
TRADE RECEIVABLES, NET	**128 083**	**116 358**	**8 542**	**1 667**	**821**	**279**	**416**

Year ended December 31, 2018 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	122 772	111 665	7 001	845	739	415	2 107
Allowance for expected credit losses	(2 246)	(623)	(89)	(23)	(108)	(106)	(1 297)
TRADE RECEIVABLES, NET	**120 526**	**111 042**	**6 912**	**822**	**631**	**309**	**810**

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

14. CASH AND CASH EQUIVALENTS

in CHF 1000.–	Note	2019	2018
Cash at banks		174 664	190 571
Cash equivalents		377	232
TOTAL CASH AND CASH EQUIVALENTS	**21**	**175 041**	**190 803**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 12.2 million (2018: CHF 11.4 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 2019 was 2.06% (2018: 0.96%).

15. SHARES, HYBRID CAPITAL AND OTHER RESERVES

Number of shares

	2019	2018
Total shares issued January 1	6 213 272	6 213 272
Total shares issued at December 31	**6 213 272**	**6 213 272**
Less: Treasury shares	(61 672)	(61 672)
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.–	2019	2018
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, 2018	**23 951**	**25 758**	**187**	**(29 748)**	**(2 589)**	**(209 558)**	**(191 999)**
Hedge accounting	–	–	345	–	–	–	345
Remeasurements	–	–	–	(469)	–	–	(469)
Discontinued operations*	(16 607)	–	–	–	–	–	(16 607)
Tax effects	(91)	–	(122)	207	(67)	–	(73)
Foreign exchange differences	–	–	–	–	–	(16 980)	(16 980)
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**7 253**	**25 758**	**410**	**(30 010)**	**(2 656)**	**(226 538)**	**(225 783)**
Hedge accounting	–	–	(1 332)	–	–	–	(1 332)
Revaluation of land	657	–	-	–	–	–	657
Remeasurements	–	–	–	(11 081)	–	–	(11 081)
Tax effects	(66)	–	105	2 996	(26)	–	3 009
Foreign exchange differences	–	–	–	–	–	(26 132)	(26 132)
BALANCE AT DECEMBER 31, 2019	**7 844**	**25 758**	**(817)**	**(38 095)**	**(2 682)**	**(252 670)**	**(260 662)**

* Following the disposal of Signature Brands cumulative revaluation reserves of CHF 16.6 million have been reclassified within equity to retained earnings.

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	2019	2018
Current			
Bank borrowings and overdrafts		6 915	28 421
Loan liabilities third parties		307	295
Debentures		129 947	-
Lease liabilities	26	6 963	-
TOTAL CURRENT BORROWINGS	**21**	**144 132**	**28 716**
Non-current			
Bank borrowings		284	773
Loan liabilities third parties		328	574
Loan liabilities related to non-controlling interest shareholders	22	824	-
Lease liabilities	26	14 653	-
Debentures		135 000	264 838
TOTAL NON-CURRENT BORROWINGS	**21**	**151 089**	**266 185**

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, 2019 and 2018 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2019 was 11.71% for Emerging Markets and 1.98% outside Emerging markets (2018: 2.80%). The interest rates for the majority of current bank overdrafts and loan liabilities were between 2.40%% - 13.25% for Emerging Markets and 1.12% excluding Emerging Markets (2018: 1.00% and 1.92%). Non-current borrowings had a weighted average fixed interest rate of 2.83% (2018: 3.70%).

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 borrowings/liabilities arising from financing activities	**Non-current borrowings**	**Current borrowings**
Balance at January 1, 2018	**291 953**	**66 433**
Repayment of bank loans	(6 299)	(61 922)
Proceeds from bank loans	5 754	-
Reclass of bank borrowings	(25 000)	25 000
Repayment of non-current financial liabilities	(425)	-
Amortization of bond discounts	107	-
Foreign currency translation effects	95	(795)
Balance at December 31, 2018	**266 185**	**28 716**
Adopion of IFRS 16 Leases	13 167	6 940
Balance at January 1, 2019	**279 352**	**35 656**
Repayment of bank loans	(470)	(25 900)
Proceeds from bank loans	845	3 346
New lease liabilities	1822	6288
Payment of lease liabilities	-	(7 030)
Amortization of bond discounts	108	-
Reclass of debentures	(129 947)	129 947
Repayment of financial liabilities	(1 067)	-
Acquisition of subsidiary, net	820	1 119
Foreign currency translation effects	(374)	706
Balance at December 31, 2019	**151 089**	**144 132**

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, 2019, for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 86% (2018: 86%) of the Group's defined benefit obligations and 88% (2018: 89%) 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, 2019, is 109% (2018: 105%, 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 Swiss pension plan "Hero Pensionskasse" is treated as defined benefit plan under IAS 19 because both the actuarial risks and the investment risks are borne not only by the insured but also by the company. The funded plan "Pensionskasse der Direktionsmitglieder der Hero Schweiz AG" (an extra-mandatory, semi-autonomous management pension plan) was settled in 2019 and replaced by a collective foundation which qualifies as a defined contribution plan.

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 2019 is TCHF 2'279 (2018: TCHF 2'501).

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 2020 are TCHF 2'167.

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 (2018: 0.3%).

The scheme shows based on latest information a USD 5.7 billion deficit (2018: USD 5.7 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.–	2019	2018
Balance sheet obligations for:		
Defined pension benefits	78 520	71 170
LIABILITY IN THE BALANCE SHEET	**78 520**	**71 170**
Income statement charge included in operating profit for:		
Defined pension benefits	3 088	3 444
INCOME STATEMENT CHARGE	**3 088**	**3 444**
Remeasurements for:		
Defined pension benefits	11 081	469
OTHER COMPREHENSIVE INCOME	**11 081**	**469**

Amounts recognized in the balance sheet:

in CHF 1000.–	2019	2018
Switzerland		
Present value of funded obligations	99 919	98 558
(Fair value of plan assets)	(86 041)	(88 015)
Deficit of funded obligations	13 878	10 543
Impact of asset ceiling	-	2 012
LIABILITY IN THE BALANCE SHEET	**13 878**	**12 555**
Germany		
Present value of unfunded obligations	51 190	45 799
LIABILITY IN THE BALANCE SHEET	**51 190**	**45 799**
Other		
Present value of funded obligations	14 721	14 020
(Fair value of plan assets)	(12 274)	(10 868)
Deficit of funded obligations	2 447	3 152
Present value of unfunded obligations	10 945	10 236
Total deficit of defined benefit pension plans	13 392	13 388
Impact of asset ceiling / minimum funding requirement	62	(572)
LIABILITY IN THE BALANCE SHEET	**13 454**	**12 816**
Total		
Present value of funded obligations	114 639	112 578
(Fair value of plan assets)	(98 315)	(98 883)
Deficit of funded obligations	16 324	13 695
Present value of unfunded obligations	62 134	56 035
Total deficit of defined benefit pension plans	78 458	69 730
Impact of asset ceiling / minimum funding requirement	62	1 440
LIABILITY IN THE BALANCE SHEET	**78 520**	**71 170**

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, 2018	**175 236**	**(103 917)**	**71 319**	**3 065**	**74 384**
Current service cost	2 367	-	2 367	-	2 367
Interest expense/(income)	1 900	(832)	1 068	9	1 077
	4 267	**(832)**	**3 435**	**9**	**3 444**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	3 465	3 465	-	3 465
Loss from change in demographic assumptions	706	-	706	-	706
Gain from change in financial assumptions	(3 128)	-	(3 128)	-	(3 128)
Experience loss	1 074	-	1 074	-	1 074
Change in asset ceiling, excluding amounts included in interest expense	-	-	-	(1 648)	(1 648)
	(1 348)	**3 465**	**2 117**	**(1 648)**	**469**
Contributions:					
Employers	-	(1 986)	(1 986)	-	(1 986)
Plan participants	1 349	(1 349)	-	-	-
Payments from plans:					
Benefit payments	(8 612)	5 568	(3 044)	-	(3 044)
Foreign exchange differences	(2 278)	168	(2 110)	13	(2 097)
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**168 614**	**(98 883)**	**69 731**	**1 439**	**71 170**
Current service cost	1 986	-	1 986	-	1 986
Interest expense/(income)	2 033	(931)	1 102	-	1 102
	4 019	**(931)**	**3 088**	**-**	**3 088**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	(9 393)	(9 393)	-	(9 393)
Gain from change in demographic assumptions	(83)	-	(83)	-	(83)
Loss from change in financial assumptions	17 581	-	17 581	-	17 581
Experience loss	2 914	-	2 914	-	2 914
Change in asset ceiling, excluding amounts included in interest expense	(579)	-	(579)	641	62
	19 833	**(9 393)**	**10 440**	**641**	**11 081**
Contributions:					
Employers	-	(1 541)	(1 541)	-	(1 541)
Plan participants	1 221	(1 221)	-	-	-
Payments from plans:					
Benefit payments	(9 142)	6 244	(2 898)	-	(2 898)
Settlement	(5 331)	7 343	2 012	(2 012)	-
Foreign exchange differences	(2 439)	67	(2 372)	(8)	(2 380)
AT DECEMBER 31, 2019	**176 775**	**(98 315)**	**78 460**	**60**	**78 520**

Significant actuarial assumptions:

	Switzerland		Germany		Other*	
in %	2019	2018	2019	2018	2019	2018
Discount rate	0.20	0.70	0.40	1.70	1.49	2.58
Salary growth rate	1.00	1.00	3.00	3.00	0.04	0.04
Pension growth rate	0.00	0.00	2.00	2.00	1.40	1.52

* weighted average

Assumptions regarding future mortality:

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

	Switzerland		Germany		Other*	
in years	2019	2018	2019	2018	2019	2018
Retiring at the end of the reporting period:						
Male	23	22	20	20	21	21
Female	25	25	24	24	24	24
Retiring 20 years after the end of the reporting period:						
Male	24	24	23	23	23	23
Female	26	26	26	26	25	25

* weighted average

Sensitivity of the defined benefit obligation:

2019		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(11 141)	(6.3%)	12 538	7.1%
Salary growth rate	0.50%	1 109	0.6%	(1 109)	(0.6%)
Pension growth rate	0.25%	4 335	2.5%	(1 774)*	(1.0%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		7 384	4.2%	(6 773)	(3.8%)

*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:

2018		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(9 861)	(5.8%)	11 086	6.6%
Salary growth rate	0.50%	880	0.5%	(880)	(0.5%)
Pension growth rate	0.25%	3 747	2.2%	(1 540)*	(0.9%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		6 783	4.0%	(6 141)	(3.6%)

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

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.–	2019	in %	2018	in %
Equity instruments	24 122	24.5	23 484	23.7
Bonds	43 440	44.2	45 785	46.3
Property	22 887	23.3	22 993	23.3
Cash and cash equivalents	2 589	2.6	2 592	2.6
Other	5 277	5.4	4 029	4.1
TOTAL	**98 315**	**100.0**	**98 883**	**100.0**

The assets of the Swiss pension funds which represent 88% (2018: 89%) of the Group's plan assets are comprised of:

- 23% (2018: 22%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 48% (2018: 49%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 27% (2018: 26%) 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).
- 3% (2018: 3%) Cash and cash equivalents (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 or loosely correlated with 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, 2020 are TCHF 3'153.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

Weighted average duration:

	Switzerland		Germany		Other*	
	2019	2018	2019	2018	2019	2018
in years	13	10	15	14	12	13

* weighted average

18. PROVISIONS

in CHF 1000.–	Litigation	Employee related	Other	Total
BALANCE AT DECEMBER 31, 2018/ JANUARY 1, 2019	**2 943**	**12 896**	**3 939**	**19 778**
Additional provisions	-	2 477	2 973	5 450
Utilized	-	(3 403)	(1 311)	(4 714)
Unused amounts reversed/reclassifications	(1 223)	(296)	146	(1 373)
Foreign exchange differences	5	(189)	81	(103)
BALANCE AT DECEMBER 31, 2019	**1 725**	**11 485**	**5 828**	**19 038**

Analysis of total provisions				
Current provisions	35	2 675	4 964	**7 674**
Non-current provisions	1 690	8 810	864	**11 364**

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.

19. OTHER NON-CURRENT LIABILITIES

in CHF 1000.–	Note	2019	2018
Earn-out liability	21	7 104	-
Put option liability	21	10 731	-
Withholding taxes		783	709
Other liabilities		576	648
TOTAL OTHER NON-CURRENT LIABILITIES		**19 194**	**1 357**

20. TRADE AND OTHER PAYABLES

in CHF 1000.–	Note	2019	2018
Trade payables	21	124 019	105 978
Accrued expenses		96 080	91 739
VAT and other taxes		5 728	6 680
Social security		3 414	3 483
Government grants		-	1 184
Earn-out liability	21	2 390	-
Other payables	21	7 940	5 020
TOTAL TRADE AND OTHER PAYABLES		**239 571**	**214 084**

Other payables consist primarily of obligations arising from customer credit balances and short-term incentive plan liabilities

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	2019	2018	2019	2018
Financial assets - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		208	809	208	809
Financial assets measured at amortized cost					
Non-current					
Seller promissary note		19 696	30 551	18 325	**
Current					
Trade receivables	13	128 083	120 526	*	*
Loans to related parties	13	21 702	-	*	*
Cash and cash equivalents	14	175 041	190 803	*	*
Total (non-current and current)		**344 522**	**341 880**	-	-
Financial liabilities - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		1 021	312	1 021	312
Financial liabilities at fair value through profit or loss					
Non-current					
Earn-out liability on acquisition of goodforgrowth	27	7 104	-	7 104	-
Current					
Earn-out liability on acquisition of goodforgrowth	27	2 390	-	2 390	-
Foreign exchange contracts not designated as hedges		-	75	-	75
Total (non-current and current)		**9 494**	**75**	**9 494**	**75**

in CHF 1000.–	Note	Carrying amount 2019	Carrying amount 2018	Fair value 2019	Fair value 2018
Other financial liabilities measured at amortized cost					
Non-current					
Borrowings	16	1 436	1 347	1 151	1 346
Debentures	16	135 000	264 838	134 745	264 653
Put option liability over non-controlling interests	27	10 731	-	10 731	-
Current					
Trade and other payables	20	230 429	202 737	*	*
Borrowings	16	7 222	28 716	*	*
Debentures	16	129 947	-	*	*
Total (non-current and current)		**514 765**	**497 638**	-	-

* The fair values approximate the carrying amounts, largely due to the short-term maturities of these instruments.
** Since the transaction date there were no significant changes in the interest rates, therefore the carrying amount approximates the fair value.

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.

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.

Seller promissary note

Part of the disposal consideration for Signature Brands (see note 25) was received in the form of a subordinated seller promissary note. The note was issued by TC Signature Purchaser LLC on October 25, 2018 at a principal amount of USD 31 million. Signature Brands, LLC promises to pay to Hero USA Inc. the principal amount and interest. The applicable interest rate for the period up to and including the first anniversary of the Issuance Date, the rate per annum is equal to 8% and for the period thereafter, the rate per annum is equal to LIBOR plus 8%. The maturity date of the note is seventy-eight months from the issuance date. The note can be partially or in full repaid earlier. In 2019 Hero received a repayment of USD 12.7 million (CHF 12.6 million). The current valuation includes a loss allowance equal to a 12 months expected credit loss (ECL).

Put option liability and earn-out liability goodforgrowth GmbH

As of January 3, 2019, Hero bought 70% of the shares of goodforgrowth GmbH (Freche Freunde). Hero paid an initial purchase price for these 70% and agreed on an Earn-Out arrangement based on results (Net Sales and EBIT) from 2019-2021. At the same time, Hero received a call option over the remaining 30% and is option writer of a put option over the remaining 30%.

As part of the accounting for the acquisition of goodforgrowth GmbH, a contingent consideration (earn-out) with an estimated fair value of CHF 13.9 million was recognized at the acquisition date and remeasured to CHF 9.5 million as at the reporting date based on new estimates of the future development of the company. Future developments may require further revisions to the estimate. The maximum consideration to be paid is CHF 20 million. The contingent consideration is presented within other current and non-current liabilities respectively in the balance sheet.

The put option on the non-controlling interests of 30% over goodforgrowth GmbH was recognized at an estimated present value of the redemption amount of CHF 12.5 million at the acquisition date and remeasured to CHF 10.7 million as at the reporting date based on new estimates of the future development of the company. Future developments may require further revisions to the estimate. The put option is classified as non-current liability.

Put option valuation: Strike price: Enterprise values minus net debt +/- difference to net working capital target.

Enterprise value is the result of a net sales and EBIT multiple (average of net sales of the years 2019-2021 * 1.5 + average of EBIT of the years 2019-2021 * 15). The whole result divided by 2.

Exercise period: 1 October 2022 - 31 December 2022.

Earn-out valuation: Net Sales and EBIT multiple of the results of goodforgrowth GmbH for the years 2019, 2020 and 2021. The fair value also changes as a result of foreign exchange movements (EUR/CHF) and changes in discount rates (level 2 input parameters).

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, 2019, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements. The Group held no level 3 financial instruments in 2018.

As at December 31, 2019, the Group held the following financial instruments measured at fair value:

at December 31, 2019	Assets measured at fair value	Liabilities measured at fair value	
in CHF 1000.–	Level 2	Level 2	Level 3
Forward foreign exchange contracts in cash flow hedges	208	1 021	
Earn-out liability on acquisition of goodforgrowth	-	-	9 494

at December 31, 2018			
in CHF 1000.–	Level 2	Level 2	Level 3
Forward foreign exchange contracts in cash flow hedges	809	312	-
Forward foreign exchange contracts not designated as hedges	-	75	-

Earn-out liability on acquisition of goodforgrowth	
in CHF 1000.–	
Balance at January 1, 2019	-
Additions	13 921
Fair value changes through profit or loss	(4 427)
Balance at December 31, 2019	**9 494**

Liabilities for which fair values are disclosed	2019	2019	2018	2018
in CHF 1000.–	Level 1	Level 2	Level 1	Level 2
Borrowings	-	1 151	-	1 346
Debentures	134 745	-	264 653	-

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as per December 31, 2019 are shown below:

	VALUATION TECHNIQUE	SIGINIFICANT UNOBSERVABLE INPUTS	SALES GROWTH RATES / EBIT MARGINS 2019-2021	SENSITIVITY OF THE INPUT TO THE FAIR VALUE
Earn-out liability on acquisition of non-controlling interests	Multiple approach based on probability weighted scenarios	Net Sales	between 5% and 44.5%	5% increase (decrease) in net sales and EBIT would result in an increase (decrease) in fair value by 1 385 EUR
		EBIT	between 3% and 11.3%	

Hedging activities and derivatives

Financial instruments risk management policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 18-month period for hedges of forecasted sales and purchases and net investment hedges.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

At December 31, 2019 and 2018, the Group hedged 50% of its net exposure of its expected foreign currency sales and purchases. Those hedged sales and purchases were highly probable at the reporting date. This foreign currency risk is hedged by using foreign currency forward contracts.

Derivatives not designated as hedging instruments

The Group uses foreign exchange contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 12 months.

Derivatives designated as hedging instruments

Cash flow hedge

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales and forecast purchases. The forecast transactions are highly probable. The cash flow hedges of the expected future sales and purchases in 2019 were assessed to be highly effective.

The Group is holding the following forward foreign exchange contracts:

in CHF 1000.–	2019	2018
Contracts with positive fair values		
Notional amount of forward foreign exchange contracts	44 123	84 678
Contracts with negative fair values		
Notional amount of forward foreign exchange contracts	(68 245)	(69 280)

The Group entered into forward foreign exchange contracts during financial year 2019 locking in several foreign exchange rates. The maturity of the open derivative positions is less than 12 months.

The effect of the cash flow hedge in the statement of profit or loss and other comprehensive income:

in CHF 1000.–	Total hedging gain / (loss) recognized in OCI	Ineffectiveness recognized in profit or loss	Cost of hedging recognized in OCI	Amount reclassified from OCI to profit or loss (cost of sales)
Year ended December 31, 2019				
Highly probable forecast transaction	(1 332)	-	-	514
Total	**(1 332)**	**-**	**-**	**514**
Year ended December 31, 2018				
Highly probable forecast transaction	(13)	-	-	169
Net investment in foreign operations	358	-	-	-
Total	**345**	**-**	**-**	**169**

22. RELATED AND ASSOCIATED PARTY TRANSACTIONS

in CHF 1000.–	Note	2019	2018
Income			
Interest income from AOH Nahrungsmittel Group		2	-
Receivables/Liabilities			
Other short-term receivables from AOH Nahrungsmittel Group		128	-
Short-term loan receivable to AOH Nahrungsmittel Group	13	21 702	-
Long-term loan liabilities to non-controlling interest shareholders	16	824	-
Key management personnel			
Salaries and other short-term employee benefits		(6 070)	(5 920)
Post-employment benefits		(497)	(490)
Long-term incentive plans - expense		(385)	(1 266)
Long-term incentive plans - dividend payment		-	(101)
Long-term incentive plans - provision		4 440	6 215
Long-term incentive plans - loan receivable	10	995	1 330

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.

For detailed descriptions of the long-term incentive plans refer to section "Long-term incentive plans" in the Accounting Policies.

23. CONTINGENT LIABILITIES

in CHF 1000.–	2019	2018
Contingent liabilities in favor of third parties	830	790

Contingent liabilities are composed primarily of various bank and custom guarantees.

24. COMMITMENTS

in CHF 1000.–	2019	2018
Commitments for the acquisition of tangible fixed assets	6 827	4 232
Commitments for raw materials	70 168	85 020
TOTAL COMMITMENTS	**76 995**	**89 252**

25. DISCONTINUED OPERATIONS

In 2019 the Group had a final closing settlement for the net working capital position of Signature Brands. The proceeds from the closing settlement less expenses incurred in relation to this settlement resulted in a net income of CHF 1.2 million. In addition, the Group received a partial repayment of the seller note of CHF 12.6 million.

On October 25, 2018, the Group disposed of its 100% membership interest in Signature Brands LLC, USA. In the 2018 income statement, Signature Brands was classified as a discontinued operation. The business of Signature Brands represented the entirety of the Group's decorating and popcorn business. With Signature Brands being classified as discontinued operations it is no longer classified in the segment North America.

The results both of the disposal and of the operating result of Signature Brands for the year are as follows:

Details of disposal consideration at fair values

in CHF 1000.-	2018
Property, plant and equitpment	(21 423)
Intangible assets (excl. goodwill)	(38 995)
Goodwill	(71 394)
Other non-current assets	(2 208)
Cash and cash equivalents	(944)
Trade and other receivables	(32 136)
Inventories	(29 152)
Trade and other liabilities	14 164
Deferred tax liabilities	6 743
Net assets disposed (incl. goodwill)	(175 345)
Recycling of FX-differences	(8 144)
Fees and other charges	(6 410)
Tax on disposal	(3 139)
Gain on disposal after tax	13 233
TOTAL DISPOSAL CONSIDERATION	**206 271**
Non-cash consideration - seller promissary note	(32 300)
Cash disposed with subsidiaries	(944)
CASH INFLOW ON DISPOSAL	**173 027**

Details of discontinued operations result

in CHF 1000.-	2019	2018*
Net sales		78 936
Expenses		(74 190)
Operating income		4 746
Finance costs		(28)
Profit before tax from discontinued operations		4 718
Pre-tax gain on disposal	1 244	16 372
Tax on disposal		(3 139)
Deferred tax expense **		(15 707)
PROFIT / (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	**1 244**	**2 244**
Attributable to equity holders of the parent	**1 244**	**2 244**

Net cash flows

in CHF 1000.-	2019	2018
Operating		(12 328)
Investing***	13 837	172 180
NET CASH INFLOW	**13 837**	**159 852**

* January to October
** Deferred tax expense in 2018 relates mainly to the reassessment of certain tax loss carryforwards
*** 2019: Consists of final closing settlement and partial repayment of seller note

26. LEASES

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

in CHF 1000.–	Buildings	Plant and machinery	Other equipment	Total
BALANCE AT JANUARY 1, 2019	**13 728**	**1 337**	**5 042**	**20 107**
Additions	5 427	119	2 564	8 110
Foreign exchange differences	(218	(52)	(246)	(516)
BALANCE AT DECEMBER 31, 2019	**18 937**	**1 404**	**7 360**	**27 701**
Accumulated depreciation				
BALANCE AT JANUARY 1, 2019	**-**	**-**	**-**	**-**
Additions	3 539	524	2 691	6 754
Foreign exchange differences	(64)	(12)	(78)	(154)
BALANCE AT DECEMBER 31, 2019	**3 475**	**512**	**2 613**	**6 600**
Carrying amount				
At January 1, 2019	13 728	1 337	5 042	20 107
At December 31, 2019	15 462	892	4 747	21 101

Set out below are the carrying amounts of lease liabilities and the movements during the period:

in CHF 1000.–	2019
As at 1 January	20 107
Additions	8 110
Accretion of interest	800
Payments of lease liabilities including interest	(7 830)
Foreign exchange differences	429
AS AT 31 DECEMBER	**21 616**
Thereof non-current	14 653
Thereof current	6 963

The following are the amounts recognised in the income statement:

in CHF 1000.–	2019
Depreciation expense of right-of-use assets	(6 754)
Interest expense on lease liabilities	(800)
Expense relating to short-term leases	(610)
Expense relating of low-value assets	(1 064)
Variable lease payments	(974)
TOTAL AMOUNT RECOGNISED IN THE INCOME STATEMENT	**(10 202)**

The Group had total cash outflows for leases of CHF 10.5 million in 2019.

27. BUSINESS COMBINATIONS

On January 3, 2019, the Hero Group entered into a strategic partnership with the German organic baby and toddler food company goodforgrowth GmbH by acquiring 70% of its issued shares. The company operates with different brands like Freche Freunde and Rebelicious, which are predominantly sold in the German market.

Hero paid an initial purchase price for these 70% and agreed on an Earn-Out payment based on the results (Net Sales and EBIT) from 2019-2021. At the same time, Hero received a call option over the remaining 30% and is option writer of a put option over the remaining 30%. Hero has recorded a liability for the put option and the earn-out, see note 21.

Hero has obtained control over the company through the majority of voting rights and contractual arrangements and is fully consolidating goodforgrowth GmbH with non-controlling interests of 30%.

The Group has elected to measure the non-controlling interests in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

		Fair value recognized on acquisition
in CHF 1000.–	Note	2019
Assets		
Property, plant and equipment		98
Intangible assets		25 018
Inventories		4 041
Trade receivables, prepayments and other receivables		5 235
Cash and cash equivalents		173
Deferred tax assets		325
		34 890
Liabilities		
Borrowings		(1 939)
Trade and other payables		(8 225)
Deferred tax liabilities		(7 478)
		(17 642)
Total identifiable net assets at fair value		**17 248**
Non-controlling interest (30% of net assets)		(5 174)
Goodwill arising on acquisition		30 244
Purchase consideration		**42 318**
Thereof cash paid		28 395
Thereof earn-out	21	13 923
		Cash flow on acquisition
Net cash acquired with the subsidiary		173
Cash paid		(28 395)
Net cash flow on acquisition		**(28 222)**
Revenues contributed to the Group in 2019 after acquisition		37 604
Net income contributed to the Group in 2019 after acquisition		(333)

The goodwill on the acquisition is attributable to the future synergies and its leverage on the existing business. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Group incurred acquisition-related costs of TCHF 185 mainly on legal fees and due diligence costs. These costs have been included in ´administrative expense´.

28. INTEREST IN A JOINT VENTURE

The Group has a 50% interest in MadreNatura AG which was founded in October 31, 2019 by Hero AG and its joint-venture partner. The company will sell baby and toddler food. The Group's interest in MadreNatura AG is accounted for using the equity method in the consolidated financial statements. There were no operating activities in 2019 and therefore no share in profit of a joint-venture is recognized in the income statement.

Summarized statement of financial position:

in CHF 1000.-	2019
Equity	**3 300**
Group's share in equity 50%	1 650
Group's carrying amount of the investment	**1 650**

29. EVENTS AFTER THE BALANCE SHEET DATE

There have been no other significant events between December 31, 2019, and the date of authorization of the consolidated financial statements that would require any adjustment or disclosure.

On March 10, 2020 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 CHF 4.25 million.

30. 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
	goodforgrowth GmbH	Berlin	EUR	26	70.0	F	S
Italy	Hero Italia SpA	Verona	EUR	3'616	100.0	F	S
Netherlands	Hero Nederland B.V.	Breda	EUR	14 520	100.0	F	S
	Mimic B.V.	Breda	EUR	-	100.0	F	R
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
	MadreNatura AG	Lenzburg	CHF	100	50.0	E	S
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

* 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, 10 March 2020

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 2019 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 76 to 151) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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.

Goodwill and indefinite lived intangible assets

Area of focus	Goodwill and indefinite lived intangible assets represent 32% of the Group's total assets and 62% of the Group's total shareholders' equity as at 31 December 2019. 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 2019 and determined that there was no impairment. Key assumptions concerning the impairment test are disclosed in the consolidated financial statements (refer to note: 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. Our audit procedures did not lead to any reservations concerning the recognition and measurement of goodwill and indefinite lived intangible assets.

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.–

	Note	2019	2018
Net proceeds from sales of goods and services		170 107	172 587
Dividend income		24 514	24 017
Cost of materials		(67 510)	(68 396)
Employee expenses		(39 716)	(41 453)
Other operational costs		(37 509)	(39 578)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**49 886**	**47 177**
Depreciation and valuation adjustments		(5 757)	(3 052)
Earnings before interest and taxes (EBIT)		**44 129**	**44 125**
Financial income		1 849	4 661
Financial costs		(11 343)	(9 418)
Operating result before taxes		**34 635**	**39 368**
Non-operational income	9	4 320	8 824
Earnings before taxes		**38 955**	**48 192**
Tax expense		(5 811)	(6 044)
ANNUAL PROFIT		**33 144**	**42 148**

BALANCE SHEET

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

Assets	Note	2019	2018
Cash and cash equivalents	1	53 565	37 079
Trade receivables	3	14 444	13 937
Other current receivables	3	56 540	311 494
Inventories	1	10 348	9 613
Accrued income and prepaid expenses		15	296
Current assets		**134 912**	**372 419**
Financial assets	3	284 494	99 833
Investments	2	450 436	408 519
Tangible fixed assets	1	35 811	35 333
Intangible assets		39 649	44 676
Non-current assets		**810 390**	**588 361**
TOTAL ASSETS		**945 302**	**960 780**

Liabilities	Note	2019	2018
Trade payables	3	12 044	11 016
Current interest-bearing liabilities	3	171 164	94 122
Other current liabilities	3	8 104	7 847
Deferred income and accrued expenses	1	16 752	18 032
Current provisions	1	1 722	1 868
Current liabilities		**209 786**	**132 885**
Non-current interest-bearing liabilities	1, 3	337 170	467 093
Other non-current liabilities		7 104	-
Non-current provisions	1	3 636	5 717
Non-current liabilities		**347 910**	**472 810**
TOTAL LIABILITIES		**557 696**	**605 695**
Share capital		62 133	62 133
Capital contribution reserve		63 632	63 632
Legal reserve		25 758	25 758
Profit carry forward		205 042	162 401
Net income for the year		33 144	42 148
Voluntary retained earnings		238 186	204 549
Treasury shares	5	(2 103)	(987)
TOTAL EQUITY		**387 606**	**355 085**
TOTAL LIABILITIES		**945 302**	**960 780**

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). 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 appoinnted 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. The shares are restricted and will ultimately revert to Hero AG. Any share repurchase from the management is accounted for as treasury shares. Treasury shares are reported as a negative item in equity.

As of January 1, 2019, the Group introduced a new incentive plan for the members of the Group executive board and the members of the leadership cycle including the general managers of the country and functional heads of Hero.

For any participants not being a member of the Group executive board, the plan is settled in cash at the end of the vesting period. For the members of the Group executive board, the plan is settled in shares at vesting. At each balance sheet date, management estimates the pay-out at the end of the vesting period. The expense is recognized over the 3-year performance cycle in the income statement.

The shares which allow the executive board members to participate in the plan and are revalued yearly by using the predefined enterprise valuation model. Such effects are recognized in the income statement as personnel expenses.

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.

Other current/non-current liabilities

As of January 3, 2019, Hero AG bought 70% of the shares of goodforgrowth GmbH. Hero paid an initial purchase price for these 70% and agreed on an earn-out based on the results (net-sales and EBIT) from 2019 - 2021. The earn-out is revaluated annually and is included in the participation value of the investment. The total amount of the earn-out liability included in the balance sheet as of December 31, 2019 amounts to TCHF 9'494.

At the same time, Hero received a call option over the remaining 30% and is option writer of a put option over the remaining 30%. No liability was recognized for the put and call option The exercise period of the call and the put option is valid until 2022.

1. EXPLANATIONS TO POSITIONS IN THE BALANCE SHEET

in CHF 1000.–	2019	2018
Bank & cash	53 565	37 079
Cash and cash equivalents	**53 565**	**37 079**
Packaging material	986	955
Raw material	1 051	1 013
Finished goods	8 311	7 645
Inventories	**10 348**	**9 613**
Land	4 749	4 749
Buildings	21 422	21 393
Plant and machinery	8 451	8 912
Other equipment and vehicles	1 189	279
Tangible fixed assets	**35 811**	**35 333**
Interest	1 448	1 329
Promotions	676	973
Goods received no invoice received	1 297	736
Advertising	52	81
Personnel	6 935	7 429
Service	2 439	3 173
Others	3 905	4 311
Deferred income and accrued expenses	**16 752**	**18 032**
Non income tax	455	485
Others	1 267	1 383
Current provisions	**1 722**	**1 868**
Perpetual and subordinated bond	200 000	200 000
Straight bond	135 000	264 839
Group Companies	2 170	2 254
Non-current interest-bearing liabilities	**337 170**	**467 093**
Litigation	1 736	2 894
Others	1 900	2 823
Non-current provisions	**3 636**	**5 717**

2. INVESTMENTS

Company	Domicile	Ownership*	2019 Share capital in %	2019 Share of vote in %	2018 Share capital in %	2018 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
goodforgrowth GmbH	Berlin, Germany	D	70.0	70.0		
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 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
MadreNatura AG	Lenzburg, Switzerland	D	50.0	50.0		
Mimic B.V.	Breda, Netherlands	I	100.0	100.0		
Organix Brands Ltd.	Bournemouth, United Kingdom	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
Sluicing AG in Liq.	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.–	2019	2018
Group companies	3 014	2 755
Third	11 430	11 182
Trade receivables	**14 444**	**13 937**
Group companies	54 523	310 684
Third	2 017	810
Other current receivables	**56 540**	**311 494**
Participants and management bodies	995	1 331
Group companies - loans	283 499	98 502
Financial assets	**284 494**	**99 833**
Group companies	2 492	2 515
Third	9 552	8 501
Trade payables	**12 044**	**11 016**
Group companies	41 217	69 122
Third	129 947	25 000
Current interest-bearing liabilities	**171 164**	**94 122**
Group companies	2 291	2 234
Third	5 813	5 613
Other current liabilities	**8 104**	**7 847**
Group companies	2 170	2 254
Third	335 000	464 839
Non-current interest-bearing liabilities	**337 170**	**467 093**

4. EXCESS RESERVES

in CHF 1000.–	2019	2018
Release of excess reserves	-	-

5. TREASURY SHARES

Number of registered shares	2019	2018
Inventory as at January 1	**15 552**	**-**
Acquisitions from executive board members	25 356	27 738
Sales to executive board members	(10 209)	(12 186)
Inventory as at December 31	**30 699**	**15 552**

In 2019, 25'356 registered shares were purchased at a price of CHF 133.03 each. In the same year, 10'209 registered shares were sold at an average price of CHF 111.69.

In 2018, 27'738 registered shares were purchased at a price of CHF 131.69 each. In the same year, 12'186 registered shares were sold at an average price of CHF 103.60.

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

	2019 number	2019 Total value in TCHF	2018 number	2018 Total value in TCHF
Participation rights in the ownership of				
Management bodies	30 973	3 128	46 120	3 751
Option rights in the ownership of*				
Management bodies	15 163	1 188	9 912	394

* Provisionally determined

7. OTHER INFORMATION

in CHF 1000.–	2019	2018
Lease obligations not recorded in the balance sheet	362	384
Guarantees in the name of Hero AG in the favour of third parties	20 044	20 574
Contingent liabilities	300	4 300

8. NUMBER OF EMPLOYEES

	2019	2018
The average number of full time employees was	between 50 to 249	between 50 to 249

9. NON-OPERATIONAL INCOME

The non-operational income 2019 of CHF 4.3 million (2018: CHF 8.8 million) relates to the sale of an intangible asset. The year 2018 included an additional effect resulting from the recognition and release of provisions for legal cases.

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between December 31, 2019, and the date of authorization of the financial statements that would require any adjustments or disclosure.

11. 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.–	2019	2018
Profit of the year	33 144	42 148
Amount carried forward from last year	204 549	161 912
Gain from disposal of Treasury Shares	493	489
AVAILABLE FOR DISTRIBUTION	**238 186**	**204 549**
Total dividend payment 2019: CHF 6.92 on 6'213'272 registered shares of CHF 10.0 par value	(42 996)	-
BALANCE CARRIED FORWARD	**195 190**	**204 549**

In the name of the Board of Directors:

Giovanni Ciserani

Chairman Board of Directors

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To the General Meeting of
Hero AG, Lenzburg

Zurich, 10 March 2020

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 160 to 168), for the year ended 31 December 2019.

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 2019 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 responsibility* 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. Our audit procedures did not lead to any reservations concerning the recognition and measurement of investments and related income statement accounts.

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


Delight consumers
by conserving
the goodness
of nature

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