Hero

Annual Report 2020

Hero · Schwartau · BeechNut · Semper · Organix · Corny · Sunar · Vitaquell · Juvela · Queensberry · Freche Freunde

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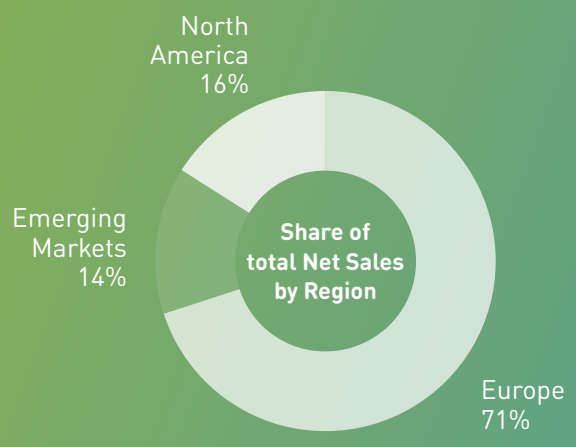
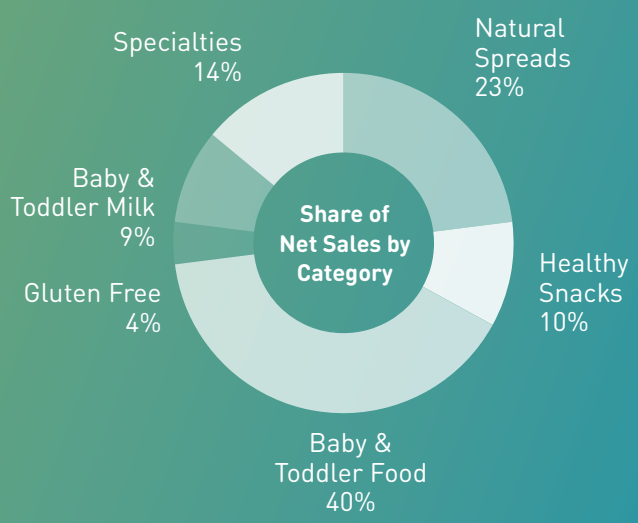
KEY FIGURES

in CHF million	2020	2019	2018
Net Sales	**1 117.5**	**1 188.2**	**1 158.3**
Organic Growth*	1.1	2.2	0.2
EBIT	**59.8**	**83.1**	**91.1**
in % Net Sales	5.4	7.0	7.9
Net Income	**40.2**	**63.3**	**62.9**
in % Net Sales	3.6	5.3	5.4
Total Equity	**706.3**	**742.7**	**726.1**
Equity Ratio in %	53.5	52.0	53.5
EBITDA	**104.8**	**126.6**	**125.4**
Net Debt	**126.4**	**120.2**	**104.1**
Net Debt / EBITDA	1.2	0.9	0.8
Full-time Employees	**4 119**	**4 156**	**4 070**

* adjusted for currency and acquisition effects





JOINT CHAIRMAN / CEO MESSAGE

2020

Our focus in 2020 was on managing the Covid-19 crisis and at the same time continuing to pursue our strategic agenda.

From the start of the Covid-19 pandemic, we set clear priorities on protecting the safety of our employees and securing the supply of Hero food products to our customers and consumers. We are proud of our employees, who handled the circumstances of the pandemic well, kept our operations going, and continued to bring our mission to delight consumers by conserving the goodness of nature to life even during this crisis.

Giovanni Ciserani Chairman

On the business side, we grew our net sales by 1.1% organically in 2020 despite some strong headwinds related to Covid, especially in the Foodservice channel. Our branded sales in core categories were again growing faster, up 2.4% compared to 2019. What is even more important to us is that we gained market shares in the vast majority of the core category markets in which we are active.

Rob Versloot CEO

Our largest category, Baby and Toddler Food, was also the strongest growth contributor at 7.2%. Other categories were impacted very differently by Covid-19. Healthy Snacks, a traditional growth driver in our company, faced a slight net sales decline of 2.6% as a result of less on-the-go consumption during the pandemic. On the contrary, we saw sales in Natural Spreads increase by 3.8% due to more at-home consumption. Sales of our Baby & Toddler Milks declined by 12.8% driven by a Covid-19 related reduced demand from our Chinese consumers.

We are very pleased with the strong performance of our branded business in the US, which compensated for the discontinuation of a non-core business segment in 2020. Our partnerships in Germany (goodforgrowth) and Brazil performed very well in 2020 and made great progress in growth as well as profitability.

Looking at our distribution channels, we saw a strong boost in eCommerce where we were able to double our sales. While the channel clearly benefited during the pandemic, it is also a result of the strategic priority we have put on eCommerce in the past years, making it possible for us to capture the opportunities in this dynamic channel in 2020.

Our EBIT landed below prior year at CHF 59.8 million. While we increased the profit contribution from our core categories by 12% organically, we faced structural declines of around CHF 11 million from currency translation effects and the discontinuation of a non-core broth business in the US. Further, the Covid-19 related decline in Foodservice, Specialties and export had a negative impact on our profit. Apart from the commercial sales and margin loss, it also led to substantial volume drops in our factories, which in turn harmed our Gross Margin where we saw a decline in 2020 after a number of years of consecutive progress. In total, the profitability nevertheless stayed on a healthy level and our business model has proven to be robust during the crisis.

As announced last year, we have decided to undertake deliberate investments to future-proof our company. Despite the Covid crisis, we pursued our strategic agenda and invested in strategic core areas: brands and innovation, supply chain, sustainability and digitalization, including a modern business process, and ERP system landscape (Project PHI).

To enhance our footprint in our core categories, we continued to look for opportunities via partnerships and M&A activities. In the first quarter of 2020, our joint venture with the Angelini Group, MadreNatura AG, entered the Italian Baby & Toddler Food market with the brand Hero Solo. In January 2021, we acquired a majority share in Baby Gourmet, the leading organic baby food brand in Canada, a perfect fit with our mission and culture. We are particularly happy that the founders of Baby Gourmet will continue to be shareholders and officers of the company.

Outlook 2021

We expect that 2021, especially the first half, will still be significantly impacted by Covid-19. Our Foodservice and export business will not be able to reach pre-crisis levels yet. However, we expect some recovery in the second half of 2021. In combination with a resilient core business, we plan organic growth in net sales and EBIT in 2021.

We will continue our strategic investments to make Hero future proof. Our sustainability agenda will take further shape to achieve our ambition to be climate positive by 2030. We have strengthened our marketing and insights capabilities, translating into a strong innovation pipeline going forward. Over the past years, we have made significant investments to modernize our Supply Chain, which we will leverage in 2021 to drive operational excellence and efficiency. Project PHI, the key building block of our digitalization roadmap, will complete the ERP template design phase and prepare the pilot implementation in 2021.

Our people

The year in review was characterized by managing the Covid impact on our business and on our way of working. Our faith and trust in our people was again confirmed in this difficult year. We could fully rely on our employees during this period – their commitment and flexibility was remarkable. We secured business continuity and product supply at all times. Our employees were quick to adapt to remote working, new technology, video meetings, and other means of keeping the business going in the difficult times that characterized 2020. For the work they did and are still doing during these difficult times, the effort they put in, the motivation and commitment to keep business operational 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 gratitude to our shareholders who continue in their relentless support for the organization. And finally, we have nothing but appreciation for all our consumers and customers who have continued to 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 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, diverse 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. At the end of 2017, we launched our Power of One change initiative that seeks to bring together all our businesses and talent. With more integration and collaboration, we can better leverage the collective capabilities of the Group. This is our new, more integrated way of working.

OUR STRATEGY

The strategy of the company is clear: to achieve sustainable profitable growth by aligning all our activities, our portfolio, and our brands to our mission. Our focus now is on execution.

Strengthen our 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

Sustainable profitable growth

Our strategy is aimed at increasing our sales every year by 3%, especially in core categories, over the next years. Gross margin focus remains important, as is increasing the share of core categories in our Group to around 85% or more of total sales.
Especially over the last years, we have strengthened our determination to bring health products to our consumers. This is also an integral part of our strategy. We are very clear in which categories we want to operate, but we want to further our focus on our branded consumer business.

Geographically, the majority of our sales are generated in Europe. Our goal is to revitalize / consolidate our business in this mature market where we believe we can sustain our strong leadership positions in the geographies in which we compete. Outside Europe's borders, we are planning to accelerate growth both organically and through business development. We pay special attention to the markets in North America and China, where the size of the market is clearly attractive and where we believe we have a right to play/win.

Strategic KPIs

As a Group, we have identified four strategic KPIs where we are placing our focus for growth:

- **eCommerce**: This is the fastest growing channel around the world, and the Covid-19 pandemic has accelerated this trend. To set ourselves up for future growth, we must adapt our current way of working and embed eCommerce into all of our businesses as consumers are rapidly changing their shopping behavior. In 2020, we experienced exponential growth in this channel.
- **Innovation**: The success of the company depends on its ability to renew its portfolio and be ahead of trends and maintain its competitive advantage. Innovations include all kinds of new products processes or business models. One such example is the successful launch of the Corny protein, whole nut, and energy bars in 2020 – great additions to the current portfolio which attract new customers while minimizing product cannibalization.
- **Growth outside Europe**: The bulk of our business is carried out in Europe, consisting of about two-thirds of our total sales. To achieve sustainable growth we must look beyond the borders of Europe to new markets such as Brazil and China, the MEA region, Russia, Turkey, and the US.
- **Supply Chain efficiencies**: Achieving a positive result at the end of the year does not only depend on how well we market our products or how many products we sell. It is also important to produce our products efficiently, allowing us to offer high quality products at attractive prices. This is why Supply Chain efficiencies are an important strategic KPI for the company.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OUR CORPORATE VALUES

Evolving values for new times

We have embarked on a process to renew our values to reflect the ever-changing needs of our new realities.

An inclusive process was launched in August 2020 to include employees from all corners of the company to participate via an online survey and focus groups with both white and blue collar workers.

While our values have stood the test of time and are appreciated by our employees, we understand that the world is changing fast and we need to ensure that our values reflect the company we want to become – more modern, more integrated, more collaborative, more agile, and more purpose-driven.

Our goal is to have around 25% of our people participate and have their say in the development of our company values. We want our people to feel proud of our values, relate to them, and most importantly contribute to their creation.

The project, led by Vlad Bog, HR Director Hero Group, involved many months of preparatory work, which was followed by the implementation in the latter half of the year.

We worked with diverse groups of employees to define what changes need to be made to achieve our Mission, Vision, and our internal Power of One initiative, which seeks to achieve better integration and a sharper focus.

The result of all this work will be our values, the essence that binds us together. Listening to our employees and capturing their thoughts on paper is just half of the work. The other half will be living the values and making them the secret glue that holds us together. And this will be everyone's work.

Our renewed values will be rolled out in the the first half of 2021.

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 time – Mother Nature.

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

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

In essence, little has changed since Hero was founded. The company's success came from delighting consumers by conserving all the goodness found in nature, and that is what we still do today. In the 130+ years between then and now, Hero has acquired a considerable global reputation. Using both timeless care and state-of-the-art technology, we distribute nature's goodness to hundreds of millions of consumers in scores of countries, spread over five continents.

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, or 82 days. In each case, our food provides the nutrients needed for them to lead a healthy life, all conveniently packaged and conserved.

Our family-owned company includes dozens of brands. We represent a significant force in natural spreads, healthy snacks, and baby/infant food. With brands synonymous with quality, such as Beech-Nut, Hero, Hero Baby, Organix, Queensberry, Schwartau and Semper, 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.

For nearly a century and a half, we have been nature lovers with one aspiration; to delight consumers by conserving the goodness of nature.

THE HERO GROUP

1886 Foundation of Conservenfabrik Lenzburg, Henckell & Zeiler

Hero was established in 1886 when two friends and schoolmates, Gustav Henckell and Gustav Zeiler, set up the *Henckell & Zeiler, Conservenfabrik Lenzburg* to process fruit and vegetables.

1890 Beech-Nut founded in Canajoharie, New York

Beech-Nut was founded in 1890 by five residents of Canajoharie, New York.

1899 Schwartau established in northern Germany

The company Chemische Fabrik oHG was founded on July 3, 1899 by Otto Fromm, a businessman, and his older brother Dr Paul Fromm, a chemist.

1910 Launch of the Hero brand

The Hero brand name, derived from the first two letters of the partners`names, HEnckell and ROth, was launched in 1910. Tin cans also inspired the name with the letters H, R, and O resembling their shape.

1914 Hero enters the Benelux market

The fruit and vegetable business owned by the Jensen family was acquired by Hero. In this year, Hero is also listed on the stock market.

1914 Hero quoted on the stock exchange

Hero was floated on the stock exchange in 1914.

1922 Hero Spain formed

Hero Sewell S.A. (also known as Hero Alcantarilla) was formed after Hero acquired the majority of the Champagnes et Frères Ltd company.

1939 Semper company founded

Svenska Mjölkprodukter AB (SMP), later renamed Semper, is founded by Swedish entrepreneur Axel Wenner-Gren.

1939-1945 Beech-Nut produces 'K' rations during the war

During the war, Beech-Nut was the largest producer of "K" rations for soldiers serving in Europe and Asia.

1940s Semper builds new factory in Götene

A new plant is built in Götene, Sweden, by Semper.

1945 Oetker family takes on full ownership of Schwartau

In 1945, the influence of the Oetker family increases with 100% of the shares held by siblings Rudolf-August and Ursula Oetker, mother of Dr Arend Oetker.

1950s Post war baby boom boosts Beech-Nut sales

The post war baby boom makes itself felt in the early 1950s and the demand for baby food increased substantially in the US.

1970 Hero takes majority holding in Italian company

Hero acquired a majority holding (50.1%) of the company LIDO, which changes name to Hero Verona SpA and later Hero Italia.

1985 Spain enters baby market

Hero Spain takes the bold decision to enter the baby market with a new product called Hero Baby.

1992 Lizzie Vann establishes Organix in her kitchen

Activist, political campaigner, and business-woman Lizzie Vann creates a baby food brand with pure, natural ingredients – Organix.

1995 Hero under the ownership of the Oetker Family

In 1995, the German company Schwartau International GmbH, owned by Dr Arend Oetker, acquires a majority stake in Hero. This leads to the formation of the Hero Group.

2001 Casa de Mateus joins Hero family

Hero acquires the popular premium Portuguese brand Casa de Mateus.

2002 JV gateway to enter Turkish market

Hero enters the Turkish market in 2002 as a joint venture company with Ülker.

2003 Hero de-listed from stock market

After 90 years, Hero goes private and exits the stock market.

2005 Hero acquires Beech-Nut, Vitrac

Hero takes over Beech-Nut (US) and Vitrac (Egypt).

2006 Hero acquires Semper (and Juvela)

In 2006, Hero acquired Semper, the leading baby food manufacturer in Scandinavia, and the company becomes an important part of the Group. Juvela is included in the acquisition.

2008 Organix joins Hero family

Hero entered the organic baby food sector in the UK through the acquisition of Organix.

2011 New premises for Hero HQ

The building of the Hero Group's new head-quarters and factory in Lenzburg was completed, right on time for the company's 125th anniversary.

2012 New CEO for the Hero Group

In 2012, Dutch national Rob Versloot was appointed as CEO of the Hero Group.

2014 Work starts on new Egypt factory

In September 2014, work started on the new factory in Cairo. The work was completed in August 2016 with an investment of USD 5 million.

2015 Turkish JV ends, Hero assumes 100% ownership

In 2015, the JV between Ülker and Hero was ended with Hero acquiring 100% of the shares and establishing its position in the country.

2015 Expansion into South America

In December 2015, the Hero Group entered into a joint venture with Kiviks Marquand, the makers of market leaders Queensberry jams in Brazil. The company is renamed Hero Brazil.

2018 Large investment in Götene

A large investment, known as the Triple One Project, is made in the infant formula production facility in Götene, Sweden.

2018 Strategic partnership with German baby and toddler food company

Hero and the German organic Baby and toddler food company goodforgrowth enter into a strategic partnership.

2020 New baby company formed in Italy

Hero partners with the Italian Angellini Group to form the baby food company MadreNatura, which enters the Italian baby and toddler food market with a 100% organic portfolio.

SUSTAINABILITY COMMITMENT

CLIMATE POSITIVE 2030

SUSTAINABILITY

Our commitment to sustainability

The Covid-19 pandemic that shook the world to its very foundations in 2020 changed a lot in the way we think about things. This included sustainability.

But rather than slow down our efforts, we realized that we have to re-double them to make sure we reach our targets and deliver even more. The pandemic has made us more aware of the need we have to fix what is being broken.

This is why we can restate in no uncertain terms that the Hero Group will keep to its Sustainability Commitment 2030 – for us and for future generations.

Our journey

Real sustainability requires collective action and a long-term focus. Although sustainability has been in our DNA from our beginnings more than a hundred years ago, we decided with our family shareholders to take more bold, progressive, an intentional action. Our shareholders have taken a personal and direct interest in the sustainability efforts of the Hero Group, putting this important issue at the forefront of what we do. A focused sustainability team with people from across our organization was set up the aim was clear: How can we make sure we give back more to nature then we take?

Conserving is in **our DNA**

Mita Sen
Vice President Strategy & Business Development

I have had the honour of leading the work to develop our Group Sustainability Ambition this past year and a half. The passion from all of the leaders involved, from the shareholders to the junior managers making change happen, has been beyond inspiring. We set ourselves a very ambitious goal because we know real change is needed if we are going to leave the planet in a better place for our next generation.

Christine Crosby
Sustainability Director
Hero Group

Sustainability is key to future profitable growth and achieving people and planet goals. I look forward to implementing measurable initiatives with our countries, functions and partners to further embed sustainability in our business, brands and food system.

As a young professional, it has been very exciting participating in this journey. Being part of the food industry, we all need to change – and this ambition is a great start towards a brighter future.

Garmt Nieuwsma
Front End Innovation Scout – Research & Nutrition Hero Group

At the center of our mission

Our Sustainability commitment is at the center 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 the environmental impact we make – we will give back more than we use. This is our Sustainability Commitment and this is how we are going to do it.

CONSERVING THE GOODNESS OF NATURE

Climate Positive 2030

1

SUSTAINABLE SOURCING

Sustainable sourcing of our ingredients: Working closely with our farmers and suppliers to ensure our soil and ecosystem are protected.

2

NATURAL RESOURCES

Net Neutral production in our factories: Conserving natural resources and becoming net neutral on water, CO_2 and food waste.

3

NATURALLY HEALTHY FOOD

Supply naturally healthy products to our consumers: Promote and supply products good for people and the planet.

1 SUSTAINABLE SOURCING

What is our **ambition**?

Conserving raw materials:
We will work in close partnership with our farmers and suppliers to ensure we have a positive impact on the biodiversity and health of our soil.

Agriculture uses around 40% of Earth's land and is one of the main drivers behind deforestation and biodiversity loss. This is why our first pillar is vital – we work to conserve raw materials and the ecosystem that supports them via strategic sustainable sourcing practices.

OUR GOALS ARE TO

Promote agriculture best practices with farmers, for example improve biodiversity/ amplify our bee careful initiative.

Increase the percentage of raw materials directly-sourced from farmers.

75%

Create collaborative partnerships: 75% of our spend sourced from partner/key suppliers by 2025.

100%

Source 100% recyclable packaging and >50% from recycled material by 2023.

Increase materials sourced based on key sustainability criteria for climate, water, and land use.

2 NATURAL RESOURCES

Conserving natural resources in production of all products, own production and co-manufactured. Making our products responsibly

We are investing in **NEW TECHNO-LOGIES** on how to first reduce, second reuse, and third recycle water and energy within our production lines.

To ensure we achieve our ambitions, we will dedicate a minimum of **10%** **OF OUR ANNUAL CAPEX** for sustainable production improvements.

We will develop **ZERO WASTE PROGRAMS** to create awareness among all our employees and we will recycle as much food waste generated in our factories as possible.

HOW ARE WE BRINGING IT TO LIFE?

WHAT IS OUR AMBITION?

Net neutral in energy and water use on all products by 2030

0%

Drive to 0% food waste in all our production facilities by 2030

0%

Reduce use of packaging and net 0% packaging waste by 2030

3 NATURALLY HEALTHY FOOD

What is our **ambition?**

Our ambition is to promote and supply products that are good for us and the planet. In every new product we develop, or every recipe we change, we want to:

- Increase our offer of fruit, vegetables, whole grains, and nuts
- Improve the naturalness of our products, for example by increasing our organic offer and reducing highly processed ingredients
- Leverage our brands to educate our consumers on sustainable, healthy diets

Increase whole-grain cereals, fruits, vegetables, legumes, and nuts

Decrease meat, sugars, salt, and fats

Ambitions grounded **in science**

Changing our diet can help us improve our health and environment at the same time. Recent scientific studies demonstrated that shifting towards a more sustainable diet, such as the Planetary Health Diet, is the greatest lever to ensure we can feed our growing population.

How are we bringing it **to life?**

We have developed an internal database for all our products covering critical health, naturalness, and sustainability KPIs. This was used to create specific guidelines by category. Our database helps to set our goals, track our performance and ensure we are leading the movement!

A HERO GROUP INITIATIVE

Our ambition

The main aims behind bee careful are:

- To support our farmers: Build bee inspired ecosystems to increase soil health and educate on bees as natural pollinators – both of which 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

The fuss around bees

The Hero Group launched its 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. Doing nothing to help bees is not an option.

Without bees some fruit species would **practically disappear**.

bee careful®

Why bees are important **for you**

Thanks to the work carried out by bees, we have a large choice of products when we visit local groceries or supermarkets. Mother Nature creates the raw materials, and she does so with help from bees.

Jürgen Tautz
Professor at the University of Würzburg and manager of Wee4Bee (formerly HOBOS)

"The future of our planet depends on **sustainable and intelligent treatment** of our biosphere... it is a wonderful initiative by the Hero Group to support basic honey bee research".

OUR HERO SPIRIT SHINES DURING COVID

The past year will be remembered for the havoc caused by the Covid-19 pandemic. The virus spread from China through Europe, to the United States, and the remainder of the world, sending the economy into tilt and shutting down life as we know it. The devastation was widespread, with an uncountable number of companies shutting their doors and millions losing their jobs.

From the very start of this pandemic, our main concerns were for the health and safety of our employees and consumers. Many measures we implemented went over and above what was recommended by the authorities.

Our Supply Chain people and others also put in many hours – and still do – to ensure that our products reached our consumers, especially the youngest. This was not an easy task, one which is still ongoing in 2021.

We also worked hard to maintain employment levels as much as possible. This was not always possible, and we sadly had to let go of some members of staff. However, in the main, we have managed to keep employment levels at very high levels.

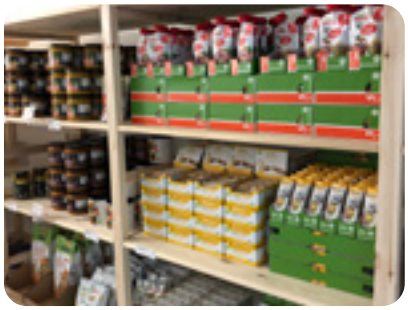
Food companies, such as Hero, can count themselves lucky. We ended the year with a positive organic growth. In normal circumstances, this would not even have been newsworthy, but when it is the result of the 2020 fiscal year, being in the black is something of a great achievement.

We appreciate this fact, and empathize with other industries that were not so fortunate. We also felt the need to help others whenever possible, be it hospitals, institutions, and families, with our food products, personal protective equipment, and more. Most of our countries took it upon themselves to assist others in need.

The real heroes have made themselves known

Solidarity in times of hardship has become the norm for many companies, not least with those forming part of the Hero Group. Without any motivation required from the head office, most of our companies took it upon themselves to help those in need in their countries and regions.
This was especially important as the number of new poor rose dramatically throughout 2020. Here are some examples of what our people in the field have done to help others:

Hero Spain, one of our largest companies by far, handed out a staggering 100 tonnes of products, mainly to food banks, Caritas, and the Red Cross.



Our strategic partners at goodforgrowth in Berlin, Germany, made around 500 donations with a total of 600,000 products to day care centers, schools, children's events, and various charities and non-profit organizations. The list also includes companies that fight against food waste.

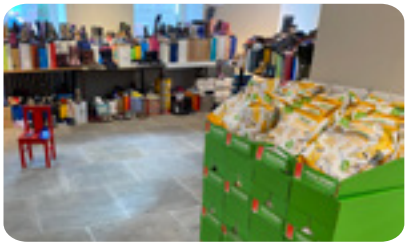
Nearly 14,000kg of products worth in excess of EUR 40,000 were sent to hospitals and food banks by our team at Hero Portugal.

Our people in the Czech Republic made products and masks available to hospitals and other institutions. Not only that, some members of staff took time off from their jobs at Hero to work in hospital as nurses (see page 37).

Hero Brazil, which make the market leading Queensberry jam, helped charitable institutions that help the needy and homeless, and also hospitals and municipal shelters with two tons of jam.

The Hero MEA team in Cairo, Egypt, helped 12,000 families with Vitrac products. In addition, they made sure workers facing difficulties also received products. The company supported the purchase of PPE that was distributed to 300 hospitals and 1,000 health care units across the country.

Hero Turkey made 40 pallets of infant nutrition and other products available to underprivileged families. They also provided support with activities for children and parents to help mitigate mental stress caused by the pandemic.



In the UK, our company Organix donated 100,000 snacks and 26,000 baby food jars to FareShare, a charity fighting hunger and food waste. In addition, staff organized donations for emergency service and women's groups.

Closer to home, we are indebted to our own staff. We've always said our main assets were our people, and this year proved this to be very true. This is especially the case with our frontliners. As offices emptied, our production facilities around the world continued working relentlessly to meet demand. Our blue collar workers made the journey to work every day despite the inherent risks that this entailed. A number of our white collar staff did so, too. A number of white collar staff – including members of the Executive Board – offered to join our blue collar employees if this was required. As it turned out, this was not required.

We are happy that we managed to meet the high demands from our worried customers and made sure their trust in us wasn't misplaced. We are proud of our people for having kept things going when the going got tough.
A special gesture of appreciation goes to parents who took care of their children while still doing their jobs.
As a company, we would also like to extend our gratitude to emergency service workers, delivery people and truck drivers, scientists, street cleaners, utilities personnel, and countless other workers who kept things running while the pandemic was at its worst.

OUR UNSUNG HEROES

Nikola Majznerová and **Petra Konhefrová**, Medical & Pharma Representatives at our Hero Czech & Slovakia office, found themselves with little to do when the second wave of the Covid-19 pandemic wave hit.

Work for the medical sales team in the Czech Republic ground to a painful halt.

As the company management sought other work for the team to avoid redundancies, Nikola and Petra had other ideas.

Trained as a nurse, Nikola decided it was time to give a helping hand at the hospital in her city. She downed her pen and Sunar samples, shut off her laptop, and made her way to hospital.

Her new uniform was the full PPE gear. Now, she is part of the team of frontline hospital workers helping out people who have contracted the virus and are fighting for her life.

Petra also wanted to help out, and upon hearing that a number of nurses and other staff at the local hospital had themselves contracted Covid-19, she did not hesitate to go and give a helping hand in a ward with elderly patients. Her work helps free up time for nurses, allowing them to care for more patients and take some precious time to rest.

To make sure they had no financial worries, the company continued paying them in full while they worked in hospital. After a month, the team happily welcomed them back to the office.


Nikola Majznerová


Petra Konhefrová

It's true what they say – not all heroes wear capes.

When the pandemic was at its peak, many people around the world were confined to their homes. Working from home became a new reality, and contact with others dwindled to a bare minimum. In the midst of it all, a post on our internal messaging board encouraged people to be positive. Barbara Weldon, who works at our Beech-Nut company in the US, wrote:


Barbara Weldon

"Not everything about this pandemic is necessarily bad. In fact, for me, I have found there is a wonderful thing happening in all this. A new form of humanity is emerging. Customers, vendors and business partners... are now asking 'How are you and your family doing?' A question that has never been asked as we are associated only through our jobs. And in the past it would have been considered unprofessional."

This message and others helped our employees take the positive from the situation we were in with Covid-19. It was a simple gesture that went very far.

Alevtina Shnurova
Office Manager
Hero Russia

Taking care of our employees' health was of paramount importance. Hero Russia purchased enough masks and gloves for staff to change regularly and made sure there was sufficient hand sanitizer. Also, we take employees' temperature and have purchased a special device to measure oxygen levels. Essentially, we are doing our best to make sure heath is our top priority.

We constantly send updated with information about the situation of the spread of the virus and give appropriate recommendations. Employees are allowed to choose their arrival and departure hours to avoid crowds on public transport. All measures are in line with government recommendations.

Cemil Durgun
Brand Manager
Hero Turkey

During the Covid-19 crisis, each and every Hero Turkey team member did their best to ensure the health and safety of colleagues while ensuring the continuation of our manufacturing process. This was important to be able to serve our customers and consumers, but also gave us the possibility to help families in need.

Many people – from supply chain to accounting – worked overtime to be able to do this in a relatively short time period. It was great to experience this first hand and achieve our goal to help people. At the end, we felt that we became one big Hero family among ourselves and with the people we helped, even though we never met.

Gloria Melgarejo
Plant Manager Production
Hero Spain

We were always one step ahead of decisions taken by the government here in Spain. This included the use of masks, detection tests, tracking, and continuous and transparent communication. This was done primarily to protect employees health an minimize the internal spread of the virus.

At the beginning of the pandemic, there was a lot of uncertainty, fear, and ignorance, but all teams understood the complex situation and acted with commitment, understanding, and adapted to change accordingly. I would also like to highlight the great commitment of all those colleagues who had to leave their homes to ensure that production continued, both factory and office workers.

Employees who had to work from home quickly adapted to teleworking, which was new for a lot of us. It was thanks to the teamwork from employees from different departments, such as IT, that allowed people to reorganize their professional – and personal – lives.

Tais Cardoso

Labor Safety Technician
Hero Brasil

The management here at Hero Brazil implemented a number of measures. In my opinion, the best was the virtual meetings, where we received updates on the actions that would be taken, always with great clarity and honesty. This transparency made the difference so that everyone felt safe on the company's premises.

As for the employees, I realized from the interactions with my colleagues that the precautionary discourse extended from the company to their home, always with a lot of responsibility and care for each other. For me this was the greatest legacy within our company: caring for others.

Vanessa Krabiell

Corporate Communications Manager
Hero Schwartau

Who would have thought that we would experience this kind of pandemic? No matter what challenge we faced, we took measures and evaluated them regularly, always with the primary goal of protecting the health of our colleagues. Communication is particularly important at such a time because circumstances and regulations change rapidly.

In addition to intranet, email updates, corona info boards in the factories, posters, and live virtual events, we also operated an internal Corona phone hotline to answer questions and concerns.

(Member of the Corona Crisis Team at Schwartau)

OUR CATEGORIES

At the Hero Group, we are all about conserving the goodness of nature, for 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 formulas 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. We also have a Specialties section, which includes specific local offerings.

Baby & Toddler Food (BTF)

As a category, our mission is to help parents provide goodness of nature foods to their little ones so they grow up enjoying a healthy, natural and varied diet. At Hero, we are committed to designing natural, organic, nutritionally well-balanced, and sustainable baby and toddler food and snacks. We know we have a key role to play in helping parents bring up a new generation of babies who will love natural, healthy foods.

Our promise comes to life and is evident across our wide array of trusted brands and product portfolios in the BTF category across North America, Europe, Turkey and MEA (Middle East & Africa). Our range covers cereals, meals, and snacks of the highest quality and are adapted to babies' requirements from weaning onwards.

We leverage our extensive infant nutrition knowledge and expertise to constantly improve our product offering through recipe upgrades, more sustainable packaging, and new technologies to help us maintain our leading positions in key markets.

Despite the unprecedented situation due to the pandemic , our BTF category managed to accelerate its growth momentum in 2020 driven by key markets, such as the US, Sweden and Germany (via strategic partnership with goodforgrowth GmbH). We managed to grow market share in most of the countries where we play, reflecting the strength and health of our brands. The BTF category made up a staggering 39.6% of the Group's total sales. In 2020, the category brought in CHF 442.7 million, an organic increase of 7.2% compared to the previous year.

Baby & Toddler Milk (BTM)

'Conserving the goodness of nature. This is the mission we work towards day after day at Hero. We are committed to delivering infant milk as close as possible to breast milk – Mother Nature's perfect food for little ones – to ensure our babies have the best start in life. For those times when breastfeeding is not possible, Hero has developed a range of unique infant milk formulas inspired by breast milk.

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

With more than 80 years of studying and learning from nature under our belt, Hero has developed its most advanced infant formula with milk fat and MFGM (Milk Fat Globule Membrane) that mimics mothers' breast milk. Products with this formula have been launched in different countries since 2014.

Another milestone was achieved in 2020 when the Hero infant milk portfolio was further improved, allowing us to remove palm oil from our products. At the same time, core milk production for Hero Baby, Semper and Sunar was transferred to the recently modernized Semper factory in Götene in Sweden.

The BTM category made up 9.3% of total sales in 2020, down from 10.3% in 2019. Sales amounted to CHF 103.6 million, an organic decline of 12.8% compared with 2019.

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.

In 2020, we saw a strong increase of jam consumption driven by an increase in breakfast consumption at home caused by lockdowns in many markets. At the same time, we made good progress with our recent innovations: In Spain, the concept '1886' is satisfying the ongoing homemade and premiumization trend. In Germany, the 'Schwartau Extra Less Sugar' concept is hitting the consumers demand for reduced sugar intake and contributed to a strong market share increase.

At the end of 2020, we launched a new 'Schwartau Extra Organic' offering in the German market, while in Egypt we had considerable success with our honey products as the newest addition to the Natural Spreads category.

The Natural Spreads category, a mainstay of the Hero Group, made up 22.8% of net sales in 2020, up from 21.7% in 2019. The category reported sales of CHF 254.7 million with an organic growth increase of 3.8% compared to the previous year.

Healthy Snacks

The Healthy Snacks category continued to grow in the last year. It made up 10.4% of the total Group sales, up from the previous year. Organically, the category declined by 2.6% organically in 2020, and reported sales of CHF 116.2 million.

Our wide range of cereal products – including cereal bars, nut bars, protein 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 2020, double-digit growth was achieved by launching innovations (Your protein bar, Energy) and launching media campaigns in our main markets (Germany, Russia, Denmark, and the Netherlands), as well as limited offers (BIG Hempseed&Dark Chocolate, BIG Milk Caramel-Banana Shake) and sub-range roll-outs (Oatpower in Denmark, BIG White Finland).

For 2021 and beyond, we will continue growing the business with products based on specific snacking needs (fuel, boost, treat) and idea-driven concepts, all of which are in line with our ambitious Goodness of Nature (GON) quality standards and sustainability plan. Further rolling out Corny to become a global brand, insight-driven brand communication and shopper-centric promotions will remain essential to boost the category's growth and strengthen brand equity.

Gluten Free

Gluten Free has been an important product group within the Hero Group for many years. Our gluten-free brands Juvela (UK/Ireland) and Semper (Nordics, Exports) offer great tasting gluten-free alternatives for people who are diagnosed with coeliac disease, gluten-intolerant and gluten-sensitive consumers. Within the gluten-free assortment, there are also alternatives with low FODMAP (fermentable carbs), targeted to consumers that eat gluten free products as a diet for stomach disorder (for example, irritable bowel syndrome or IBS).

Our products include a large variety of breads, breakfast cereals, pastas, cookies, biscuits, and flour mixes for all types of cooking and baking. We develop tasty food that makes consumers feel good.

Sales in 2020 for the Gluten Free category stood at CHF 43.6 million, making up 3.9% of the total. Organically, this category increased by 3.5% in the year under review.

Specialties

The Hero Group product portfolio includes specialized products for niche markets. This section includes products such as gastronomy, local offerings, and co-packing.
The total sales in this category made up 14.0% of the Group total, or CHF 156.7 million, registering an organic growth decline of 7.0%.

REGIONAL FOOTPRINT

Europe remains the largest sales area for the Hero Group, accounting for 70.9% of the total. This is an organic increase of 1.7% when compared to last year. Sales in this region totaled CHF 792.1 million in 2020.

The share of sales in the US increased by 9.3% organically and in 2020 stood at 15.5% of the total. The region still maintains its position as the second largest for the Hero Group. Our US sales for the Group reached CHF 173.6 million in 2020.

Emerging Markets, which include Egypt, Russia, Turkey, Brazil, and Global Export, made up 13.6% of the Hero Group sales in 2020, virtually unchanged from the previous year. Sales for this region declined by 8.4% and reached CHF 151.8 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), UK (Pontypridd, Wales) and the USA (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 as at December 31, 2020.

Group structure

The chart below shows the organization of the Hero Group as at December 31, 2020:

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 0.4% of the share capital is held by Executive Board members in relation with the long-term incentive plan, and the remaining 0.6% 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, 2020, 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, 2020, there were no convertible or other bonds with the right to acquire shares in 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 Arend Oetker Honorary Chairman | **Leopold Oetker** | **Herbert J. Scheidt** Vice-Chairman
Dr Hagen Duenbostel | **Margaret Versteden** | **Giovanni Ciserani** Chairman

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.

The Board of Directors consists of Giovanni Ciserani (Chairman), Herbert J. Scheidt (Vice-Chairman), Dr Hagen Duenbostel, 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 five times.

Board of Directors Name	Function	Nationality	Committee membership*	Initial election Term expires	Term expires
Giovanni Ciserani	Chairman	Italian	HRC	2017	2022
Herbert J. Scheidt	Vice-Chairman	Swiss/German	FAC, HRC	2010	2022
Dr Hagen Duenbostel	Member	German	FAC	2012	2022
Leopold Oetker	Member	German	FAC	2016	2022
Margaret Versteden	Member	Dutch	HRC	2019	2022

*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 2020.

Responsibilities between the Board of Directors and Executive Board

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 64.

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.

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 from 1962 to 1966, and Marketing at the Harvard Business School in 1966, Dr Oetker earned his doctorate in Business Administration from the University of Cologne in 1967.

Dr Oetker is Managing Director and shareholder of Dr Arend Oetker Holding GmbH & Co. KG, as well as shareholder, Vice-Chairman and Honorary member of the Supervisory Board of KWS SAAT SE & Co. KGaA (plant breeding) and shareholder 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 of the Board of Directors

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 Giovanni 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.

Giovanni Ciserani also serves on the Board of Angelini Holding.

Herbert J. Scheidt

Vice-Chairman of the Board of Directors

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

Scheidt obtained a BA and an MA in Economics from the University of Sussex (UK) and an MBA from the University of New York.

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 senior 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, Switzerland), Vice-Chairman of the Board of Directors of Economiesuisse (Zürich, Switzerland), Member of the Board of Directors of the SIX Group (Zürich, Switzerland), and Member of the Board of European Banking Federation (Brussels, Belgium).

Dr Hagen Duenbostel

Member

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

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

Since 2015, he has been CEO and Executive Board Member of KWS SAAT SE & Co. KGaA, a provider of agricultural seed based in Einbeck, Germany. He joined KWS in 1998 and held various roles until he took over as CFO in 2003. He began his professional career in auditing at PricewaterhouseCoopers AG in 1995.

Dr Duenbostel has been a Member of the Executive Board of the German Plant Breeders' Association (BDP) in Bonn since 2015. In January 2021, he became a Member of C.H. Boehringer Sohn AG & Co. KG Advisory Board in Ingelheim, Germany.

Leopold Oetker

Shareholder / Member

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

Oetker successfully completed his studies in Culture Studies and History in Berlin and Copenhagen.

He 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, Germany.

Oetker has taken an active role in formulating and promoting the Hero Group's sustainability commitment to become net neutral by 2030.

Margaret Versteden

Member

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

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

She is currently Chief Platform Officer (previously Chief Commercial Officer) of bol.com, the leading retail platform in the Netherlands and Belgium, responsible for operations and innovations at the company as well as several other company-wide functions and teams. 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 eight years.

Executive Board

Rob Versloot
CEO

Dr Karsten Boyens
CFO

Markus Lenke
COO

Bill Parker
CPO

Christian Schierbaum
CMO

Witte van Cappellen
CSCO

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

Bill Parker joined the Hero Group Executive Board in September 2020 extending the Executive Board with the newly-created role of the Chief People Officer.

The leaders of the business divisions and the heads of the cluster organization and 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 having previously worked for the Beiersdorf Group and McKinsey & Company. His responsibilities are Finance & Controlling, Tax & Treasury, Legal &

Compliance as well as IT.
Dr Boyens holds a Master's in Business Administration from the WHU – Otto Beisheim School of Management in Koblenz, and a PhD from the Christian Albrechts University of Kiel (Germany).

Markus Lenke
COO

Markus Lenke joined our German subsidiary Schwartauer Werke in December 1993. He 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.

Bill Parker
CPO

Bill Parker joined the Hero Group in April 2016 as VP HR & Corporate Communications and was appointed CPO in September 2020. As a senior HR leader, he has spent the last 25 years building a broad HR experience across a number of industries, including financial services, consulting, FMCG, and retail. Parker's career path saw he take on roles at Bata & AW Lab, Unilever, and Mars Inc. in different geographies around the world.

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. In his last role at Mondelez, he served as member of the the company's 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 from 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 Hero Netherlands (subsequently Hero Benelux). In 2009, he took over as Head of Semper AB and six years later was appointed as Cluster General Manager Northern Europe, which includes the Hero business for the Nordics and Organix in the UK. Van Cappellen took over the role of CMO before moving to his current position, where he is responsible for the Hero Group's 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
Bill Parker	Australian	Chief People 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 fixed, variable short-term, and variable long-term components.

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 pay-out on the personal goals component is capped at 150%.

In addition, there is a variable component linked to the long-term achievement of strategic KPIs. 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 103 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 Willy Hofstetter, who has held this function for the first time in the 2020 financial year. According to the provisions of the Swiss Code of Obligations, he may execute this mandate for a maximum of seven years.

The Finance & Audit Committee reviews the scope of the audit, the audit plans, and discusses the audit results and reports with the auditor in charge annually. In general, the auditors participate in all Finance & Audit Committee meetings 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, 2020 amounted to CHF 856,000. In 2020, Ernst & Young AG charged a total of CHF 62,000 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, 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.

FINANCE REVIEW

Summary

In 2020, Hero achieved an organic Net Sales growth of 1.1% in a volatile and difficult market environment. The Group responded to limit the impact of the global pandemic in a timely manner, protecting the health and safety of its employees, ensuring business continuity, and adjusting costs.

Total reported Net Sales declined by 5.9%. The positive organic growth was overcompensated by the discontinuation of a non-strategic specialties business in the US as well as negative foreign exchange effects.

Hero's strategy to increase its footprint in core categories remains on track. In 2020, Hero successfully increased the sales share of core categories to 82.1% (PY: 79.4%).

Further, Hero doubled the sales in the eCommerce channel, a result of the strategic focus we have put on this channel starting a few years ago. Sales in this channel were additionally boosted by the Covid-19 pandemic, which saw a general increase in online sales.

At the same time, Hero faced a hefty negative impact from the pandemic in the out-of-home Foodservice channel, which declined sharply by 22.2% at constant foreign exchange rates.

The Operating Result (EBIT) reached CHF 59.8 million (PY: CHF 83.1 million). This reduction was caused by the discontinuation of a non-core business in the US, negative foreign exchange impacts, significant sales and profit declines in the Foodservice and export channel, as well as investments into our supply chain and digitalization.

Hero's financial situation remained robust and healthy during the crisis. Net Debt was stable at CHF 126.4 million, translating to a Net Debt / Equity ratio of 1.2. This is a very solid basis to position Hero for further investments to grow its business.

Net sales Regions

In Hero's largest sales area, Europe, the company increased organic Net Sales by 1.7% compared to prior year.

Hero posted good Net Sales growth levels in several European markets, such as Germany, the Nordics, and the Czech Republic. On the other hand, Hero continued to face a challenging market environment in Spain.

Hero's partnership with goodforgrowth GmbH in the Baby & Toddler Food market in Germany developed very well, showing strong double-digit growth for the second year in a row.

With a high single-digit growth rate, Hero continued its successful path on increasing its footprint in the North American Baby & Toddler Food market. In the year under review, Net Sales grew by 9.3% organically. In the US, Hero sells natural and organic baby food under the Beech-Nut brand.

Hero discontinued a broth specialty business in the US mid-2020.

In 2020, Hero's Emerging Markets declined by 8.4% adjusted for currency effects. The individual markets where Hero operates showed a very mixed picture in the year under review. Brazil showed strong double-digit growth driven by strong demand in its local Natural Spreads business. The main reason for the decline in Emerging Markets is the Export business to distributors and wholesalers, which was significantly impacted by the Covid-19 pandemic and declined by over 30% in 2020.

in CHF million	Net sales 2020	Net sales 2019	△ 2020 vs 2019 in %	M&A effect	Currency effect	Organic Growth
Europe	792.1	813.7	-2.6%	-0.7%	-3.7%	1.7%
North America	173.6	193.3	-10.2%	-12.2%	-7.3%	9.3%
Emerging Markets	151.8	181.2	-16.2%	-	-7.8%	-8.4%
HERO GROUP	**1 117.5**	**1 188.2**	**-5.9%**	**-2.5%**	**-4.6%**	**1.1%**

Net Sales Categories

Natural Spreads had a good 2020 with a growth of 3.8%, benefiting from more at home consumption during the Covid-19 crisis. Our largest Natural Spreads market, Germany, was a main driver with strong double-digit growth. This result was boosted by the positive start of the 'less sugar' offering.

Healthy Snacks has been a traditional growth driver of the Group, but suffered from less on-the-go consumption in 2020 because of the pandemic. After many years of growth, the category faced a slight decline of 2.6% organically versus prior year.

Our largest category, Baby & Toddler Food also showed the highest growth rate with 7.2% versus prior year adjusted for currency effects. Key contributors to growth were our businesses in Germany, the US, and the Nordics.

The Baby & Toddler Milk category was negatively impacted by the pandemic, notably by lower demand from Chinese customers and consumers in our Export business, but also in selected European markets. The category sales landed 12.8% below prior year organically.

Our Gluten Free category, with a main footprint in the Nordics and the UK, ended 2020 positively with a sales growth of 3.5% versus prior year adjusted for currency effects.

We experienced a strong decline in the Specialties area in 2020. Apart from the discontinuation of the US broth business, we faced strong demand declines from the

in CHF million	Net sales 2020	Net sales 2019	△ 2020 vs 2019 in %	M&A effect	Currency effect	Organic Growth
Natural Spreads	254.7	258.1	-1.3%	-	-5.1%	3.8%
Healthy Snacks	116.2	125.6	-7.4%	-	-4.8%	-2.6%
Baby & Toddler Food	442.7	436.5	1.4%	-	-5.7%	7.2%
Baby + Toddler Milk	103.6	122.8	-15.7%	-	-2.9%	-12.8%
Gluten Free	43.6	44.3	-1.6%	-	-5.2%	3.5%
Specialties	156.7	200.9	-21.9%	-14.7%	-0.2%	-7.0%
HERO GROUP	**1 117.5**	**1 188.2**	**-5.9%**	**-2.5%**	**-4.6%**	**1.1%**

Foodservice channel during the Covid-19 pandemic.

Most importantly, Hero was able to gain market shares in the vast majority of core category markets, a key indicator for performance, especially in these volatile crisis times.

Operating result

The Hero Group **Operating Profit** reached CHF 59.8 million in the year under review compared to CHF 83.1 million in 2019. Structural effects like the exit of non-core Specialties business in the US, negative foreign exchange translation effects, and lower non-recurring income in 2020 are some of the main drivers behind the decline compared to prior year.

The other significant impact comes from the Covid-19 pandemic. The strong demand decline in the Foodservice and export businesses led to significantly lower sales and profit in these channels.

At the same time, we saw positive developments in some core areas in 2020. Our US branded baby food business compensated for the broth business loss through growth and operational improvements. Further, the profit contribution from our core categories continued to increase.

After years of continuous progress, our **Gross Margin** decreased from 33.4% in 2019 to 32.6% in the year under review. While achieving good Gross Margin improvements in markets like the USA and Brazil, production volume losses in our factories in relation to the export and Food-service businesses as well as the start-up investments to set-up our new baby milk production in Sweden weighed negatively on Hero's profitability.

In light of the uncertainties around Covid-19, Hero implemented cost adjustment measures without canceling strategic investments. As a result, **Operating Expenses** fell to CHF 301.3 million, a decrease of 4.9% compared to prior year. The main elements of the cost decrease were related to a prudent hiring policy, worktime reduction, selective restructuring, fewer or no travel and events, as well as prioritization in our advertising and promotion spend.

Other income / expenses resulted in a net expense of CHF 2.8 million compared to a net income of CHF 3.3 million in 2019. Despite a Covid-19 related increase in government grants, Other Income came in lower at CHF 10.7 million compared to CHF 16.0 million the year before. In 2019, Hero benefited from positive valuation adjustments of the earn-out and put option liabilities in relation to the acquisition of goodforgrowth as well as from VAT settlements. Other Expense amounted to CHF 13.5 million, a minor increase from 2019. It included mainly restructuring expenses for selected areas in Europe, as well as government obligation payments.

Financial result and taxes

The net **Finance Expense** for the year amounted to CHF 6.6 million, an increase of CHF 1.2 million compared to 2019. The increase of the net Finance Expense was mainly as a result of lower interest income due to lower cash balances and a lower interest rates environment compared to 2019. The interest expense reduced further to CHF 4.1 million compared to CHF 5.3 million the year before. Hero used some of its cash balances to pay back part of a CHF 130 million straight bond, which was due in June 2020, and refinanced the rest of the bond at more favorable interest rates.

As a result of the lower profit before taxes, **Income Tax Expense** reduced to CHF 11.0 million (prior year CHF 15.7 million), resulting in a tax rate of 21.5%. The tax rate of 21.5% is a result of using previously not recognized tax loss carry-forwards.

Net Income

The Group's **Net Income** for the year stood at CHF 40.2 million, down from CHF 63.3 million in 2019. The reduction at the bottom line is a translation of the lower operating profitability in the year under review.

Cash flow and financing

Despite the difficult market environment, Hero achieved a solid **Operating Cash Flow** before net working capital changes of CHF 104.0 million (prior year CHF 118.2 million). Cash outflows for investing activities was significantly lower than in prior year when Hero acquired the shares of goodforgrowth GmbH. In 2020, major investments were made to increase the capacity of the Healthy Snacks production lines in Germany. Cash flow from financing activities included the pay back of

the CHF 130 million straight bond maturing in June 2020 and a related refinancing through bank credit facilities of CHF 90 million.

The Group's **Equity Ratio** remains very solid at 53.5% (prior year 52.0%). The improvement in the Equity Ratio comes with a decrease of Total Assets of the company as a result of using available cash to repay the straight bond and lower receivables due to a pay back of a related party loan existing in prior year. The company's **Net Debt** position stood at CHF 126.4 million, remaining at low levels even though slightly up from the CHF 120.2 million in 2019. At the end of 2020, Hero's Net Debt / EBITDA ratio stood at 1.2, an increase from the 0.9 ratio registered the year before that came as a result of lower profitability in 2020. The financing structure of the Group remains very solid and provides a good basis for future investments.

Outlook

With the continuous uncertainty around the Covid-19 pandemic, it remains difficult to provide an accurate outlook for the full year 2021. We expect 2021, especially the first half, will still be significantly impacted by Covid-19. This will continue to have an impact on our business in the export and Foodservice channels.

We will continue our strategic investments into our sustainability agenda, innovation pipeline and digitalization with Project PHI, where we are developing a modern, harmonized, efficient ERP landscape for the Group. We will leverage our investments in Supply Chain to drive operational excellence and efficiency.

With a recovery in the second half in combination with a resilient core business, Hero plans organic growth in Net Sales and EBIT in 2021.

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 achieve its results and to support the long-term strategy.

Hero's risk management process includes an assessment of the company's most significant strategic and operational risks. Once a year, potential risks are identified at Group and cluster level, as well as with major subsidiaries not belonging to a cluster. The individual assessments are aggregated and evaluated in terms of possible damage that would result should the risk event materialize, the probability of occurrence, and potential reputational impact. For each risk area, ownership is allocated to an executive board member 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.

Pandemic

Major events like pandemics can lead to the severe disruption or closure of certain channels (e.g., Foodservice), lower and more volatile demand, organizational efficiencies, or business disruption. This can lead to decreasing sales and margin losses.

The Group is monitoring the development of the pandemic risk and will implement task force organizations to mitigate the operational effects of such events.

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 can impact the reliability to source the necessary volumes of raw material with the specific quality requirements needed for production. Raw material prices might increase, a situation which could impact sales and result in 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.

Operational inefficiency

Due to increased volume uncertainty, ineffective investments, or missing capabilities, operational efficiency targets cannot be met. This can lead to higher costs and margin declines.

The Group aligns investments, people development, and incentive systems with its strategic priorities. The company has systems in place to better predict demand requirements and volatility.

Shifting Consumer Trends

If shifting consumer trends on product and packaging are not predicted and identified early enough, and the Group has no innovations to respond to shifting preferences, there can be a high risk of decreasing sales and margin loss.

Hero observes markets and consumer trends carefully, and invests in market insights, developing innovations, and gaining nutritional know-how.

Digital Disruption

A shift of the consumer goods market into digital models with lower market entry barriers, where consumers can be more easily reached by new players, can result in decreasing sales.

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

Increased public awareness

Social media increases the risk that trending topics such as health, sustainability and corporate responsibility are held against the Group or local companies. This could harm brand reputation and lead to decreasing sales.

Hero commits to improving its climate footprint, promotes sustainable agricultural practices, and follows a Code of Conduct in which it defines its fundamental business principles.

IT Systems & Security

The Group depends on accurate, timely data along with increasing integration of digital solutions and services. System failures or threat of cyber-attacks can disrupt the reliability, security, and privacy of data, as well as the IT infrastructure. Policies and controls, security measures along with contingency plans are in place with the aim of protecting and ensuring compliance for 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.

Changing tax practices, organizational complexity, and rising national debts increase the risk of tax disputes. This may lead to additional efforts, financial losses, and legal action.

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 include managing financial requirements long-term as well as risk mitigation through hedging where appropriate. The Group follows changing tax practices and documents its intercompany relationships.

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	2020	2019
Continuing operations			
Net Sales	9	**1 117 505**	**1 188 161**
Cost of sales	12	(695 419)	(726 971)
Distribution expense		(58 183)	(64 412)
Gross profit		**363 903**	**396 778**
Advertising and promotion		(114 328)	(123 240)
Marketing and sales		(90 808)	(97 195)
Research and development		(10 884)	(11 648)
Administrative expense		(85 307)	(84 838)
Other income	1	10 679	15 957
Other expense	1	(13 451)	(12 682)
Operating profit		**59 804**	**83 132**
Finance income	2	2 910	4 168
Finance expense	2	(9 507)	(9 544)
Share of result of associated companies and joint ventures	28	(1 984)	-
Income before tax		**51 223**	**77 756**
Income tax expense	5	(11 025)	(15 707)
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**40 198**	**62 049**
Discontinued operations			
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	25	**-**	**1 244**
INCOME FOR THE YEAR		**40 198**	**63 293**
Attributable to:			
Equity holders of the parent		38 522	62 846
Non-controlling interests		1 676	447
INCOME FOR THE YEAR		**40 198**	**63 293**

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.–

	2020	2019
INCOME FOR THE YEAR	**40 198**	**63 293**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(36 570)	(26 879)
Income tax effects	819	(26)
	(35 751)	(26 905)
Net loss on cash flow hedge	(112)	(1 332)
Income tax effects	(13)	105
	(125)	(1 227)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(35 876)**	**(28 132)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land	(296)	657
Income tax effects	74	(66)
	(222)	591
Remeasurement gains / (losses) on defined benefit plans	8 256	(11 081)
Income tax effects	(1 486)	2 996
	6 770	(8 085)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**6 548**	**(7 494)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(29 328)**	**(35 626)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**10 870**	**27 667**
Total comprehensive income attributable to:		
Equity holders of the parent	12 173	27 967
Non-controlling interests	(1 303)	(300)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**10 870**	**27 667**

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	2020	2019
Non-current assets			
Property, plant and equipment	7	353 841	373 821
Intangible assets	8	471 502	477 250
Right-of-use-assets	26	18 082	21 101
Investments in associated companies and joint ventures	28	881	1 791
Non-current receivables	10	26 963	23 427
Deferred tax assets	11	15 709	12 126
TOTAL NON-CURRENT ASSETS		**886 978**	**909 516**
Current assets			
Inventories	12	172 055	166 410
Derivative financial assets	21	271	208
Income tax receivables		5 371	3 137
Trade receivables, prepayments and other receivables	13	135 190	172 721
Cash and cash equivalents	14	120 888	175 041
TOTAL CURRENT ASSETS		**433 775**	**517 517**
TOTAL ASSETS		**1 320 753**	**1 427 033**

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

in CHF 1000.–

Equity and liabilities	Note	2020	2019
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	(287 011)	(260 662)
Retained earnings		659 856	668 173
Equity attributable to the equity holders of the parent		**693 140**	**727 806**
Non-controlling interests		**13 118**	**14 930**
TOTAL EQUITY		**706 258**	**742 736**
Non-current liabilities			
Borrowings	16, 21	81 318	1 436
Debentures	16, 21	135 000	135 000
Lease liabilities	16, 26	13 026	14 653
Deferred tax liabilities	11	26 683	28 668
Net employee defined benefit liabilities	17	67 290	78 520
Provisions	18	13 817	11 364
Other liabilities	19, 21	19 345	19 194
Total non-current liabilities		**356 479**	**288 835**
Current liabilities			
Trade and other payables	20	229 327	239 571
Borrowings	16, 21	11 859	7 222
Debentures	16, 21	-	129 947
Lease liabilities	16, 26	6 075	6 963
Derivative financial liabilities	21	2 325	1 021
Provisions	18	3 973	7 674
Income tax payables		4 457	3 064
Total current liabilities		**258 016**	**395 462**
TOTAL LIABILITIES		**614 495**	**684 297**
TOTAL EQUITY AND LIABILITIES		**1 320 753**	**1 427 033**

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, 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/ JANUARY 1, 2020	**62 133**	**63 632**	**198 779**	**(4 249)**	**(260 662)**	**668 173**	**14 930**	**742 736**
Income for the year	–	–	–	–		38 522	1 676	40 198
Other comprehensive income	–	–	–	–	(26 349)		(2 979)	(29 328)
Total comprehensive income	**–**	**–**	**–**	**–**	**(26 349)**	**38 522**	**(1 303)**	**10 870**
Distribution on hybrid capital third parties	–	–	–	–	–	(4 270)	–	(4 270)
Dividend payments to the parent	–	–	–	–	–	(42 569)	–	(42 569)
Dividend payments to non-controlling interests	–	–	–	–	–	-	(509)	(509)
BALANCE AT DECEMBER 31, 2020	**62 133**	**63 632**	**198 779**	**(4 249)**	**(287 011)**	**659 856**	**13 118**	**706 258**

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	2020	2019
Cash flows from operating activities			
Income for the year		40 198	63 293
Adjustments for:			
Tax expense	5	11 025	15 707
Depreciation property, plant and equipment	7	32 825	31 629
Depreciation right-of-use-assets	26	7 412	6 754
Amortization	8	4 720	5 102
Gain on disposal of intangible assets	1	(477)	-
Loss on disposal of fixed assets	1	261	-
Pension plan amendment	1	(947)	-
Pre-tax gain on disposal of Signature Brands	25	-	(1 244)
Fair value result, net	1, 2	2 996	(8 916)
Interest income	2	(2 404)	(4 125)
Interest expense	2	5 069	6 077
Share of result of associates and joint ventures	28	1 984	-
Net loss in foreign exchange	1	1 297	3 952
Cash flows before changes in net working capital		**103 959**	**118 229**
Inventories		(10 951)	(4 756)
Trade and other receivables		7 594	(1 886)
Trade and other payables		(5 657)	15 345
Accruals and provisions		(1 729)	3 384
Changes in net working capital		**(10 743)**	**12 087**
Interest paid		(6 076)	(5 427)
Income tax paid		(19 666)	(20 090)
NET CASH FROM OPERATING ACTIVITIES		**67 474**	**104 799**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	27	-	(28 222)
Capital contribution to joint ventures	28	(1 100)	(1 650)
Purchase of property, plant and equipment	7	(30 594)	(44 553)
Purchase of intangible assets	8	(3 044)	(2 912)
Payment other		(51)	(65)
Loans repayments received		424	516
Disposal of subsidiaries, net of cash disposed	25	-	1 244
Disposal of intangible assets		477	84
Repayment of seller promissory note	21	-	12 593
Loan repayment from / (payment) to shareholders		21 403	(22 248)
Proceeds from sale of property, plant and equipment		22	124
Interest received		459	1 885
NET CASH USED IN INVESTING ACTIVITIES		**(12 004)**	**(83 204)**

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

	Note	2020	2019
Cash flows from financing activities			
Distribution on hybrid capital third parties		(4 270)	(4 270)
Proceeds from bank loans		90 575	4 299
Repayment of bank loans		(6 203)	(26 370)
Repayment of debentures		(130 000)	-
Proceeds from financial liabilities		1 698	-
Repayment of non-current financial liabilities		(497)	(1 067)
Payment of lease liabilities		(6 829)	(7 030)
Capital increase of non-controlling interests		-	1 012
Payment of dividends to shareholders		(42 569)	-
Payment of dividends to non-controlling interests		(509)	(404)
NET CASH USED IN FINANCING ACTIVITIES		**(98 604)**	**(33 830)**
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(43 134)**	**(12 235)**
Movement in cash and cash equivalents			
At start of year		175 041	190 803
(Decrease) / increase in cash and cash equivalents		(43 134)	(12 235)
Effects of exchange rate changes on cash and cash equivalents		(11 019)	(3 527)
AT END OF YEAR	**14**	**120 888**	**175 041**

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, 0.4% are held by executive board members in relation with the long term incentive plan and 0.6% 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 2020, the Group had 4 119 full time employees (2019: 4 156). 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 9, 2021, and are subject to approval by the annual general meeting of shareholders to be held on March 23, 2021.

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, 2020, 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

The Group applied the following amendments, which are effective in 2020 for the first time:

- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform (Phase 1)
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 16: Covid-19 Related Rent Concessions, early adopted by the Group

None of these amendments had a material impact on the Group's financial statements.

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 published but 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 assesses 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 access, 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) or joint control, are accounted for using the equity method and are initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition. The Group's share of its associates' or joint ventures post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in OCI and taken to other 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 or joint venture equals or exceeds its interest in the associate or joint venture, including any receivables that form part of the net investment, the Group does not recognize further losses, unless it incurred obligations or made payments on behalf of the associate or joint venture.
Unrealized gains on transactions between the Group and its associates or joint venturs are eliminated to the extent of the Group's interest in the associates or joint ventures. 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

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

Foreign Currency Translation

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

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

Foreign Exchange Rate Table

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

	2020	2019
AVERAGE EXCHANGE RATES		
EUR/CHF	1.0702	1.1124
USD/CHF	0.9386	0.9936
GBP/CHF	1.2040	1.2690
SEK/CHF	0.1020	0.1051
CLOSING EXCHANGE RATES		
EUR/CHF	1.0836	1.0851
USD/CHF	0.8814	0.9682
GBP/CHF	1.2036	1.2718
SEK/CHF	0.1076	0.1035

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. These refund liabilities are included in trade and other payables.

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 clusters and countries with similar customer and country risk profiles and are therefore aggregated into 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. Temporary differences also 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 accumulated impairment losses, if any. 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 (revaluation reserve); 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 not to separate non-lease components from lease components.

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. Hero has changed its operating model in the last years. This change was introduced over several years but is now substantially completed since major milestones were already achieved. Historically, the business was organized and managed and goodwill monitored on a country-by-country level. There were only very limited synergies between the individual countries. Investment decisions were taken on an individual country level only.
Now, with the change in organization four clusters and a global export organization were introduced: Central Europe, Northern Europe, Southern Europe,

MEA & Turkey and a global export organization. The clusters general managers (GM) and CFOs have full P&L responsibility for the whole cluster organization with corresponding target setting on a cluster level. For these clusters, the performance and operations are managed and goodwill is monitored per cluster and not per individual country.

As a result, impairment test are carried out on a country level for some and on a cluster level for other goodwill positions starting 2020. In 2020 impairment test were carried out applying the country cash-generating units and cluster cash-generating units. Neither the country nor the cluster cash-generating units show an impairment (see section critical accounting estimates, assumptions and judgements).

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.

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 an additional incentive plan for the members of the Group executive board and the members of the leadership circle 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 plans. There is a minimum performance threshold of the strategic KPI's and the amount of pay-out is capped. The 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 instruments in the following categories: financial assets and liabilities 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 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, 2020 and 2019, 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 2020 were assessed to be highly effective.

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 347.6 as per December 31, 2020 (2019: confidence interval 99%; TCHF 265.0).

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.

	2020	2019
Increase/(decrease) in USD/EUR/GBP/SEK rate	5% (5%)	5% (5%)
Effect on profit before tax in CHF 1000.–	1 371 (1 371)	640 (640)
Effect on equity in CHF 1000.–	365 (365)	206 (206)

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates with the exception of the seller note which is subject to LIBOR changes, see note 21. 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. From time to time 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 more than 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 2020 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 based on contractual payments.

in CHF 1000.– at December 31, 2020	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	5 years and more	Total
Derivatives							
Forward contracts – cash (inflow)	(271)	(271)	-	-	-	-	(271)
Forward contracts – cash outflow	2 325	2 325	-	-	-	-	2 325
Forward contracts – net	2 054	2 054	-	-	-	-	2 054
Borrowings	93 177	11 859	51 199	30 895	220	-	94 173
Debentures	135 000	1 350	1 350	1 350	1 350	137 700	143 100
Lease liabilities	19 101	6 075	5 747	3 542	1 828	4 861	22 053
Put option liability	12 320	-	12 320	-	-	-	12 320
Earn-out liability	9 765	4 101	5 664	-	-	-	9 765
Trade and other payables	213 310	213 310	-	-	-	-	213 310
Total	**484 727**	**238 749**	**76 280**	**35 787**	**3 398**	**142 561**	**496 775**

in CHF 1000.– at December 31, 2019	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	5 years and more	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	**546 688**	**382 099**	**24 320**	**5 707**	**3 341**	**147 026**	**562 493**

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 or cluster. 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 2020, 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 or cluster. 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 2020, no impairment was identified.
Hero's major single goodwill and brand positions as well as management's key assumption are summarized below. As a result of the change of CGU from country to cluster and country CGU in 2020 Impairment tests were carried out on country or cluster level. Therefore for 2020 both tables are shown:

December 31, 2020 Cluster & Country-CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2021-2026	Profit margin change between years 2021 and 2026	Impairment
	in CHF million		in %	in %	in %	in pp	
Cluster Central Europe	163.3	24.4	0.3	6.8	0.4 - 5.2	0.1	no
Cluster Northern Europe	123.1	73.9	0.7	7.3	0.6 - 4.4	3.6	no
Cluster MEA & Turkey	2.7	-	5.7	20.2	5.7 - 12.6	0.3	no
Beech-Nut	-	15.7	2.1	6.9	2.2 - 7.0	-	no
Hero Brasil	3.1	2.5	3.1	15.3	5.5 - 11.2	0.2	no
goodforgrowth	29.2	20.6	0.1	6.9	1.9 - 22.2	1.5	no
TOTAL	**321.4**	**137.1**					

December 31, 2020 Country-CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2021-2026	Profit margin change between years 2021 and 2026	Impairment
	in CHF million		in %	in %	in %	in pp	
Schwartauer Werke	160.0	19.8	0.1	6.9	1.8 - 6.6	-	no
Semper/Eastern Europe Infant Business	80.0	47.5	0.4	6.6	2.0 - 4.3	2.4	no
Benelux Infant	19.4	-	0.2	6.4	1.3 - 3.6	-	no
Organix	23.7	20.1	1.1	7.1	(2.4) - 6.6	2.1	no
Vitrac	2.7	-	5.9	21.0	7.4 - 11.6	0.5	no
Beech-Nut	-	15.7	2.1	6.9	2.2 - 7.0	-	no
Hero Brasil	3.1	2.5	3.1	15.3	5.5 - 11.2	0.2	no
goodforgrowth	29.2	20.6	0.1	6.9	1.9 - 22.2	1.5	no
Other	3.3	10.9	-	-	-	-	no
TOTAL	**321.4**	**137.1**					

December 31, 2019 Country-CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2020-2025	Profit margin change between years 2020 and 2025	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	6.9	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**					

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 considerations (earn-out) resulting from business combinations, are measured at fair value at the acquisition date as part of the business combination. When a 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 from 2019 to 2021. Put options over non-controlling interests are measured at the present value of the redemption amount. The key assumptions and impact on financial statements are disclosed in note 21.

Impact of COVID-19 pandemic

The Group has assessed certain accounting matters that generally require consideration of forecast financial information taking into account the potential future impacts of the COVID-19 pandemic. The accounting matters assessed included, but were not limited to, the Group's provisions for allowances for doubtful accounts for trade receivables, inventory allowances, the carrying value of goodwill, intangible assets, property, plant and equipment and defined benefit pension plan assets and liabilities.
Any continued negative impacts from the pandemic in 2021 may have an impact on these, or other, matters. In 2020 no significant expenses or impairment charges can be directly attributed to COVID-19 pandemic. The Group recognized 4.9 million other income related to Paycheck Protection Program in the US, see note 1. The Group will continue to monitor these areas of increased judgements and risk for material changes.

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 2020 and 2019 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, 2020, and December 31, 2019.
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 well as lease liabilities" 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, 2020, and December 31, 2019, were as follows:

in CHF 1000.-	2020	2019
Total borrowings / debentures	247 278	295 220
Less: cash and cash equivalents	(120 888)	(175 041)
Net debt	126 390	120 179
Equity attributable to the equity holders of the parent	693 141	727 807
Gearing ratio	18%	17%

1. DETAILS ON OTHER INCOME/EXPENSE

in CHF 1000.–	Note	2020	2019
Change in fair value of earn-out liability		-	4 427
Change in put option liability		-	1 810
Gain from VAT settlement		30	3 222
Government grants	4	5 270	2 872
Reversal of accruals and provisions		1 782	1 848
Compensation for damages		995	652
Gain on disposal of intangible assets		477	630
Stock refunds		333	374
Pension plans amendment		947	-
Other		845	122
TOTAL OTHER INCOME		**10 679**	**15 957**
Cost for organizational changes and restructuring		(5 800)	(5 584)
Government obligation payments	4	(2 347)	(4 223)
Accruals and provisions		(183)	(474)
Compensation and destruction of channel inventory		(572)	(402)
Loss on disposal of fixed assets		(261)	-
Change in value of earn-out liability	21	(271)	-
Change in put option liability		(1 589)	-
Other		(2 428)	(1 999)
TOTAL OTHER EXPENSE		**(13 451)**	**(12 682)**

In 2020, income from government grants mostly relates to the COVID-19 related Paycheck Protection Program (PPP) in the United States (see Note 4). Reversal of accruals and provisions relate to the reassessment of various items across the Group. Organizational changes in 2020 are mainly related to changes in the Northern Europe and Southern Europe Supply Chain setup. Government obligation payments in 2020 are mainly related to property tax.

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.

2. FINANCE INCOME/EXPENSE

in CHF 1000.–	Note	2020	2019
Interest income		2 404	4 125
Gains from financial instruments at fair value through profit and loss		44	24
Other financial income		462	19
TOTAL FINANCE INCOME		**2 910**	**4 168**
Interest expense		(4 106)	(5 277)
Interest expense leases	26	(963)	(800)
Net foreign exchange losses		(1 297)	(1 531)
Losses from financial instruments at fair value through profit and loss		(1 180)	-
Other financial expense		(1 961)	(1 936)
TOTAL FINANCE EXPENSE		**(9 507)**	**(9 544)**

3. ADDITIONAL INFORMATION ON THE NATURE OF EXPENSE

in CHF 1000.–	Note	2020	2019
Wages and salaries		(188 151)	(181 904)
Social security costs		(39 939)	(41 234)
Pension costs – defined contribution plans		(5 104)	(4 913)
Pension costs – defined benefit plans	17	(1 815)	(3 088)
TOTAL PERSONNEL EXPENSE		**(235 009)**	**(231 139)**

Government grants are not included in the Personnel Expense above. For further details refer to Note 4.

The Group employed 4 119 full time employees in 2020 (2019: 4 156).

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

Year ended December 31, 2020		Right-of-use assets	Property, plant and equipment	Intangible assets
	Note	Depreciation	Depreciation	Amortization
Cost of sales		(1 163)	(29 036)	(433)
Distribution expense		(1 565)	(556)	(43)
Marketing and sales		(1 939)	(289)	(1 959)
Research and development		(51)	(430)	(399)
Administrative expense		(2 217)	(2 514)	(1 886)
Other expense		(477)	-	-
TOTAL	7,8,26	**(7 412)**	**(32 825)**	**(4 720)**

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)**

4. GOVERNMENT GRANTS

in CHF 1000.–	Note	2020	2019
Government grants/obligations for Beech-Nut infant food plant, net		(2 347)	(1 739)
Paycheck Protection Program to Beech-Nut		4 911	-
Export subsidies in Egypt		1 519	997
Government grants for Schwartauer Werke jam factory		321	334
Government grants for factory equipment in Spain		137	142
Spanish education grant		31	77
Other		112	113
TOTAL GOVERNMENT GRANTS		**4 684**	**(76)**

Government grants are recognized in the following type of expense/income:

in CHF 1000.–		2020	2019
Government grants deducted from cost of sales		1 730	1 275
Government grants deducted from marketing and sales		31	-
Government grants included in other income	1	5 270	2 872
Government obligation payments included in other expense	1	(2 347)	(4 223)
TOTAL GOVERNMENT GRANTS		**4 684**	**(76)**

5. INCOME TAX

in CHF 1000.–	2020	2019
Current income tax expense	(14 120)	(15 526)
Current income tax expense relating to prior periods	(2 182)	(2 465)
Deferred tax income	5 277	2 284
TOTAL INCOME TAX EXPENSE	**(11 025)**	**(15 707)**

Analysis of tax rate

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

in CHF 1000.–	2020	2019
Income before taxes	**51 223**	**77 756**
Tax expense based on expected Group tax rate of the year	(13 938)	(19 392)
	27.2%	24.9%
Impact of expense not entitled for deduction for tax purposes	(3 616)	(740)
Impact of non taxable income and exclusively tax deductible expense	3 603	2 631
Impact of tax expense related to profits of other periods and other items	(2 182)	(2 465)
Utilization of previously unrecognized tax losses	3 365	1 781
Reassessment of recognized tax losses of prior periods *	1 497	1 951
Impact of deferred taxes on hybrid coupon	806	804
Impact of difference between statutory and deferred tax rate	(49)	384
Impact of tax law changes **	(511)	(661)
EFFECTIVE GROUP TAX EXPENSE	**(11 025)**	**(15 707)**

* Mainly relates to US tax loss carry forwards which were reassessed.
** Relates to various countries (2019: mainly relates to the US).

6. DIVIDEND

At the Annual General Meeting in 2021 a dividend in respect of 2020 of CHF 1.78 (2019: CHF 6.92) per share amounting to a total dividend of CHF 11 million (2019: CHF 43 million) is to be proposed. 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, 2021. 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, 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/ JANUARY 1, 2020	**26 564**	**243 962**	**434 751**	**41 740**	**747 017**
Additions	-	3 033	23 300	4 261	30 594
Decrease/disposals of assets	-	(5)	(1 823)	(607)	(2 435)
Revaluation	(296)	-	-	-	(296)
Reclassifications	-	(265)	(137)	297	(105)
Foreign exchange differences	(1 773)	(13 563)	(13 805)	(1 465)	(30 606)
BALANCE AT DECEMBER 31, 2020	**24 495**	**233 162**	**442 286**	**44 226**	**744 169**
Accumulated depreciation					
BALANCE AT 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/ JANUARY 1, 2020	**13**	**80 196**	**266 431**	**26 556**	**373 196**
Additions	2	7 319	22 042	3 462	32 825
Decrease/disposals of assets	-	14	(1 581)	(586)	(2 153)
Foreign exchange differences	1	(3 372)	(9 209)	(960)	(13 540)
BALANCE AT DECEMBER 31, 2020	**16**	**84 157**	**277 683**	**28 472**	**390 328**
Carrying amount					
At January 1, 2020	26 551	163 766	168 320	15 184	**373 821**
At December 31, 2020	24 479	149 005	164 603	15 754	**353 841**

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Spain and Turkey (2019: Spain and Turkey).

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

in CHF 1000.–	2020	2019
Balance at January 1	19 773	19 597
Foreign exchange differences	(1 226)	176
BALANCE AT DECEMBER 31	**18 547**	**19 773**

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 2020 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 56 to EUR 187 and in Turkey in average TRY 800 depending on the land condition. In the fair value measurement hierarchy of the Group land is classified as level 3 instrument using significant unobservable inputs.

8. INTANGIBLE ASSETS

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT JANUARY 1, 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/ JANUARY 1, 2020	**355 324**	**194 198**	**50 015**	**53 479**	**653 016**
Additions	-	-	-	3 044	3 044
Decrease/disposals of assets	-	-	-	(6 648)	(6 648)
Reclassification	-	-	-	105	105
Foreign exchange differences	(1 953)	(2 598)	(2 497)	(1 288)	(8 336)
BALANCE AT DECEMBER 31, 2020	**353 371**	**191 600**	**47 518**	**48 692**	**641 181**
Accumulated amortization					
BALANCE AT 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/ JANUARY 1, 2020	**33 337**	**54 041**	**43 866**	**44 522**	**175 766**
Additions	-	974	1 090	2 656	4 720
Decrease/disposals of assets	-	-	-	(6 648)	(6 648)
Foreign exchange differences	(1 410)	(3)	(1 691)	(1 055)	(4 159)
BALANCE AT DECEMBER 31, 2020	**31 927**	**55 012**	**43 265**	**39 475**	**169 679**
Carrying amount					
At January 1, 2020	321 987	140 157	6 149	8 957	**477 250**
At December 31, 2020	321 444	136 588	4 253	9 217	**471 502**

Other intangibles

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

Recognized development costs

In 2020, TCHF 2 160 development costs were capitalized (2019: TCHF 871).

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 a geographical cluster. 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 2020 as well as in 2019, the recoverable amounts exceeded the carrying amounts for all CGUs.

9. SEGMENT REPORTING

For management purposes, the Group is organized in geographical clusters and countries which represent operating segments. The operating segments are aggregated based on similar economic characteristics into three reportable operating segments: Europe, North America and Emerging Markets. Each cluster/country is allocated according to the risk profile of the reportable operating segment.

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. The Group's financing (incl. finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

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, intangible assets and right-of-use assets.

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2020 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	792 101	173 635	151 769	-	1 117 505
Operating profit	72 997	10 366	15'250	(38 809)	59'804
Depreciation and amortization	(28 356)	(12 687)	(3 914)	-	(44 957)
Avg. net working capital	56 963	18 910	30 927	(1)	106 799
CAPEX (tangible)	22 936	2 698	4 960	-	30 594

INFORMATION ABOUT MAJOR COUNTRIES

December 31, 2020 in CHF 1000.–	Switzerland (country of domicile)	Germany	Spain	USA	Other	Total
Net sales	79 410	221 432	134 478	173 635	508 550	1 117 505
Non-current assets	61 208	133 780	44 665	149 050	454 721	843 424

INFORMATION ABOUT CATEGORIES

December 31, 2020 in CHF 1000.–	Natural Spreads	Healthy Snacks	Baby and toddler food	Gluten free	Baby and toddly milk	Specialties	Total
Net sales	254 745	116 232	442 682	43 600	103 555	156 691	1 117 505

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 - continuing operations	37 626	29 310	29 346	940	97 222
CAPEX (tangible) - continuing operations	37 895	3 636	3 022	-	44 553

INFORMATION ABOUT MAJOR COUNTRIES

December 31, 2019 in CHF 1000.–	Switzerland (country of domicile)	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

December 31, 2019 in CHF 1000.–	Natural Spreads	Healthy Snacks	Baby and toddler food	Gluten free	Baby and toddly milk	Specialties	Total
Net sales	258 145	125 565	436 535	44 329	122 847	200 740	1 188 161

10. NON-CURRENT RECEIVABLES

in CHF 1000.–	Note	2020	2019
Reimbursement rights of Schwartauer Werke	17	1 918	2 279
Long term incentive plan loan receivable	22	630	995
Seller promissary note	21	20 024	19 696
Other non-current receivables		4 391	457
TOTAL NON-CURRENT RECEIVABLES		**26 963**	**23 427**

In 2020, other non-current receivables mostly relate to prepaid taxes on uncertain tax treatment.

11. DEVELOPMENT OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF 1000.–	Deferred tax assets 2020	Deferred tax liabilities 2020	Deferred tax assets 2019	Deferred tax liabilities 2019
Assets				
Property, plant and equipment	1 075	(23 440)	1 110	(31 908)
Intangible assets	10 187	(25 880)	4 699	(20 874)
Right-of-use assets	-	(2 668)	-	(4 465)
Financial assets	111	(433)	1 033	(900)
Trade receivables, prepayments and other receivables	1 093	(128)	1 085	-
Inventories	373	(935)	554	(699)
Liabilities				
Net employee defined benefit liabilities	10 905	-	12 176	-
Accruals and provisions	2 679	(7 737)	2 652	(7 627)
Trade and other payables	133	(13)	42	(15)
Lease liabilities	2 752	-	4 578	-
Financial liabilities	573	-	436	(5)
Capitalized unused tax losses and tax credits	20 379	-	21 586	-
TOTAL DEFERRED TAXES	**50 260**	**(61 234)**	**49 951**	**(66 493)**
DEFERRED TAXES, NET	**-**	**(10 974)**	**-**	**(16 542)**

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2020	2019
Deferred tax assets	15 709	12 126
Deferred tax liabilities	(26 683)	(28 668)
DEFERRED TAX (LIABILITIES) / ASSETS, NET	**(10 974)**	**(16 542)**

Unrecognized deferred tax assets for unused tax losses

in CHF 1000.–	2020	2019
Unrecognized deferred tax assets expire in:		
reporting year +1	985	4 453
reporting year +2	206	384
reporting year +3	-	-
reporting year +4	-	-
reporting year +5 and beyond	14 531	32 876
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS FOR UNUSED TAX LOSSES	**15 722**	**37 713**

Net deferred tax assets / (liabilities)

in CHF 1000.–	Note	2020	2019
Balance at January 1		(16 542)	(14 909)
Deferred tax income / (expense)	5	5 277	2 284
Change in scope of consolidation	27	-	(7 153)
Deferred taxes directly recognized in OCI	15	(606)	3 009
Reclasses		(184)	18
Foreign exchange differences		1 081	209
BALANCE AT DECEMBER 31		**(10 974)**	**(16 542)**

At December 31, 2020, there was no recognized deferred tax liability (2019: 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 47.6 million (2019: CHF 51.3 million).

12. INVENTORIES

in CHF 1000.–	2020	2019
Raw materials and supplies	56 933	56 533
Semi-finished goods	13 401	10 697
Finished goods	101 721	99 180
TOTAL INVENTORIES	**172 055**	**166 410**
Write down of inventories	(4 096)	(2 195)
Inventory expensed in cost of sales	(695 419)	(726 971)

13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

in CHF 1000.–	Note	2020	2019
Trade receivables from customers		116 827	130 496
Trade receivables from related and associated parties	22	309	-
Less: Allowance for expected credit losses		(2 391)	(2 413)
TRADE RECEIVABLES NET	**21**	**114 745**	**128 083**
Prepayments		5 411	7 331
Loans to related parties	22	-	21 702
VAT		9 065	9 401
Other receivables		5 969	6 204
TOTAL RECEIVABLES AND PREPAYMENTS		**135 190**	**172 721**

Allowance for expected credit losses

in CHF 1000.–	2020	2019
Balance at January 1	(2 413)	(2 246)
Charge for the year	(125)	(157)
Amounts used / written off	29	(24)
Unused amounts reversed	35	11
Exchange rate differences	83	3
BALANCE AT DECEMBER 31	**(2 391)**	**(2 413)**

Maturity of trade receivables

Year ended December 31, 2020 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	117 136	103 274	8 044	2 481	629	352	2 356
Allowance for expected credit losses	(2 391)	(667)	(39)	(50)	(49)	(83)	(1 503)
TRADE RECEIVABLES, NET	**114 745**	**102 607**	**8 005**	**2 431**	**580**	**269**	**853**

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**

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

14. CASH AND CASH EQUIVALENTS

in CHF 1000.–	Note	2020	2019
Cash at banks		120 747	174 664
Cash equivalents		141	377
TOTAL CASH AND CASH EQUIVALENTS	**21**	**120 888**	**175 041**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 12.2 million (2019: CHF 12.2 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 2020 was 1.95% (2019: 2.06%).

15. SHARES, HYBRID CAPITAL AND OTHER RESERVES

Number of shares

	2020	2019
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 can only be sold back to Hero AG.

Hybrid capital

in CHF 1000.–	2020	2019
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	Foreign currency trans-lation reserve	Total
BALANCE AT JANUARY 1, 2019	**7 253**	**25 758**	**410**	**(30 010)**	**(229 194)**	**(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/ JANUARY 1, 2020	**7 844**	**25 758**	**(817)**	**(38 095)**	**(255 352)**	**(260 662)**
Hedge accounting	-	-	(112)	-	-	(112)
Revaluation of land	(296)	-	-	-	-	(296)
Remeasurements	-	-	-	8 256	-	8 256
Tax effects	74	-	(13)	(1 486)	819	(606)
Foreign exchange differences	-	-	-	-	(33 591)	(33 591)
BALANCE AT DECEMBER 31, 2020	**7 622**	**25 758**	**(942)**	**(31 325)**	**(288 124)**	**(287 011)**

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	2020	2019
Current			
Bank borrowings and overdrafts	21	10 024	6 915
Loan liabilities third parties	21	1 835	307
Debentures	21	-	129 947
Lease liabilities	26	6 075	6 963
TOTAL CURRENT BORROWINGS		**17 934**	**144 132**
Non-current			
Bank borrowings	21	80 620	284
Loan liabilities third parties	21	216	328
Loan liabilities related to non-controlling interest shareholders	21, 22	482	824
Lease liabilities	26	13 026	14 653
Debentures	21	135 000	135 000
TOTAL NON-CURRENT BORROWINGS		**229 344**	**151 089**

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, 2020 and 2019 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2020 was 9.09% for Emerging Markets and 0.86% outside Emerging markets (2019: 11.71% for Emerging Markets and 1.98% outside Emerging markets). The interest rates for the majority of current bank overdrafts and loan liabilities were between 2.25% - 19.85% for Emerging Markets and 1.12% excluding Emerging Markets (2019: 2.40%% - 13.25% for Emerging Markets and 1.12% excluding Emerging Markets). Non-current borrowings had a weighted average fixed interest rate of 0.88% (2019: 2.83%).

Debentures

Debentures of CHF 130 million issued in 2013 matured on June 26, 2020 and carried 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, 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/JANUARY 1, 2020	**151 089**	**144 132**
Repayment of bank loans	(213)	(5 990)
Proceeds from bank loans	80 664	9 911
New lease liabilities	5 422	-
Changes of lease liabilities	(141)	-
Reclassifications of lease liabilities	(6 213)	6 213
Payment of lease liabilities	-	(6 829)
Amortization of bond discounts	-	53
Repayment of debentures	-	(130 000)
Repayment of financial liabilities	(497)	-
Proceeds from financial liabilities	-	1 698
Foreign currency translation effects	(767)	(1 254)
BALANCE AT DECEMBER 31, 2020	**229 344**	**17 934**

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, 2020, for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 88% (2019: 86%) of the Group's defined benefit obligations and 93% (2019: 88%) 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, 2020, is 113.5% (2019: 109.9%, 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 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. The funded plan "Pensionskasse der Direktionsmitglieder der Hero Schweiz AG" (a voluntary, 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 2020 is TCHF 1 918 (2019: TCHF 2 279).

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 2021 are TCHF 1 883.

The most significant multi-employer plan is Beech-Nut Bakery and Confectionery Union and Industry International Health Benefits and Pension Fund (B&C 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 (2019: 0.3%).

The scheme shows based on latest information a USD 6.0 billion deficit (2019: USD 5.7 billion deficit). Due to its funding issues, and as required by Employee Retirement Income Security Act (ERISA), the plan has been operating under a "rehabilitation plan" since 2012. The rehabilitation plan is designed to "forestall" the B&C Fund's insolvency.

The plan may become eligible for relief under legislation being considered by the U.S. Congress. Congress members recently introduced the Emergency Pension Plan Relief Act of 2021 (EPPRA), which would provide funding relief to plans that are in critical and declining status.

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.–	2020	2019
Balance sheet obligations for:		
Defined pension benefits	67 290	78 520
LIABILITY IN THE BALANCE SHEET	**67 290**	**78 520**
Income statement charge included in operating profit for:		
Defined pension benefits	1 815	3 088
INCOME STATEMENT CHARGE	**1 815**	**3 088**
Remeasurements for:		
Defined pension benefits	(8 256)	11 081
OTHER COMPREHENSIVE INCOME	**(8 256)**	**11 081**

Amounts recognized in the balance sheet:

in CHF 1000.–	2020	2019
Switzerland		
Present value of funded obligations	96 729	99 919
(Fair value of plan assets)	(88 793)	(86 041)
Deficit of funded obligations	7 936	13 878
LIABILITY IN THE BALANCE SHEET	**7 936**	**13 878**
Germany		
Present value of unfunded obligations	46 957	51 190
LIABILITY IN THE BALANCE SHEET	**46 957**	**51 190**
Other		
Present value of funded obligations	8 893	14 721
(Fair value of plan assets)	(6 729)	(12 274)
Deficit of funded obligations	2 164	2 447
Present value of unfunded obligations	10 233	10 945
Total deficit of defined benefit pension plans	12 397	13 392
Impact of asset ceiling / minimum funding requirement	-	62
LIABILITY IN THE BALANCE SHEET	**12 397**	**13 454**
Total		
Present value of funded obligations	105 622	114 639
(Fair value of plan assets)	(95 522)	(98 315)
Deficit of funded obligations	10 100	16 324
Present value of unfunded obligations	57 190	62 134
Total deficit of defined benefit pension plans	67 290	78 458
Impact of asset ceiling / minimum funding requirement	-	62
LIABILITY IN THE BALANCE SHEET	**67 290**	**78 520**

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, 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)
BALANCE AT DECEMBER 31, 2019/ JANUARY 1, 2020	**176 775**	**(98 315)**	**78 460**	**60**	**78 520**
Current service cost	2 423	-	2 423	-	2 423
Plan amendments	(947)	-	(947)	-	(947)
Interest expense/(income)	701	(362)	339	-	339
	2 177	**(362)**	**1 815**	**-**	**1 815**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	(3 589)	(3 589)	-	(3 589)
Gain from change in demographic assumptions *	(2 279)	-	(2 279)	-	(2 279)
Gain from change in financial assumptions	(414)	-	(414)	-	(414)
Experience gain	(1 974)	-	(1 974)	-	(1 974)
	(4 667)	**(3 589)**	**(8 256)**	**-**	**(8 256)**
Contributions:					
Employers	-	(1 853)	(1 853)	-	(1 853)
Plan participants	1 233	(1 233)	-	-	-
Payments from plans:					
Benefit payments	(6 437)	3 827	(2 610)	-	(2 610)
Settlement	(5 047)	5 034	(13)	(59)	(72)
Foreign exchange differences	(1 224)	971	(253)	(1)	(254)
AT DECEMBER 31, 2020	**162 810**	**(95 520)**	**67 290**	**-**	**67 290**

* Mainly Swiss Plan

Significant actuarial assumptions:

	Switzerland		Germany		Other*	
in %	2020	2019	2020	2019	2020	2019
Discount rate	0.10	0.20	0.50	0.40	1.13	1.49
Salary growth rate	1.00	1.00	3.00	3.00	0.05	0.04
Pension growth rate	0.00	0.00	1.75	2.00	1.17	1.40

* weighted average

Assumptions regarding future mortality:

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

	Switzerland		Germany		Other*	
in years	2020	2019	2020	2019	2020	2019
Retiring at the end of the reporting period:						
Male	23	23	21	20	21	21
Female	25	25	24	24	23	24
Retiring 20 years after the end of the reporting period:						
Male	25	24	23	23	23	23
Female	27	26	26	26	25	25

* weighted average

Sensitivity of the defined benefit obligation:

2020		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(10 032)	(1.0%)	11 303	6.9%
Salary growth rate	0.50%	1 006	0.6%	(1 006)	(0.6%)
Pension growth rate	0.25%	3 768	2.3%	(1 594)*	(1.0%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		6 643	4.1%	(6 190)	(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:

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

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.–	2020	in %	2019	in %
Equity instruments	23 997	25.1	24 122	24.5
Bonds	44 842	46.9	43 440	44.2
Property	24 418	25.6	22 887	23.3
Cash and cash equivalents	2 263	2.4	2 589	2.6
Other	-	-	5 277	5.4
TOTAL	**95 520**	**100.0**	**98 315**	**100.0**

The assets of the Swiss pension funds which represent 93% (2019: 88%) of the Group's plan assets are comprised of:

- 22% (2019: 23%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 48% (2019: 48%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 28% (2019: 27%) Property with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (level 2 fair value classification).
- 2% (2019: 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, 2021 are TCHF 3'276.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

Weighted average duration:

	Switzerland		Germany		Other*	
	2020	2019	2020	2019	2020	2019
in years	12	13	15	15	13	12

* weighted average

18. PROVISIONS

in CHF 1000.–	Litigation	Employee related	Other	Total
BALANCE AT DECEMBER 31, 2019/ JANUARY 1, 2020	**1 725**	**11 485**	**5 828**	**19 038**
Additional provisions	89	4 290	2 372	6 751
Utilized	-	(4 208)	(3 313)	(7 521)
Unused amounts reversed/reclassifications	-	(104)	(59)	(163)
Foreign exchange differences	(4)	(204)	(107)	(315)
BALANCE AT DECEMBER 31, 2020	**1 810**	**11 259**	**4 721**	**17 790**

Analysis of total provisions				
Current provisions	38	43	3 892	**3 973**
Non-current provisions	1 772	11 216	829	**13 817**

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 plans.

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	2020	2019
Earn-out liability	21	5 664	7 104
Put option liability	21	12 320	10 731
Withholding taxes		749	783
Other liabilities		612	576
TOTAL OTHER NON-CURRENT LIABILITIES		**19 345**	**19 194**

20. TRADE AND OTHER PAYABLES

in CHF 1000.–	Note	2020	2019
Trade payables	21	115 552	124 019
Accrued expenses	21	91 880	96 080
VAT and other taxes		8 377	5 728
Social security		3 539	3 414
Earn-out liability	21	4 101	2 390
Other payables	21	5 878	7 940
TOTAL TRADE AND OTHER PAYABLES		**229 327**	**239 571**

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	2020	2019	2020	2019
Financial assets - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		271	208	271	208
Financial assets measured at amortized cost					
Non-current					
Seller promissary note		20 024	19 696	19 376	18 325
Current					
Trade receivables	13	114 745	128 083	*	*
Loans to related parties	13	-	21 702	*	*
Cash and cash equivalents	14	120 888	175 041	*	*
Total (non-current and current)		**255 657**	**344 522**	-	-
Financial liabilities - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		2 325	1 021	2 325	1 021
Financial liabilities at fair value through profit or loss					
Non-current					
Earn-out liability on acquisition	27	5 664	7 104	5 664	7 104
Current					
Earn-out liability on acquisition	27	4 101	2 390	4 101	2 390
Total (non-current and current)		**9 765**	**9 494**	**9 765**	**9 494**

in CHF 1000.–	Note	Carrying amount 2020	Carrying amount 2019	Fair value 2020	Fair value 2019
Other financial liabilities measured at amortized cost					
Non-current					
Borrowings	16	81 318	1 436	81 311	1 151
Debentures	16	135 000	135 000	134 819	134 745
Put option liability over non-controlling interests	27	12 320	10 731	12 320	10 731
Current					
Trade and other payables	20	213 310	230 429	*	*
Borrowings	16	11 859	7 222	*	*
Debentures	16	-	129 947	*	*
Total (non-current and current)		**453 807**	**514 765**	-	-

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

Fair value

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

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. They were repayed at maturity date on June 26, 2020.

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 2020 no repayment was received. 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 9.8 million (2019: 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 12.3 million (2019: 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 value minus net debt +/- difference to net working capital target.

Enterprise value is the result of a net sales and EBIT multiple.

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, 2020, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

As at December 31, 2020, the Group held the following financial instruments measured at fair value:

at December 31, 2020	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	271	2 325	-
Earn-out liability on acquisition	-	-	9 765

at December 31, 2019			
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	-	-	9 494

Earn-out liability on acquisition		
in CHF 1000.–	2020	2019
Balance at January 1,	9 494	-
Additions	-	13 921
Fair value changes through profit or loss	271	(4 427)
Balance at December 31	**9 765**	**9 494**

Liabilities for which fair values are disclosed	2020	2020	2019	2019
in CHF 1000.–	Level 1	Level 2	Level 1	Level 2
Borrowings		81 311	-	1 151
Debentures	134 819	-	134 745	-

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, 2020 are shown below:

	VALUATION TECHNIQUE	SIGINIFICANT UNOBSERVABLE INPUTS	SALES GROWTH RATES / EBIT MARGINS 2020-2021	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 2% and 33.5% (2019: between 5% and 44.5%)	5% increase (decrease) in net sales and EBIT would result in an increase (decrease) in fair value by EUR 0.9 millions (2019: EUR 1.4 millions)
		EBIT	between 6.9% and 7.1% (2019: between 3% and 11.3%)	

The Group is holding the following forward foreign exchange contracts:

in CHF 1000.–	2020	2019
Contracts with positive fair values		
Notional amount of forward foreign exchange contracts	64 684	44 123
Contracts with negative fair values		
Notional amount of forward foreign exchange contracts	(110 357)	(68 245)

The Group entered into forward foreign exchange contracts during financial year 2020 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, 2020				
Highly probable forecast transaction	(112)	-	-	(818)
Total	**(112)**	**-**	**-**	**(818)**
Year ended December 31, 2019				
Highly probable forecast transaction	(1 332)	-	-	514
Total	**(1 332)**	**-**	**-**	**514**

22. RELATED AND ASSOCIATED PARTY TRANSACTIONS

in CHF 1000.–	Note	2020	2019
Sales of goods			
to associated companies and joint ventures		1 505	-
Management services rendered			
to associated companies and joint ventures		142	-
Income			
Interest income from AOH Nahrungsmittel Group		3	2
Receivables/liabilities			
Trade receivables from associated companies and joint ventures	13	309	-
Other short-term receivables from AOH Nahrungsmittel Group		-	128
Short-term loan receivable from AOH Nahrungsmittel Group	13	-	21 702
Other short-term receivables from associated companies and joint ventures		99	-
Long-term loan liabilities to non-controlling interest shareholders	16	482	824
Short-term loan liabilities to associated companies and joint ventures		1 493	-
Key management personnel			
Salaries and other short-term employee benefits		(6 074)	(6 070)
Post-employment benefits		(445)	(497)
Long-term incentive plans - expense		(624)	(385)
Long-term incentive plans - dividend payment		(214)	-
Long-term incentive plans - provision		4 652	4 440
Long-term incentive plans - loan receivable	10	630	995

The key management personnel are defined as the Executive Board. Transactions with related parties and joint ventures 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.–	2020	2019
Contingent liabilities in favor of third parties	999	830

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

24. COMMITMENTS

in CHF 1000.–	2020	2019
Commitments for the acquisition of tangible fixed assets	6 415	6 827
Commitments for raw materials	77 382	70 168
TOTAL COMMITMENTS	**83 797**	**76 995**

25. DISCONTINUED OPERATIONS

On October 25, 2018, the Group disposed of its 100% membership interest in Signature Brands LLC, USA. 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.

The results of the closing settlement and partial repayment of the seller note were as follows:

Details of discontinued operations result

in CHF 1000.-	2020	2019
Pre-tax gain on disposal	-	1 244
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	**-**	**1 244**
Attributable to equity holders of the parent	**-**	**1 244**

Net cash flows

in CHF 1000.-	2020	2019
Investing*	-	13 837
NET CASH INFLOW	**-**	**13 837**

* 2019: Consists of final closing settlement and partial repayment of seller note

26. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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
Gross				
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/JANUARY 1, 2020	**18 937**	**1 404**	**7 360**	**27 701**
Additions	1 633	124	3 665	5 422
Decreases	(116)	(62)	(936)	(1 114)
Foreign exchange differences	(1116)	(19)	(103)	(1 238)
BALANCE AT DECEMBER 31, 2020	**19 338**	**1 447**	**9 986**	**30 771**

in CHF 1000.–	Buildings	Plant and machinery	Other equipment	Total
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/JANUARY 1, 2020	**3 475**	**512**	**2 613**	**6 600**
Additions	3 868	509	3035	7 412
Decreases	(80)	(13)	(890)	(983)
Foreign exchange differences	(283)	(3)	(54)	(340)
BALANCE AT DECEMBER 31, 2020	**6 980**	**1 005**	**4 704**	**12 689**
Carrying amount				
At December 31, 2019	15 462	892	4 747	21 101
At December 31, 2020	12 358	442	5 282	18 082

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

in CHF 1000.–	2020	2019
As at 1 January	21 616	20 107
Additions	5 422	8 110
Decreases	(141)	-
Accretion of interest	963	800
Payments of lease liabilities including interest	(7 792)	(7 830)
Foreign exchange differences	(967)	429
AS AT 31 DECEMBER	**19 101**	**21 616**
Thereof non-current	13 026	14 653
Thereof current	6 075	6 963

The following are the amounts recognised in the income statement:

in CHF 1000.–	2020	2019
Depreciation expense of right-of-use assets	(7 412)	(6 754)
Interest expense on lease liabilities	(963)	(800)
Expense relating to short-term leases	(861)	(610)
Expense relating of low-value assets	(359)	(1 064)
Variable lease payments	(1 080)	(974)
TOTAL AMOUNT RECOGNISED IN THE INCOME STATEMENT	**(10 675)**	**(10 202)**

The Group had total cash outflows for leases of CHF 10.1 million in 2020 (2019: CHF 10.5 million)

27. BUSINESS COMBINATIONS

Acquisitions 2020

There were no acquisitions in 2020.

Acquisitions 2019

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 (NCI) of 30%. The Group has elected to measure the NCI in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

in CHF 1000.–	Note	Fair value recognized on acquisition 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.

In 2019 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 ASSOCIATES AND JOINT VENTURES

The Group has a 50% interest in MadreNatura AG which was founded in December 17, 2019 by Hero AG and its joint venture partner. The company sells 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 was recognized in the income statement.

Summarized statement of financial position of joint venture:

in CHF 1000.-	2020	2019
Current assets	**4 721**	**-**
Thereof cash and cash equivalents	2 521	-
Non-current assets	**-**	**-**
Current liabilities	**3 250**	**-**
Thereof current financial liabilities	-	-
Non-current liabilities	**-**	**-**
Equity	**1 471**	**3 300**
Group's share in equity 50%	736	1 650
Group's carrying amount of the investment	**736**	**1 650**
Other non material associates and joint ventures	145	141
Total investments in associates and joint ventures	**881**	**1 791**
Capital contribution to joint-venture	**1 100**	**-**

Summarized statement of profit or loss joint venture:

in CHF 1000.-	2020	2019
Revenue from contracts with customers	1 831	-
Depreciation and amortization	-	-
Interest income	-	-
Interest expense	-	-
Loss before tax	**(3 968)**	**-**
Income tax expense	-	
Loss for the year	**(3 968)**	**-**
Group's share of loss for the year	(1 984)	-
Foreign exchange differences	(30)	-
Group's share of total comprehensive loss for the year	**(2 014)**	**-**

29. EVENTS AFTER THE BALANCE SHEET DATE

On January 22, 2021, the Hero Group acquired a majority share in Baby Gourmet, Canada's leading brand of high quality organic baby meals and snacks, for a total consideration of CHF 21 million in cash. Baby Gourmet provides the Hero Group with a new platform to enter the Canadian baby food market with a top organic product offering.
Baby Gourmet generated an annual turnover of around CAD 30 million in 2020 and is not expected to be material for the Group's overall result. The company is headquartered in Calgary, Canada and employs around 20 people.

The results, assets and liabilities of the company will be consolidated from January 22, 2021.

On March 9, 2021 the Board of Directors resolved to pay the annual coupon of 2.125% on the hybrid capital of nominal CHF 200.0 million which is CHF 4.3 million.

There have been no other significant events between December 31, 2020, and the date of authorization of the consolidated financial statements that would require any adjustment or disclosure.

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, 9 March 2021

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 2020 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 86 to 157) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 *International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code)* 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 35% of the Group's total assets and 65% of the Group's total shareholders' equity as at 31 December 2020. 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 2020 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

Willy Hofstetter
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	2020	2019
Net proceeds from sales of goods and services		145 606	170 107
Dividend income		422	24 514
Cost of materials		(58 859)	(67 510)
Employee expenses		(40 075)	(39 716)
Other operational costs		(35 834)	(37 509)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**11 260**	**49 886**
Depreciation and valuation adjustments		(7 876)	(5 757)
Earnings before interest and taxes (EBIT)		**3 384**	**44 129**
Financial income		1 597	1 849
Financial costs		(10 062)	(11 343)
Operating result before taxes		**(5 081)**	**34 635**
Non-operational income	9	23 278	4 320
Earnings before taxes		**18 197**	**38 955**
Tax expense		(3 932)	(5 811)
ANNUAL PROFIT		**14 265**	**33 144**

BALANCE SHEET

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

Assets	Note	2020	2019
Cash and cash equivalents	1	27 638	53 565
Trade receivables	3	9 499	14 444
Other current receivables	3	58 315	56 540
Inventories	1	9 662	10 348
Accrued income and prepaid expenses		140	15
Current assets		**105 254**	**134 912**
Financial assets	3	257 044	284 494
Investments	2	475 692	450 436
Tangible fixed assets	1	33 952	35 811
Intangible assets		36 197	39 649
Non-current assets		**802 885**	**810 390**
TOTAL ASSETS		**908 139**	**945 302**

Liabilities	Note	2020	2019
Trade payables	3	9 025	12 044
Current interest-bearing liabilities	3	88 883	171 164
Other current liabilities	3	9 551	8 104
Deferred income and accrued expenses	1	14 500	16 752
Current provisions	1	2 426	1 722
Current liabilities		**124 385**	**209 786**
Non-current interest-bearing liabilities	1, 3	415 000	337 170
Other non-current liabilities		5 664	7 104
Non-current provisions	1	4 219	3 636
Non-current liabilities		**424 883**	**347 910**
TOTAL LIABILITIES		**549 268**	**557 696**
Share capital		62 133	62 133
Capital contribution reserve		63 632	63 632
Legal reserve		25 758	25 758
Profit carryforward		195 591	205 042
Net income for the year		14 265	33 144
Voluntary retained earnings		209 856	238 186
Treasury shares	5	(2 508)	(2 103)
TOTAL EQUITY		**358 871**	**387 606**
TOTAL LIABILITIES		**908 139**	**945 302**

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

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

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 circle including the general manager of the country 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 plans. There is a minimum performance threshold of the strategic KPI's and the amount of pay-out is capped. The 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. 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.

Current/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, 2020 amounts to TCHF 9 765 (2019: 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 asset/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.– as at December 31	2020	2019
Bank & cash	27 638	53 565
Cash and cash equivalents	**27 638**	**53 565**
Packaging material	1 189	986
Raw material	863	1 051
Finished goods	7 610	8 311
Inventories	**9 662**	**10 348**
Land	4 749	4 749
Buildings	20 829	21 422
Plant and machinery	7 000	8 451
Other equipment and vehicles	1 374	1 189
Tangible fixed assets	**33 952**	**35 811**
Interest	694	1 448
Promotions	569	676
Goods received no invoice received	541	1 297
Advertising	33	52
Personnel	6 824	6 935
Service	2 956	2 439
Others	2 883	3 905
Deferred income and accrued expenses	**14 500**	**16 752**
Non income tax	-	455
Others	2 426	1 267
Current provisions	**2 426**	**1 722**
Bank loans	80 000	-
Perpetual and subordinated bond	200 000	200 000
Straight bond	135 000	135 000
Group Companies	-	2 170
Non-current interest-bearing liabilities	**415 000**	**337 170**
Litigation	1 754	1 736
Others	2 465	1 900
Non-current provisions	**4 219**	**3 636**

2. INVESTMENTS

Company	Domicile	Ownership*	2020 Share capital in %	2020 Share of vote in %	2019 Share capital in %	2019 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	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	50.0	50.0
Mimic B.V.	Breda, Netherlands	D	100.0	100.0	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

* 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.– as at December 31	2020	2019
Group companies	1 790	3 014
Third	7 709	11 430
Trade receivables	**9 499**	**14 444**
Group companies	54 719	54 523
Third	3 596	2 017
Other current receivables	**58 315**	**56 540**
Participants and management bodies	630	995
Group companies - loans	256 414	283 499
Financial assets	**257 044**	**284 494**
Group companies	527	2 492
Third	8 498	9 552
Trade payables	**9 025**	**12 044**
Group companies	87 389	41 217
Third	1 494	129 947
Current interest-bearing liabilities	**88 883**	**171 164**
Group companies	2 214	2 291
Third	7 337	5 813
Other current liabilities	**9 551**	**8 104**
Group companies	-	2 170
Third	415 000	335 000
Non-current interest-bearing liabilities	**415 000**	**337 170**

4. EXCESS RESERVES

in CHF 1000.– as at December 31	2020	2019
Release of excess reserves	1 269	-

5. TREASURY SHARES

Number of registered shares	2020	2019
Inventory as at January 1	**30 699**	**15 552**
Acquisitions from executive board members	8 578	25 356
Sales to executive board members	(5 043)	(10 209)
Inventory as at December 31	**34 234**	**30 699**

In 2020, 8 578 registered shares were purchased at a price of CHF 120.27 each. In the same year, 5 043 registered shares were sold at an average price of CHF 100.98.

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.

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

as at December 31	Number	2020 Total value in TCHF	Number	2019 Total value in TCHF
Participation rights in the ownership of				
Management bodies	27 438	2 912	30 973	3 128
Option rights in the ownership of*				
Management bodies	27 083	2 418	15 163	1 188

* Provisionally determined

7. OTHER INFORMATION

in CHF 1000.– as at December 31	2020	2019
Lease obligations not recorded in the balance sheet	611	362
Guarantees in the name of Hero AG in the favour of third parties	18 391	20 044
Contingent liabilities	300	300

8. NUMBER OF EMPLOYEES

	2020	2019
The average number of full time employees was	between 50 to 249	between 50 to 249

9. NON-OPERATIONAL INCOME

The non-operational income 2020 of CHF 23.3 million (2019: CHF 4.3 million) relates to the sale of an intangible asset.

10. EVENTS AFTER THE BALANCE SHEET DATE

On January 22, 2021, Hero AG acquired a majority share in Baby Gourmet, Canada's leading brand of high quality organic baby meals and snacks. Baby Gourmet provides the Hero Group with a new platform to enter the Canadian babyfood market with a top organic product offering. The company generated an annual turnover of around CAD 30 million in 2020. Baby Gourmet is headquartered in Calgary, Canada and employs around 20 people.

There have been no other significant events between December 31, 2020, and the date of authorization of the financial statements that would require any adjustment 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 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.–	2020	2019
Profit of the year	14 265	33 144
Amount carried forward from last year	195 402	204 549
Gain from disposal of Treasury Shares	189	493
AVAILABLE FOR DISTRIBUTION	**209 856**	**238 186**
Total dividend payment 2020: CHF 1.78 on 6'213'272 registered shares of CHF 10.- par value	(11 060)	(42 784)
BALANCE CARRIED FORWARD	**198 796**	**195 402**

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, 9 March 2021

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 165 to 173), for the year ended 31 December 2020.

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 2020 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

Willy Hofstetter
Licensed audit expert
(Auditor in charge)

Mirco Scruzzi
Licensed audit expert

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