Hero

Annual Report 2021

Hero · Schwartau · Beech-Nut · Semper · Organix · Corny · Sunar · Vitrac · Juvela · Queensberry · Freche Freunde · Baby Gourmet

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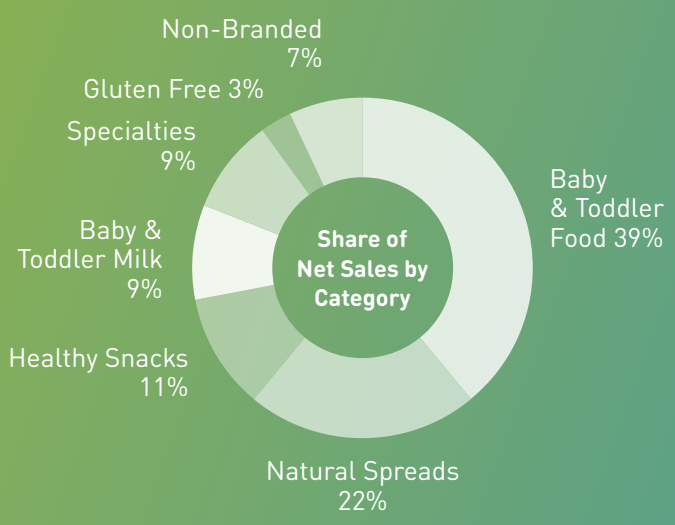
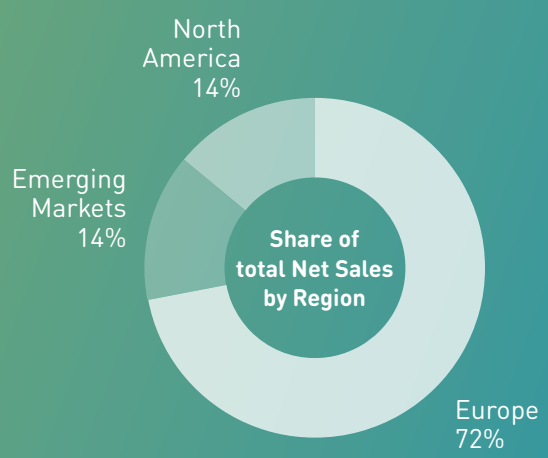
KEY FIGURES

in CHF million	2021	2020
Net Sales	**1,142.1**	**1,117.5**
organic growth *	1.9	1.1
EBIT	**34.1**	**59.8**
in % net sales	3.0	5.4
Net Income	**9.0**	**40.2**
in % net sales	0.8	3.6
Total Equity	**703.1**	**706.3**
equity ratio in %	52.8	53.5
EBITDA	**79.5**	**104.8**
Net Debt	**163.4**	**126.4**
net debt / EBITDA	2.1	1.2
Full time employees	4,093	4,119

* adjusted for currency and acquisition effects





JOINT CHAIRMAN / CEO MESSAGE

2021

The year we are leaving behind us came as a mixed bag for Hero, one in which we experienced diametrically opposite extremes. On the one hand, we saw very good developments in our core business, while on the other, we faced extraordinary effects in the US and from acquisition accounting that impacted our results.

Giovanni Ciserani Chairman

The company delivered a Net Sales growth of 2.2%, from CHF 1,117.5 million in 2020 to CHF 1,142.1 million in 2021. Our organic Net Sales growth reached 1.9%. In January 2021, we acquired a majority shareholding in Baby Gourmet, the leading organic baby food brand in Canada, a great addition to our portfolio that falls perfectly in line with our strategy.

Our Baby & Toddler Food, Healthy Snacks, and Natural Spreads categories delivered a Net Sales growth of 6.0%. Adjusted for currency and acquisition effects, the organic growth in these categories was 3.4%. We gained market shares in most of these category markets, testament that our long-term strategy is working.

Rob Versloot CEO

Our largest category, Baby & Toddler Food, grew 3.3% organically thanks to a strong performance in most of our markets in the year under review.

At the same time, this category faced significant headwinds in the US in 2021, declining 6.4% in Net Sales versus 2020. In February 2021, a staff report was issued by a sub-committee of the House of Representatives in which the leading baby food brands in the US, including our brand Beech-Nut, were alleged to be selling products with high levels of naturally-occurring heavy metals. This report led to a major wave of negative media reports that resulted in a business decline as well as multiple class action proceedings against the industry.

We have addressed this issue on multiple levels. We have reiterated our position that Beech-Nut's products are nutritious and safe, and they are not harmful to babies. Quality and safety are our top priority, especially with our youngest consumers, not only at Beech-Nut but the entire Hero Group. We have further continued our efforts to enhance ingredient specifications and control, as well as finished goods testing in cooperation with the US regulators, consumer, and industry associations. At the same time, we are protecting our interests against all legal claims.

In the context of this heavy metal crisis for the whole baby food industry in the US, our subsidiary Beech-Nut experienced an operating profit decline of CHF 16 million in 2021 compared to 2020, driven by the business impact as well as legal costs.
On the positive side, we saw a recovery in the last months of 2021, which gives us confidence that we can overcome the impact in 2022.

A second major extraordinary effect on our results in 2021 was related to our partnership in Germany with erdbär (goodforgrowth GmbH). The performance of the business was outstanding in 2021 with over 20% growth for the second year in a row. However, it led to a negative accounting impact of -CHF 10.6 million on our operating profit for 2021 coming from the earn-out and put option liability. Incidentally, this one-off effect can be viewed through a positive lens as it lends further credence to our decision to acquire the company in 2019 and to continue investing in the category.

In the year under review, our EBIT declined from CHF 59.8 million to CHF 34.1 million. We are not satisfied with this result, but we recognize that we faced extraordinary effects and challenges in 2021. The decline when compared to 2020 can largely be explained by the above-mentioned effects related to the US and erdbär (goodforgrowth) partnership.

Additionally, we faced continued negative Covid impacts, including lockdowns and reduced demand in the foodservice sector, especially in the first half of 2021, and increasing material price inflation, particularly in the second half of 2021. We mitigated the negative impact of these effects through sales growth, cost adjustments and selective, additional price increases.

Outlook

Our strong sales momentum in recent months and our strong positions in the core business give us confidence that we can accelerate growth in 2022.

We expect continuous margin pressure in the year ahead related to significant inflationary trends in raw materials, energy, and freight costs. We plan to counteract these via pricing efforts as well as savings initiatives.

We are closely monitoring the geopolitical situation, particularly in the Ukraine and Russia. With less than 2% of the Group's Net Sales coming from that region our business and financial exposure is limited.

Overall, we aim to grow Net Sales, EBIT, and Net Income in 2022.

The transformation of our Group to a more focused, digital, and sustainable company will continue taking shape. We will strengthen our focus on strategic core business and drive our portfolio in that direction. Project PHI, a key building block of our digitalization road-map, will roll-out our new Supply Chain planning processes and systems to drive efficiency and enter the pilot phase for the future ERP backbone. Our sustainability agenda will continue to progress in terms of concrete carbon footprint reduction initiatives as well as reporting.

Our people

The year in review was characterized by multiple challenges, among others managing the second year of Covid, handling hefty cost inflation, and addressing the heavy metals issue in the US. Our faith and trust in our people was again confirmed and fully justified during this difficult year. Their commitment and flexibility was again remarkable. Our employees adapted to a hybrid working model,

combining remote working and time in the office. For their resilience in this period, the contributions they made, the effort they put in, the motivation and commitment to keep business operational every day, we would like to say a sincere and humble '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

At Hero, we aim to drive organic growth of our core categories, particularly in our branded business in Baby & Toddler Food, Natural Spreads, and Healthy Snacks. 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 past years, we have strengthened our determination to bring healthy 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 of North American 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 2021, we experienced strong 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 – a great addition 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, contributing more than two-thirds to our total sales.
  To achieve sustainable growth it is a key element of our strategy to expand our footprint outside Europe, e.g. in North America, the Middle-East and Brazil
- **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. This is why Supply Chain efficiencies are an important strategic KPI for the company

CONSERVING THE GOODNESS OF NATURE

OUR STORY SO FAR

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

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

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

In essence, little has changed since Hero was founded.

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.
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 Baby Gourmet, Beech-Nut, Freche Freunde, 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 us, it is Mother Nature who makes food – all we do is conserve the goodness for our consumers.

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

OUR HISTORY

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. Henckell was an experienced conserve factory employee while Zeiler was a fruit farmer. In 1889, Gustav Zeiler, 30, dies unexpectedly. Karl Roth joins the company as a new partner.

1890 Beech-Nut founded in Canajoharie, New York

Beech-Nut was founded in 1890 by five residents of Canajoharie, New York. The company was named Beech-Nut after the beech trees that grew around the Canajoharie area as well as the 'nutty' flavor of the company's first successful product, cured ham.

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. They travelled from Rostock to Schwartau and founded the company in July 1899. Their first products were artificial honey, floor wax, and floor oil.

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 as part of a drive by the latter to grow the business. Hero was floated on the stock exchange in 1914. This year also marked the death of Karl Roth.

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. The aim of the company was the production of pulp and syrup for export.

1936 Infant nutrition substitute created in Czechoslovakia

The beginning of the production of substitute infant nutrition in Czechoslovakia dates back to 1936, which significantly contributed to the reduction of infant mortality. This was the birth of the product which would eventually become known as Sunar.

1939 Semper company founded

Svenska Mjölkprodukter AB (SMP), later renamed Semper, is founded by Swedish entrepreneur Axel Wenner-Gren. The production of the first milk powder plant in Sweden/Kimstad starts in September that same year.

1940s Semper builds new factory in Götene A new plant is built in Götene, Sweden, by Semper. The company soon introduces gruel, a food product similar to porridge, and calls it Välling. Production starts in 1942.

1945 Oetker family takes on full ownership of Schwartau In 1945, the Oetker family shareholding of Schwartau increases to 100%. The shares are held by siblings Rudolf-August and Ursula Oetker, mother of Dr Arend Oetker.

1948 Semper claims a first
BabySemp is launched as the world's first completely manufactured infant formula. The development of bakery products also contributes to establish Semper as a research-based and innovative company.

1960 Precursor to Hero Italy formed
A group of 30 people in the horticultural field form the company LIDO. Five years later, Hero takes a 20% stake in the company.

1970 Hero takes majority holding in Italian company Hero acquired a further 30.1% of the company LIDO to achieve majority holding (50.1%). The company then changes name to Hero Verona SpA. Two years later, Hero takes over the whole company, which becomes Hero Italia.

1972 Change of name for Hero Spain
On March 1, 1972, the name Hero Alcantarilla was changed to Hero Spain to give the company a more nationwide scope

1981 Businessmen found Vitrac
A group of Egyptian businessmen partner with renowned French company Vitrac Fruits to form the Vitrac jam brand. Vitrac will soon become synonymous with quality jam and concentrates in the country and region.

1985 Spain enters baby market
Hero Spain takes the bold decision to enter the baby market with a new product called Hero Baby. It proved to be a very successful move and today accounts for more than half the turnover of Hero Spain.

1986 Kiviks Marknad (later Hero Brazil) is born Set up in the back of a house on Rua Barata Ribeiro in the Bela Vista district of São Paulo, Hero Brazil – then known as Kiviks Marknad – officially began operating in 1986.

1992 Lizzie Vann establishes Organix in her kitchen An activist, political campaigner, and businesswoman, Lizzie Vann wanted to create a baby food brand with pure, natural ingredients. She set out to create them in her own kitchen – and Organix was born.

1995 Hero under the ownership of the Oetker Family In 1995, the German company Schwartau International GmbH, owned by Dr Arend Oetker, acquired a majority stake in Hero. This will lead to the formation of the Hero Group.

2001 Casa de Mateus joins Hero family Hero acquires the popular premium Portuguese brand Casa de Mateus in line with the company's strategy to be closer to the consumers.

2002 JV gateway to enter Turkish market Hero enters the Turkish market in 2002 as a joint venture company with Ülker with the brand name Hero Baby.

2002 Hero acquires majority stake in Schwartau, expands east In 2002, Hero acquired a majority stake in Schwartau. Hero also entered the Swiss baby food market by acquiring Wander's Adapta and Galactina brands and expanded into Eastern Europe through the purchase of the Sunar trademark in the Czech Republic and Slovakia.

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 'adopted' Beech-Nut, making them the parent company. Hero also acquires 100% of the shares in Vitrac and establishes the Hero Middle East & Africa hub.

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

2006 Hero sets up R&D center for infant nutrition in Spain, innovation center in Germany The generation of knowledge in the infant nutrition segment led to the creation of the Institute of Infant Nutrition in Alcantarilla. In addition, an innovation and quality center was inaugurated in Germany.

2008 Organix joins Hero family

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

2009 BTF factory opened in Turkey

In 2009, a new baby food plant was opened in Ankara, Turkey, as part of the joint venture between Hero and Ülker. Hero Turkey is the first and only baby food producer company in Turkey.

2011 New premises for Hero HQ

The building of the Hero Group's new headquarters and factory in Lenzburg was completed a year ahead of schedule and right on time for the company's 125th anniversary. Previously, the company had its production facilities and offices right next to the Lenzburg train station.

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 $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 the Queensberry jams, the market leader in Brazil. The company name would then change to 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 erdbär enter into a strategic partnership. The deal allows the Hero Group to enter into the important German market with baby and toddler food products.

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.

2021 Hero enters Canadian BTF market

The Hero Group acquired a majority shareholding in Baby Gourmet, Canada's leading brand of high quality baby meals and snacks.

HERO CLIMATE POSITIVE

OUR SUSTAINABILITY COMMITMENT: TO BE CLIMATE POSITIVE

We know that healthier ecosystems will mean healthier humans so we are working hard to make Hero a more sustainable company. This means acting on climate change, promoting sustainable agriculture, encouraging biodiversity, and driving demand for more sustainable food.

Our ambition is to give more to nature than we take: we want to be climate positive. We also want to positively contribute to the lives of the people who make Hero a success: our suppliers, our employees and our more than 200 million consumers worldwide.

OUR AMBITIONS

Planet
To give back to nature more than we take

Product
To conserve nature's goodness via naturally healthy food

People
To positively contribute to the lives of the people who make Hero a success

OUR STRATEGY

1 Sustainable Sourcing

We work in partnership with our suppliers on sustainable agriculture and fair labor conditions. We also innovate to make our ingredient sourcing and packaging more sustainable.

2 Net Neutral Production

We are making our operations carbon neutral by conserving energy and water, reducing waste, switching to renewable energy, and balancing our footprint.

3 Naturally Healthy Food

We aim to capture and conserve the quality and goodness of nature and are always innovating to make our products better for both people and the planet.

4 Purposeful People

We strive to keep our team feeling engaged, included, and motivated. We support employee development, safety at work, and social responsibility in our communities.

1 SUSTAINABLE SOURCING
PARTNERING WITH OUR SUPPLIERS

As a multinational company producing so many different products, our supply chain is both complex and global. We manage this by having clear standards and strong relationships with our suppliers.

Maintaining our high standards

Every supplier is bound by our code of conduct and assessed against sustainability criteria, whether they are providing us with machinery or berries, jam jars or cocoa. We want to work with suppliers who share our values.

Conserving the goodness of nature

Sourcing our raw ingredients sustainably is a particular focus for us. After all, our mission is to delight consumers by conserving the goodness of nature. For us, this means more than simply bottling the highest quality, best tasting fruit and vegetables – we want to help conserve nature, too. Since agriculture is one of the main drivers of deforestation and biodiversity loss, we are working with our farmer suppliers to explore how we can have a positive impact on soil health and biodiversity. We want to give back more than we take.

Better packaging

We source our packaging with nature in mind, too. By 2023, at least half of the material we use to make our packaging will come from recycled sources, helping to stimulate the market for recycled materials, as well as cutting our use of virgin materials. In addition, every one of our products will be sold in packaging that is 100% recyclable. We will label materials clearly to make them easier for consumers to dispose of in the correct place.

Regional sourcing

Hero may be a multinational company, but we offer our consumers food grown locally whenever we can. Not only does this allow people to support farmers in their wider community, but it also helps keep food miles down.

Fostering biodiversity through pollinator programs

Bees pollinate around 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. The success of the Hero Group is dependent upon thriving pollinator species and we are working closely with our farmers to help protect them.

2 NET NEUTRAL PRODUCTION

REDUCING OUR IMPACT

Over the past century, mankind has not been kind to the planet. Today, we realize that we all need to take urgent steps to dramatically reduce our environmental impact – and that includes the Hero Group.

Becoming a climate positive business

Our aim is to be a climate positive business that gives back to nature more than we take. This means considering our entire value chain and exploring ways to proactively bring benefits to the environment, rather than just extracting what we need. In practice, this means embracing sustainable agriculture and treating water, soil, and energy like the precious resources that they are. We are reducing our greenhouse gas emissions and ultimately aim to be net zero carbon across our business and value chain.

Our sustainability fund

The Hero Group spent 6.4% of capital expenditure on sustainability projects in 2021. In future years, we aim to dedicate one tenth of our capital expenditure budget to sustainability. The conditions around this ring-fenced fund are strict: it cannot be used to meet new regulations or to upgrade existing equipment – it must be invested in activity which genuinely shifts our approach.

Using energy efficiently

We are looking for opportunities to optimize energy use at our production sites. In 2021, our focus has been on building the business case for using our sustainability fund to make step-changes in our approach to managing our energy use.

Switching to renewable energy

In addition to using energy more efficiently, we are purchasing increasing amounts of renewable energy from the grid as well as generating renewable energy on site in some locations.

Working towards zero waste

By 2030, it is our ambition to send zero food waste or packaging waste to landfill from any of our production facilities. We are also exploring how we can support our supply chain because we know most food waste arises on farms or with our customers and consumers.

Cutting our water use

Water is a key ingredient in many of our products and we also need it for cleaning our manufacturing equipment and sites, along with cooling or heating ingredients and products. In some countries where we operate, water is a scare resource and we use it with great care. We aim to replicate this approach in all our markets.

Compensating for our remaining emissions

However hard we work to reduce our carbon footprint, the nature of food manufacturing means that we will inevitably produce some carbon emissions. Once we have done everything possible to minimize Hero's carbon footprint, we will prioritize insetting – carbon offsets within our own value chain – before considering the purchase of additional carbon compensation credits to balance our emissions.

3 NATURALLY HEALTHY PRODUCTS

SHARING THE GOODNESS OF NATURE

We aim to capture and conserve the quality and goodness from fresh fruit, grain, and dairy products: all our foods contain the very best natural ingredients which have been prepared using the minimum amount of processing, meaning they taste as close to homemade as possible.

Sustainable brands

Our brands reach millions of people every year. This provides us with an exciting opportunity to communicate with our consumers about sustainability. Our marketing team is currently developing Brand Sustainability Commitments which begin to define what each of our brands stands for and how each can make a meaningful difference.

Food safety

It goes without saying that our approach to food safety is rigorous. As a food business, this is our number one priority and something on which we do not compromise. We take care to select the best ingredients and conduct tests before we even begin preparing our products. We test throughout the production process and test the finished product, too. And after all that, we conduct regular and continuous testing to ensure our products meet the highest possible quality standards.

Nature and science working together

Our healthy, natural, and sustainable products may be inspired by nature, but they are confirmed by science. That's why we collaborate with research centers and universities around the world. Together, we are defining the future of the food industry to help benefit the planet and society. We want to inspire change within the entire food system, not just Hero, and publish our findings so that others can benefit from our insights.

Our categories

For each of our core categories, we have strict rules about the ingredients we try to avoid (such as salt or additives) and those we will never include (like artificial colors or flavors). We then focus on making sure our products have the best possible nutritional profile by including plenty of fiber, fruit, vegetables, nuts, and legumes. We want each product to have the shortest possible ingredient list, for ingredients to be from trusted, traceable sources and, where relevant, to be certified as sustainable.

- **Baby & Toddler Milk**
  Breast-feeding is the best nutrition for babies, especially during the first months of their life. Our belief in the goodness of nature means that our unique infant formula is inspired by breast milk and based on the latest scientific evidence to support parents when, for whatever reason, breast-feeding is not possible.

- **Baby & Toddler Food**
  We want to provide foods that help parents nurture their children and reinforce early healthy eating habits. To achieve this, we have two key objectives for our baby and toddler range: make food that is naturally nutritious; and help develop healthy habits by providing a wide variety of textures and flavors to broaden the palate. We are innovating in a number of ways to achieve this such as offering more veggie-forward and plant-protein options, and switching to lower sugar, non-hydrolyzed cereals.

- **Healthy Snacks**
  We want to make it as easy as possible for consumers to enjoy tasty and healthy snacks. We aim to create products that keep sugar, saturated fats, and salt to a minimum while containing plenty of protein and fiber.
  Our ambition is to introduce new ranges that make it easier for consumers to snack on fruit and veg.

- **Natural Spreads**
  We produce market-leading jams and spreads and, while our first priority is to make them taste delicious, we want to make sure they are also good for our consumers. We aim to push the boundaries and advance our mission to conserve the goodness of nature.

4 PURPOSEFUL PEOPLE

TAKING CARE OF OUR EMPLOYEES & COMMUNITIES

We are a values-led family company, and that's reflected in our culture. We work hard but understand that a good work/life balance makes our people more engaged, effective, and motivated.

A values-led organization

Hero may be made up of many different companies in many different countries, but our shared values create a deeper sense of belonging and bind us together. We revisited our values in 2021 and updated them. They are: Create wow, Everyone Hero, Nourish others, and Take responsibility.

Everyone is welcome

We want our employees to feel able to be themselves and truly welcome at Hero. We view diversity as a strength and believe everyone is a valuable contributor to our collective success. We are committed to building teams that reflect the populations we serve – and that means making sure that our workplaces are inclusive.

A great place to work

We want our people to enjoy their jobs, feel valued and fairly remunerated, and to want to build a long and happy career with Hero. We are proud of our retention rate because it shows that we are getting these things right.

Engaged employees

An engaged workforce is happy and productive, and we work hard to keep our people connected to our company's mission. Since 2015, we have strengthened our communications across the Group, introducing intranets throughout all company entities.

Growing our people

Everyone values having a supportive manager and the value of constructive feedback. That's why we encourage everyone at Hero to have a continuous feedback mindset. Alongside this, our employees take part in an annual formal structured conversation with their line manager about performance and career ambitions. This is complemented by a range of training opportunities to help our people build their skills and/or prepare for management responsibilities.

Keeping our people safe

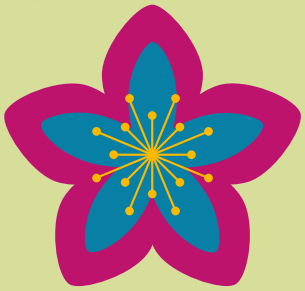
We operate eight production facilities around the world and keeping their workforce safe is our number one priority. We have comprehensive safety protocols in place which include training everyone to identify and mitigate hazards or risks, as well as specific safety training for particular tasks. We are proud that our Lost Time Injury Rate for the 2021 reporting period was down compared to 2020.

Supporting our communities

Our responsibility extends beyond the four walls of our offices and factories and, every year, we raise money and give our time and products to local good causes. As a food producer, one of the most powerful ways we can support our local communities is by donating our products to people who need them.

Protecting pollinators

Given our reliance on fruit to make so many of our products, we want to raise awareness of the vital role of pollinators, the risks facing them, and the urgent need to protect them. Our website www.bee-careful.com (translated into numerous local versions) aims to educate people about the critical importance of bees in the food cycle and is regarded as a leading resource for information about bee health. Collectively, these websites were visited more than 850,000 times in 2020.



Create wow

Everyone Hero

Nourish others

Take responsibility

OUR NEW CORPORATE VALUES

Living our values

After a lengthy process involving around 25% of all our people, four new values were identified and introduced in the company in 2021. The new values reflect the company today and also shape the company we want to build in the future.


Bill Parker

"Values are at the heart of who we are as people and they guide us, defining how we behave. This is why the company is placing such importance on values," said Bill Parker, Chief People Officer Hero Group.

Values change over time, both personally and for organizations like Hero, and they play a critical role in connecting us, especially considering how we exist as a grouping of multiple companies in different geographies with different ways of thinking and acting.

"Our shared values create a deeper sense of belonging as individuals and entities. They are the social glue that bind all of our differences together," Parker added. "The new values are distinctively Hero and actionable by everyone, every day. We have been a company centered around values for 130 years and we will continue to be so."

The new Hero values are Create wow, Everyone Hero, Nourish others, and Take responsibility.

Create wow

We dare to do things differently, seek to always win with consumers and customers, and endeavor to be forever relevant and vital to our world. It's about Curiosity, Innovation, and Consumer/Customer Focus.

Seral Köseoğlu
Quality Executive
Hero Turkey

"We are Heroes, we create wow because we know our inner curiosity, and our talent for creativity and desire to say and do 'wow' in whatever we do is fueled by the importance we give to our customers and consumers. In my job in Quality, we use innovation and technology to shed light on the future of our industry – and this is a really big wow for me, and one of our most important responsibilities."

Everyone Hero

We work together in pursuit of our common mission and strategy, strengthening our local businesses by leveraging the power of the collective. It's about Purpose, Performance, and Teamwork.

Blas Galián
Environmental Lab & Sustainability Manager
Hero Spain

"I joined the company one Christmas 28 years ago and since then, Hero has been my second home. I have grown both professionally and as a person. We work together as a team at Hero, and this gives me purpose. I always try to help and develop work methodologies of multidisciplinary consensus between departments to enrich the strategies and decision-making. I believe that the basis of happiness lies in enjoying what you do every day, both professionally and personally, and feeling proud to belong to this great Hero family."

Nourish others

We treat everyone with honesty, care and respect and provide our people, customers and consumers with what they need to thrive. It's about Honesty, Empowerment, Respect, and Diversity.

Tais Cardoso
Work Security Technician
Hero Brazil

"The Nourish others value defines the identity of Hero Brazil. We do our best, especially in my department, to be open and transparent about the rules and procedures we have to follow. Here we treat everyone with clarity, respect, and honesty. I try to put myself in people's shoes to better understand their needs. It's all about people after all. This value is all the more important in these Covid times. I feel proud to work at Hero."

Take responsibility

We make good choices today to build a more sustainable business and environment fit for the needs of tomorrow. It's about Sustainability, Ownership, Heritage, and Quality.

Jordan Baker
Engineering Supervisor
Beech-Nut

"The Take responsibility value is important to me because of its scope. It's about many things, such as doing the right thing for our customers. But it's also putting the onus on employees; that they need to be the ones to take action and ownership. Part of my role is to make sure our production facility runs smoothly and effectively, helping us to save on energy and do our little part for a more sustainable future."

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.

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 offering for babies and toddlers is complemented by our **Baby & Toddler Milk** category where we offer a range of milk formulas.

In addition, our **Gluten Free** products cover 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 **Specialties** that includes specific local offerings.

Baby & Toddler Food (BTF)

As a category, our mission is to help parents provide goodness of nature food 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 food.

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 improved recipes, 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 continue growing in 2021 driven by key markets such as the Nordic countries, the United Kingdom, Czech Republic, and Germany (via strategic partnership with erdbär). We managed to grow market share in nine out of 11 countries where we play, reflecting the strength and health of our brands.

The BTF category made up 39.0% of total Net Sales of the Hero Group, a slight drop from the previous year. In 2021, the category brought in CHF 445.1 million in sales with an organic growth of 3.3%.

Natural Spreads

At Hero, we look back at more than 130 years of experience in conserving the goodness of nature to delight our consumers. With this in mind, our goal has and always will be to transform fruit to jam in the gentlest way possible to keep the authentic taste and ensure a consistently high quality.

Driven by an uptake of people taking breakfast at home, 2021 was characterized by high overall jam consumptions.

To continuously meet consumer needs in Germany, we increased the fruit content of eight flavors of Schwartau Extra to 50% and re-created our packaging to reinforce the superior fruity taste and quality of our jams. Next to this. the Schwartau Extra Less Sugar concept continues to grow as it is satisfying consumers' increasing demand for reduced sugar intake.

After a successful launch of honey in Egypt, we added jam and honey sachets to the portfolio to drive penetration, and in Brazil we enlarged the portfolio by launching Hero jams next to the existing Queensberry assortment.

For Italy and the Czech Republic, the year under review was extremely successful as we saw double-digit growth in Italy and a first-time market leadership in the month of June in the Czech Republic.

The Natural Spreads category, a mainstay of the Hero Group, made up 21.8% of Net Sales in 2021, a drop of 1.0% compared to the previous year and on the same levels as the year before. This category grew 2.4% in 2021 with sales of CHF 249.1 million.

Healthy Snacks

The Healthy Snacks category continued to grow it's share of Hero Group Net Sales, increasing from 10.4% in 2020 to 11.1% in 2021. Sales totaled CHF 127.3 million with a reported organic growth of 5.6%.

Our wide range of cereal products – including cereal bars, nut bars, protein 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 2021, the business remained under pressure from Covid-19 reduced offtake effects in several regions as well as delivery stops in Germany due to prolonged price increase negotiations. Corny Zero and BIG Strawberry multi-market launches alongside several roll-outs, such as Oatpower in the Nordic countries, proved to be successful. The Corny brand was introduced to Spain, Portugal, and Italy, replacing the former Hero Muesly portfolio. The Spanish Corny launch media campaign, TV support in Russia, innovative digital activation programs as well as limited offers (BIG Salted Caramel) in several markets stabilized the topline and drove penetration.

For 2022 and beyond, we will continue growing the business with new 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. The development of more functional ranges was identified as a key booster for the category's sustainable growth.

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.

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 2021 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 8.7% of total sales in 2021, down from 9.3% in 2020. Sales amounted to CHF 99.2 million, with an organic decline of 2.6%.

Gluten Free

Gluten Free has been an important product group within the Hero Group for many years. Our brands Juvela (UK/Ireland) and Semper (Nordics, Exports) offer great tasting gluten-free alternatives for people who are diagnosed with coeliac disease, are gluten-intolerant, and for gluten-sensitive consumers. Within the gluten-free assortment, there are also alternatives with low FODMAP (fermentable carbs), targeted to consumers who 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 2021 for the Gluten Free category stood at CHF 41.2 million with an organic decline of 6.3%. This category made up 3.6% of the total.

Specialties

The Hero Group product portfolio includes specialized products for niche markets. These include products such as gastronomy, local offerings, and co-packing.

The total sales in this category made up 9.1% of the Group total, or CHF 103.8 million, registering an organic growth of 1.1%.

REGIONAL FOOTPRINT

Europe remains the largest sales area for the Hero Group, accounting for 72.0% of total Net Sales. This is an organic increase of 2.1% when compared to last year. Sales in this region totaled CHF 822.7 million in 2021.

The share of sales in North America stood at 14.1% in 2021, down from 15.5% the previous year. The region still maintains its position as the second largest for the Hero Group. Our North American sales for the Group reached CHF 161.1 million in 2021.

Emerging Markets, which include Egypt, Russia, Turkey, Brazil, and China, was close behind and made up 13.9% of Net Sales in the year under review. This was an increase year-on-year of 4.3% with sales totaling CHF 158.3 million.

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

CORPORATE GOVERNANCE

Introduction

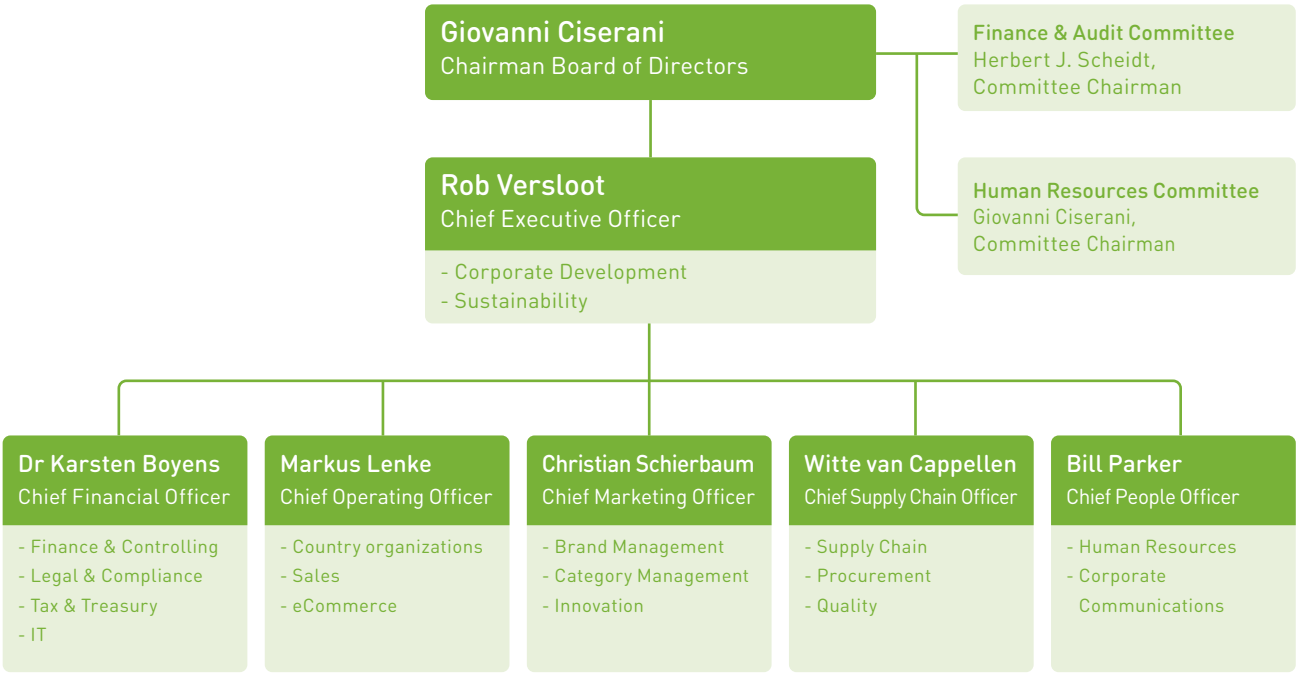
The Hero Group's fundamental business principle is to offer healthy, high-quality products to our consumers, to create long-term success for our owners, and ultimately create value for society. In this regard, the Hero Group is committed to modern corporate governance principles. Hero's corporate governance regulations are oriented towards the recommendations of the Swiss Code of Best Practices for Corporate Governance 2014 issued by economiesuisse, in addition to the provisions set out by Swiss law.

The Hero Group's principles on corporate governance are mainly set out in the companies' bylaws, the organizational rules, and the code of conduct and process manuals. Hero expects its employees to act with integrity, loyalty, honesty, and in full compliance with all applicable laws.

Unless otherwise indicated, the following information on corporate governance relate to conditions on the balance sheet as at December 31, 2021.

Group structure

Hero AG is the legal entity for the Hero Group. It comprises the headquarters functions as well as the Swiss business operations. The Group Executive Board members cover the overall responsibility for the operations and individual functions, and the company general managers have performance responsibility for their regional cluster and/or countries. The companies belonging to the Hero Group are listed in note 29 (page 156) of the consolidated financial statements. The chart below shows the organizational structure of the Hero Group as at December 31, 2021:



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.

Dr Arend Oetker, Honorary Chairman of the Board of Directors, and Leopold Oetker, Member of the Board of Directors, represent the Oetker family's interests on the Board of Directors.

Share capital

The share capital of Hero AG has remained unchanged and 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. All registered shares except for treasury shares held by Hero AG are eligible for a dividend. No preferential rights exist.

Contingent capital

As of December 31, 2021, 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, 2021, 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.

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

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.

Limitations on transferability

The transfer of shares of Hero AG are subject to the approval of the Board of Directors. The Board of Directors may refuse to recognize an acquirer of shares as a shareholder.

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 a member of the Hero Group management or the management team of one of the subsidiaries in the last 10 years.

The members of the Board of Directors are elected as a group by the Annual General Meeting for a period of two years. The company statutes foresee that the Hero Board of Directors consists of three to seven members. Members of the Board of Directors whose term has expired are eligible for re-election.

In general, there is an age limit of 70 years for members of the Board of Directors. 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. However, the member may be reelected by the shareholders at the annual shareholder meeting.

The 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.

There were no changes in the composition of the Board of Directors of Hero AG in 2021. 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, both of which analyze specific issues in more depth on behalf of the board. Due to measures implemented by government authorities in relation to the Covid-19 pandemic, some meetings of the Board of Directors and its sub-committees were held via video conference in 2021.

The Board of Directors elects the chairman and the members of the 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 financial reporting, and the effectiveness and independence of the external audit firm. It also observes compliance requirements 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 Members	Function	Nationality	Committee membership*	Initial election Term	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 2021.

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 62.

Information and control instruments relating to the Executive Board

The Hero Executive Board members participate in every ordinary board meeting. The Hero Board of Directors is informed about current business developments, the financial situation, key business events or transactions, and any measures that have been implemented 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

Shareholder & Honorary Chairman

Career history

Dr Arend Oetker has held the position of Honorary Chairman of the Board of Directors of the Hero Group since March 2013. Before, he 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.

Other mandates

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

Career history

Giovanni Ciserani joined the Hero Group Board of Directors in 2017 and took on the role of Chairman of the Board of Directors in March 2019. He also holds the chair of the Group's Human Resources Committee.
Verona-born Ciserani worked his way up the ranks at P&G to become one of the company's top executives. Educated at the prestigious Bocconi University in Milan, Italy, where he was nominated Alumnus of the Year in 2014, Ciserani spent his entire career at P&G, where he worked for more than 30 years. He retired from P&G at the end of 2018. His last position was as Sector Group President Global Fabric and Home Care, Global Baby and Feminine Care, P&G.

Other mandates

Giovanni Ciserani also serves on the Board of Angelini Holding.

Herbert J. Scheidt

Vice-Chairman of the Board of Directors

Career history

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

Other mandates

In addition to the Hero Group, Scheidt is also Chairman of the Board of Directors of Bank Vontobel AG and Vontobel Holding AG, Vice-Chairman of the Board of Directors of the SIX Group AG (Zurich, Switzerland), Member of the Board of the Zurich Chamber of Commerce, Member of the Executive Committee of the Chamber of Commerce Germany-Switzerland (Zurich), Member of the Presidium of the German Council for Foreign Relations e.V. (DGAP), and Member of the Board of Trustees of the Ernst von Siemens Music Foundation.

Dr Hagen Duenbostel

Member

Career history

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

Other mandates

Beside his CEO mandate at KWS SAAT SE & Co. KGaA, Dr Duenbostel is a Member of the Executive Board of the German Plant Breeders' Association (BDP) in Bonn and Member of C.H. Boehringer Sohn AG & Co. KG Advisory Board in Ingelheim, Germany.

Leopold Oetker

Shareholder / Member

Career history

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

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

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

Other mandates

In addition to the Hero Group, Leopold Oetker joined the Board of Dr Otto Suwelack Nachf. GmbH & Co KG in 2020.

Margaret Versteden

Member

Career history

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 Executive Officer of bol.com, the leading retail platform in the Netherlands and Belgium.

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, Southeast Asia, and Europe for eight years.

Other mandates

Versteden has no other significant mandate beside her role as CEO of bol.com and the Board of Directors mandate at the Hero Group.

Executive Board

left to right:

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

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.

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.

In general, there is an age limit of 62 years for members of the Executive Board.

Rob Versloot

CEO

Career history

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.

Other mandates

In April 2021, Versloot became a Member of the Supervisory Board of Eckes-Granini.

Dr Karsten Boyens

CFO

Career history

Dr Karsten Boyens joined the Hero Group as Chief Financial Officer (CFO) in April 2016. He boasts a wealth of experience in the financial field and consulting having previously worked for the Beiersdorf Group in Germany, France, and Switzerland, as well as for 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

Career history

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

Career history

Bill Parker joined the Hero Group in April 2016 as VP HR & Corporate Communications and was appointed Chief People Officer 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 him take on roles at Bata & AW Lab, Unilever, and Mars Inc. in different geographies around the world.

Christian Schierbaum

CMO

Career history

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 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

Career history

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	Title	Member since
Rob Versloot	Dutch	Chief Executive Officer	2011
Dr Karsten Boyens	German	Chief Financial Officer	2016
Markus Lenke	German	Chief Operating Officer	2011
Christian Schierbaum	German	Chief Marketing Officer	2019
Witte van Cappellen	Dutch	Chief Supply Chain Officer	2016
Bill Parker	Australian	Chief People Officer	2020

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 the 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 102 of this annual report for an explanation of the provisions of this long-term incentive plan].

Refer to note 22 on page 149 of this annual report for an overview of the Executive Board's compensation.

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

The Board Directors may refuse to recognize an acquirer of shares as a shareholder. Besides this, the company's bylaws do not include any regulation in relation to potential take-over bids. 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 company's bylaws, 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 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 audit of the consolidated financial statements for the year ending December 31, 2021, amounted to CHF 903,000. In 2021, Ernst & Young AG charged a total of CHF 50,000 for additional services. The additional services mainly include tax advisory and compliance support.

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, sustainability ambitions, corporate governance, and the financial results.

In addition, Hero organizes a financial information meeting 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 financial 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 2021, Hero's Net Sales increased by 2.2% to CHF 1,142.1 million. On a like-for-like basis and at constant foreign exchange rates, Hero achieved a Net Sales growth of 1.9%. The first half of the year was impacted by remaining Covid restrictions in several markets and a declining baby food business in the US, resulting in an organic Net Sales decrease of 3.0% vs prior year. In the second half of 2021, Hero delivered strong and consistent growth, achieving an organic sales increase of 6.7%.

Hero is increasingly focusing on the branded business of its core categories. This strategic focus is paying off: the branded business in our core categories Baby & Toddler Food, Healthy Snacks, and Natural Spreads showed strong Net Sales growth of 5.9%, with the increase adjusted for M&A and currency effects standing at 3.4%.

The Operating Result (EBIT) reached CHF 34.1 million (PY: CHF 59.8 million). The decline vs prior year can be explained by two extraordinary effects. First, in light of the very strong performance of our baby and toddler food partnership with erdbär (goodforgrowth GmbH) in Germany, Hero had to adjust its liabilities for earn-out payments and the put option. This led to a negative, non-recurring accounting effect of -CHF 10.6 million in 2021. Second, the entire baby food industry in the US faced allegations regarding naturally-occurring heavy metals in baby food. This led to legal costs as well as adverse media coverage impacting the business development negatively. The operating profit of our baby food business in the US dropped by around CHF 16 million compared to the prior year.

With the strategy to increase the footprint in our core product categories, Hero acquired the majority of the shares of Baby Gourmet, Canada's leading organic baby food company, at the beginning of 2021. As a result of the acquisition of Baby Gourmet and continuing investments in Hero's IT systems and Supply Chain, Net Debt increased to CHF 163.4 million, up from CHF 126.4 million at the end of 2020. Despite the increase in Net Debt related to investments and the lower profitability caused by extraordinary events, Hero's financial situation remains solid with a Net Debt / EBITDA ratio of 2.1 (PY 1.2).

Net Sales Regions

In our largest sales area, Europe, organic Net Sales grew by 2.1% compared to prior year. The strongest growth driver in Europe was Hero's baby food business in Germany, erdbär (goodforgrowth), which was acquired early 2019. The company posted Net Sales growth of 28.1% with its winning baby food brand Freche Freunde.

Additional growth highlights in Europe included Organix, Hero's organic baby food brand in the UK, which grew by 5.8% vs prior year and Hero Italy, which reported an 18.5% growth with its successful diet / low sugar natural spreads offer. The Spanish market remains challenging with a slight Net Sales decline in 2021 vs 2020.

On a like-for-like basis, the North American business was down by 6.4% or CHF 11.2 million in Net Sales in the year under review.

In early 2021, the US baby food industry was confronted with a staff report issued by a sub-committee of the House of Representatives and media reports in which the leading baby food brands in the US, including our brand Beech-Nut, were alleged to be selling products with high levels of naturally-occurring heavy metals. These allegations negatively impacted Net Sales of Beech-Nut. In January 2021, Hero entered the Canadian baby food market after acquiring Canada's leading organic brand Baby Gourmet. The newly-acquired company performed well, posting Net Sales growth of 7.9% in the Canadian market in the year under review.

In a challenging market environment with remaining pandemic restrictions, volatile currency fluctuations and price effects, Hero grew its Net Sales by 10.1% in local currencies

in CHF million	Net sales 2021	Net sales 2020	△ 2021 vs 2020 in %	Acquisition & Discontinuation effect	Currency effect	Organic Growth
Europe	822.7	792.1	3.9%	-	1.7%	2.1%
North America	161.1	173.6	-7.2%	1.0%	-1.8%	-6.4%
Emerging Markets	158.3	151.8	4.3%	-	-5.8%	10.1%
HERO GROUP	**1 142.1**	**1 117.5**	**2.2%**	**0.2%**	**0.2%**	**1.9%**

in its Emerging Market countries. The growth was driven by Egypt, Brazil, Turkey, and China.

Net Sales Product Categories

In line with its strategic focus, Hero has adapted its reporting. To further focus on branded business, all non-branded, co-packing business is being reported separately under the segment 'Non-branded'. All other product categories contain branded business only. The share of our branded business increased to 93.3% from 91.4% the year before.

Hero's largest product category, **Baby & Toddler Food** (BTF), grew by 3.3%, reflecting a strong growth in most markets despite the heavy decline in the US. Without the US, the BTF category grew 8.1% or CHF 23.5 million in 2021. Needless to say, we are very pleased with our market share gains in 10 of our 12 BTF markets. Our brands Freche Freunde in Germany and Switzerland, Organix in the UK, and Semper in the Nordics performed particularly well.

Natural Spreads had another good year, growing 2.4% in 2021. The growth of this category is broad based across most of Hero's markets. The low-sugar offerings including the recently launched 'Weniger Zucker' range in Germany performed strongly and grew double-digit in the year under review.

Healthy Snacks, which suffered most from pandemic restrictions in the previous year with less on-the-go consumption, rebounded with an organic Net Sales growth of 5.6% in 2021. Recently-launched product concepts such as protein bars are winning in the market. In addition, Hero successfully broadened its Healthy Snack footprint in Sweden, the Benelux and Italy with double-digit Net Sales growth and strong market share gains in 2021.

The **Baby & Toddler Milk** (BTM) category suffered a sales decline of 2.6% in 2021. Whereas sales rebounded in Emerging Markets countries Egypt and China, pandemic restrictions with home office requirements had a negative impact on Net Sales in some European markets.

Hero operates its product category Gluten Free mainly in the Nordics and the UK. After a good year in 2020 with sales growth of 3.5%, Net Sales in 2021 declined by 6.3% adjusted for currency effects. Net Sales of Specialties grew 1.1% organically in 2021 while Hero's Non-Branded business declined by 20.5% in 2021. We discontinued a non-strategic co-packing business in the US in the first half of 2020 and this is still impacting the prior year comparison. Organically, the non-branded Net Sales declined by 2.3%.

Operating result

Operating Profit declined from CHF 59.8 million to CHF 34.1 million in 2021. The decline when compared to 2020 can largely be explained by the negative accounting effect of -CHF 10.6 million relating to purchase price liabilities in respect of our erdbär (goodforgrowth) partnership in Germany and the US profit decline of around CHF 16 million resulting from the aforementioned heavy metals issue.

Hero's Gross Margin stood at 31.1%, down from 32.6% in prior year. As most consumer goods companies, we faced unprecedented cost inflations in raw materials, freight, and energy, especially in the second half of 2021. Extra pricing efforts to transfer this cost inflation to the market could not yet cover this increase of product costs.

in CHF million	Net sales 2021	Net sales 2020	△ 2021 vs 2020 in %	Acquisition & Discontinuation effect	Currency effect	Organic Growth
Baby & Toddler Food	445.1	416.5	6.9%	3.8%	-0.2%	3.3%
Natural Spreads	249.1	243.4	2.3%	-	-0.1%	2.4%
Healthy Snacks	127.3	115.5	10.2%	3.5%	1.1%	5.6%
Baby + Toddler Milk	99.2	101.2	-2.0%	-	0.6%	-2.6%
Gluten Free	41.2	42.4	-2.7%	-	3.5%	-6.3%
Specialties	103.8	102.5	1.4%	-	0.2%	1.1%
Non-Branded	76.3	96.1	-20.5%	-19.0%	0.8%	-2.3%
HERO GROUP	**1 142.1**	**1 117.5**	**2.2%**	**0.2%**	**0.2%**	**1.9%**

To compensate for this shortfall in Gross Margin, Hero reduced its Operational Expenses from CHF 301.3 million or 27.0% in 2020 to CHF 295.0 million or 25.8% of Net Sales in 2021. The reduction of Operating Expenses is a result of tighter cost control, selective restructuring, adjustments in marketing spend, and lower travel costs.

Other Income / Expenses resulted in a net expense of CHF 25.8 million, significantly up from an expense of CHF 2.8 million the year before. The increase is on the one hand due to the one-off effects in 2021, the expenses relating to the earn-out and put option liability in respect of our erdbär (goodforgrowth) partnership, and the legal and recall costs in the heavy metals issue in the US. On the other hand, in 2020, Hero received a one-off government grant in the US to reduce the impact of damages caused by the pandemic.

Financial result and taxes

Net Finance Expense was reduced further in 2021, standing at CHF 5.5 million, down from CHF 6.6 million in 2020. Tighter cash management and financing at favorable interest rates led to an additional reduction of interest expenses totaling CHF 3.5 million, down from CHF 4.1 million in prior year. Besides lower interest expenses, net foreign exchange losses dropped from CHF 1.3 million in 2020 to CHF 0.6 million in 2021.

Despite the lower profitability, Tax Expense increased to CHF 17.6 million, up from CHF 11.0 million in prior year. The reason for the increase in Tax Expense are payments in connection with tax disputes with governmental agencies as well as valuation adjustments of deferred tax assets and liabilities. Adjusted for these effects, the normalized tax rate for 2021 was 25.6%.

Net income

The Hero Group's Net Income for the year was CHF 9.0 million, down from CHF 40.2 million in 2020. The bottom line reduction is a result of the lower operating profit caused mainly by one-off effects, material and freight inflation, as well as the high level of tax expenses in 2021.

Cash flow and financial position

In a difficult year, Hero achieved an Operating Cash Flow before net working capital changes of CHF 87.9 million (prior year CHF 104.0 million). Cash outflows from investing activities stood at CHF 62.9 million. This amount includes the cash outflows for the acquisition of Baby Gourmet in Canada. Major investments in 2021 were made to extend the Healthy Snacks production capacity in Germany. In 2021, Hero continued its strategic investment in project PHI to drive efficiency in Supply Chain planning and harmonize the company's core processes and modernize its ERP system.

The Group's Equity Ratio remains very solid at 52.8% (prior year 53.5%). In 2021, there were no major changes in the balance sheet and equity structure. The company's Net Debt position increased to CHF 163.4 million, up from CHF 126.4 million in prior year. The increase in Net Debt came as a result of the acquisition of Baby Gourmet as well as the increase of lease liabilities on renting a new warehouse in the Nordics.

With an EBITDA of CHF 79.5 million in 2021, Hero's Net Debt / EBITDA ratio stood at 2.1, an increase from 1.2 the year before, driven mainly by the extraordinary effects impacting the operating profit. However, the ratio of 2.1 remains healthy and comfortably meets our covenants.

Outlook

Our strong sales momentum in recent months gives us confidence that we can accelerate sales growth in 2022 as we expect the effects from the pandemic and the US baby food allegations to soften.

At the same time, Hero is confronted with significant inflationary trends in raw materials, energy, and freight costs. We plan to counteract this cost pressure with price increases and savings initiatives.

With these preconditions, Hero remains cautiously optimistic to grow Net Sales, EBIT, and Net Income in 2022.

RISK MANAGEMENT

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

Based on the 2021 risk management process, sustainability requirements and employee safety have been added to our key risk catalogue. Raw material supply and product pricing have been identified as risks where the potential impact on Hero's performance has increased.

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

Food safety

Any major event triggered by a serious food safety or other compliance issue could have a negative effect on Hero's reputation or brand image, and results in a loss of consumer trust and negative financial performance.

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

Raw material supply

The unpredictability of harvest yields as well as events leading to supply chain disruptions can impact the reliability to source the necessary volumes of raw material with the specific quality requirements needed for production, which could impact sales. Further, raw material prices might increase resulting 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.

Product pricing

Increased customer concentrations and resulting customer buying power can lead to increased reluctance of the trade to accept price increases with possible deteriorating margins and a lower financial performance of the Hero Group.

Hero invests to strengthen its core brands and product innovation and renovation, increasing its market power. The Group further strives for strategic customer relationships and diversified channel distribution thereby reducing customer concentration risk.

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 result in 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.

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.

Sustainability requirements

New regulations and stakeholder expectations on sustainability (ESG) require additional efforts and investments leading to higher operational expenses. Failure to comply with those could lead to reputational damages, fines, and operational disruptions.

Hero follows the new regulatory developments and trends carefully. The Group is working on and committing to improving the operational efficiency, recording, and reducing its environmental footprint and developing relevant people skills.

More information on Hero's efforts on sustainability can be found in the Sustainability Commitment section on page 22 and following of this annual report.

Shifting consumer trends

If shifting consumer trends on product and packaging are not anticipated 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 channel 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 environmental footprint and follows a code of conduct in which it defines its fundamental business principles.

Employee safety

Failure to comply with health and safety policies and procedures may lead to employee accidents or absenteeism, triggering potentially additional costs, legal proceedings, and reputational damages.

Hero applies healthy and safety standards and procedures, performs reviews and risk assessments, and invests in training and employee capabilities to reduce such risks.

IT systems and 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 increasingly invests 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 and regulations, 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	2021	2020
Net Sales	9	**1 142 122**	**1 117 505**
Cost of sales	12	(729 150)	(695 419)
Distribution expense		(58 073)	(58 183)
Gross profit		**354 899**	**363 903**
Advertising and promotion		(115 097)	(114 328)
Marketing and sales		(83 920)	(90 808)
Research and development		(11 981)	(10 884)
Administrative expense		(83 990)	(85 307)
Other income	1	3 191	10 679
Other expense	1	(28 982)	(13 451)
Operating profit	9	**34 120**	**59 804**
Finance income	2	2 806	2 910
Finance expense	2	(8 316)	(9 507)
Share of result of associated companies and joint ventures	27	(1 988)	(1 984)
Income before tax		**26 622**	**51 223**
Income tax expense	5	(17 631)	(11 025)
INCOME FOR THE YEAR		**8 991**	**40 198**
Attributable to:			
Equity holders of the parent		7 571	38 522
Non-controlling interests		1 420	1 676
INCOME FOR THE YEAR		**8 991**	**40 198**

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.–

	2021	2020
INCOME FOR THE YEAR	**8 991**	**40 198**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(17 300)	(36 570)
Income tax effects	132	819
	(17 168)	(35 751)
Net gain / (loss) on cash flow hedge	974	(112)
Income tax effects	9	(13)
	983	(125)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(16 185)**	**(35 876)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land	11 946	(296)
Income tax effects	(3 095)	74
	8 851	(222)
Remeasurement gains on defined benefit plans	15 025	8 256
Income tax effects	(2991)	(1 486)
	12 034	6 770
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**20 885**	**6 548**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**4 700**	**(29 328)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**13 691**	**10 870**
Total comprehensive income attributable to:		
Equity holders of the parent	12 386	12 173
Non-controlling interests	1 305	(1 303)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**13 691**	**10 870**

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

CONSOLIDATED BALANCE SHEET

As at December 31
Hero Group
in CHF 1000.–

Assets	Note	2021	2020
Non-current assets			
Property, plant and equipment	7	350 850	353 841
Intangible assets	8	480 209	471 502
Right-of-use-assets	25	24 273	18 082
Investments in associated companies and joint ventures	27	371	881
Non-current receivables	10	30 211	26 963
Deferred tax assets	11	10 899	15 709
Net defined benefit assets	17	4 829	-
TOTAL NON-CURRENT ASSETS		**901 642**	**886 978**
Current assets			
Inventories	12	181 600	172 055
Derivative financial assets	21	749	271
Income tax receivables		10 241	5 371
Trade receivables, prepayments and other receivables	13	151 656	135 190
Cash and cash equivalents	14	85 552	120 888
TOTAL CURRENT ASSETS		**429 798**	**433 775**
TOTAL ASSETS		**1 331 440**	**1 320 753**

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

As at December 31
Hero Group
in CHF 1000.–

Equity and liabilities	Note	2021	2020
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	(282 196)	(287 011)
Retained earnings		651 166	659 856
Equity attributable to the equity holders of the parent		**689 265**	**693 140**
Non-controlling interests		**13 801**	**13 118**
TOTAL EQUITY		**703 066**	**706 258**
Non-current liabilities			
Borrowings	16, 21	80 254	81 318
Debentures	16, 21	135 000	135 000
Lease liabilities	16, 25	18 628	13 026
Deferred tax liabilities	11	32 032	26 683
Net employee defined benefit liabilities	17	52 807	67 290
Provisions	18	12 304	13 817
Other liabilities	19	2 165	19 345
Total non-current liabilities		**333 190**	**356 479**
Current liabilities			
Trade and other payables	20	271 455	229 327
Borrowings	16, 21	8 036	11 859
Lease liabilities	16, 25	7 074	6 075
Derivative financial liabilities	21	1 307	2 325
Provisions	18	4 409	3 973
Income tax payables		2 903	4 457
Total current liabilities		**295 184**	**258 016**
TOTAL LIABILITIES		**628 374**	**614 495**
TOTAL EQUITY AND LIABILITIES		**1 331 440**	**1 320 753**

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, 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/ JANUARY 1, 2021	**62 133**	**63 632**	**198 779**	**(4 249)**	**(287 011)**	**659 856**	**13 118**	**706 258**
Income for the year						7 571	1 420	8 991
Other comprehensive income					4 815		(115)	4 700
Total comprehensive income					**4 815**	**7 571**	**1 305**	**13 691**
Distribution on hybrid capital third parties						(4 270)	-	(4 270)
Dividend payments to the parent						(10 950)		(10 950)
Dividend payments to non-controlling interests							(989)	(989)
Recognition of put option over non-controlling interests						(1 041)		(1 041)
Acquisition of a subsidiary							367	367
BALANCE AT DECEMBER 31, 2021	**62 133**	**63 632**	**198 779**	**(4 249)**	**(282 196)**	**651 166**	**13 801**	**703 066**

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	2021	2020
Cash flows from operating activities			
Income for the year		8 991	40 198
Adjustments for:			
Tax expense	5	17 631	11 025
Depreciation property, plant and equipment	7	33 761	32 825
Depreciation right-of-use-assets	25	7 460	7 412
Amortization	8	4 197	4 720
Gain on disposal of intangible assets	1	-	(477)
Loss on disposal of fixed assets	1	139	261
Pension plan amendment	1	-	(947)
Fair value result, net	1,2	9 145	2 996
Interest income	2	(1 592)	(2 404)
Interest expense	2	4 417	5 069
Share of result of associates and joint ventures	27	1 988	1 984
Net loss in foreign exchange	2	1 767	1 297
Cash flows before changes in net working capital		**87 904**	**103 959**
Inventories		(10 553)	(10 951)
Trade and other receivables		(19 671)	7 594
Trade and other payables		11 975	(5 657)
Accruals and provisions		9 487	(1 729)
Changes in net working capital		**(8 762)**	**(10 743)**
Interest paid		(4 400)	(6 076)
Income tax paid		(21 279)	(19 666)
NET CASH FROM OPERATING ACTIVITIES		**53 463**	**67 474**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	26	(20 559)	-
Earn-out payment	21	(4 083)	-
Capital contribution to joint ventures	27	(1 500)	(1 100)
Purchase of property, plant and equipment	7	(24 832)	(30 594)
Purchase of intangible assets	8	(11 867)	(3 044)
Loans (granted) /repayments received		(463)	424
Disposal of intangible assets		67	477
Loan repayment from shareholders		-	21 403
Disposal of property, plant and equipment		238	22
Interest received		132	408
NET CASH USED IN INVESTING ACTIVITIES		**(62 867)**	**(12 004)**

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

	Note	2021	2020
Cash flows from financing activities			
Distribution on hybrid capital third parties		(4 270)	(4 270)
Proceeds from bank loans		1 159	90 575
Repayment of bank loans		(5 365)	(6 203)
Repayment of debentures		-	(130 000)
Proceeds from financial liabilities		3 752	1 698
Repayment of financial liabilities		(4 524)	(497)
Payment of lease liabilities		(7 054)	(6 829)
Payment of dividends to shareholders		(10 950)	(42 569)
Payment of dividends to non-controlling interests		(989)	(509)
NET CASH USED IN FINANCING ACTIVITIES		**(28 241)**	**(98 604)**
DECREASE IN CASH AND CASH EQUIVALENTS		**(37 645)**	**(43 134)**
Movement in cash and cash equivalents			
At start of year		120 888	175 041
Decrease in cash and cash equivalents		(37 645)	(43 134)
Effects of exchange rate changes on cash and cash equivalents		2 309	(11 019)
AT END OF YEAR	**14**	**85 552**	**120 888**

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 2021, the Group had 4 093 full time employees (2020: 4 119). All figures in the financial statements are presented in thousands of Swiss francs (TCHF) except where otherwise indicated. These financial statements were approved by the Board of Directors on March 8, 2022, and are subject to approval by the annual general meeting of shareholders to be held on March 23, 2022.

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, 2021, 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 2021 for the first time:

- Amedments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform (phase 2)
- Amendments to IFRS 16: Covid-19-Related Rent Concessions beyond June 30, 2021

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 ventures.
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 29.

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:

	2021	2020
AVERAGE EXCHANGE RATES		
EUR/CHF	1.0792	1.0702
USD/CHF	0.9128	0.9386
GBP/CHF	1.2550	1.2040
SEK/CHF	0.1063	0.1020
CLOSING EXCHANGE RATES		
EUR/CHF	1.0340	1.0836
USD/CHF	0.9127	0.8814
GBP/CHF	1.2331	1.2036
SEK/CHF	0.1008	0.1076

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 distinct 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 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.

These cash-generating units represent countries or clusters, depending on at which level the goodwill is monitored for internal management purposes.

As a result, impairment tests are carried out on a country level for some and on a cluster level for other goodwill positions.

Based on the impairment tests analyzed, no impairment is required for any of the cash-generating units (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 finite 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, 2021 and 2020, 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 2021 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 517.7 as per December 31, 2021 (2020: confidence interval 99%; TCHF 347.6)

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.

	2021	2020
Increase/(decrease) in USD/EUR/GBP/SEK rate	5% (5%)	5% (5%)
Effect on profit before tax in CHF 1000.–	93 (93)	1 371 (1 371)
Effect on equity in CHF 1000.–	777 (777)	365 (365)

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 2021 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, 2021	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	5 years and more	Total
Derivatives							
Forward contracts – cash (inflow)	(749)	(749)	-	-	-	-	(749)
Forward contracts – cash outflow	1 307	1 307	-	-	-	-	1 307
Forward contracts – net	558	558	-	-	-	-	558
Borrowings	88 290	9 351	814	682	30 808	50 425	92 080
Debentures	135 000	1 350	1 350	1 350	1 350	136 350	141 750
Lease liabilities	25 702	7 074	5 582	3 290	2 588	10 163	28 697
Put option liabilities	17 816	17 040	-	776	-	-	17 816
Earn-out liability	10 809	10 809	-	-	-	-	10 809
Trade and other payables	228 252	228 252	-	-	-	-	228 252
TOTAL	**506 427**	**274 434**	**7 746**	**6 098**	**34 746**	**196 938**	**519 962**

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**

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 cash generating unit.
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 2021, no goodwill was impaired.

Brands with indefinite life

The Group tests annually whether brands with indefinite life are impaired. These calculations require the use of estimates. The discount rates used are pre-tax and reflect specific risks relating to the relevant country. The growth rates used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test. In 2021, no impairment was identified.
Hero's major single goodwill and brand positions as well as management's key assumption are summarized below:

December 31, 2021 Cluster & Country-CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2022-2027	Profit margin change between years 2022 and 2027	Impairment
	in CHF million		in %	in %	in %	in pp	
Cluster Central Europe	156.1	23.5	0.5	6.8	0.1 - 4.9	1.7	no
Cluster Northern Europe	118.7	69.4	1.2	7.2	0.5 - 2.1	1.8	no
Cluster MEA & Turkey	2.8	-	3.9	17.4	5.5 - 13.5	2.0	no
Beech-Nut	-	16.3	2.0	17.3	2.0 - 4.5	-	no
Hero Brasil	3.0	2.4	2.9	13.8	2.9 - 11.6	5.5	no
goodforgrowth	27.8	19.7	0.0	7.1	0.0 - 23.2	0.9	no
Baby Gourmet	9.7	6.9	1.6	8.3	1.6 - 13.5	10.6	no
TOTAL	**318.1**	**138.2**					

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	16.4	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**					

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. 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 2022 may have an impact on these, or other, matters. In 2021 no significant expenses or impairment charges can be directly attributed to COVID-19 pandemic. The Group recognized in 2020 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 2021 and 2020 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, 2021, and December 31, 2020.
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, 2021, and December 31, 2020, were as follows:

in CHF 1000.-	2021	2020
Total borrowings / debentures	248 992	247 278
Less: cash and cash equivalents	(85 552)	(120 888)
Net debt	163 440	126 390
Equity attributable to the equity holders of the parent	689 265	693 141
Gearing ratio	24%	18%

1. DETAILS ON OTHER INCOME/EXPENSE

in CHF 1000.–	Note	2021	2020
Government grants	4	354	5 270
Reversal of accruals and provisions		872	1 782
Compensation for damages		394	995
Gain on disposal of intangible assets		-	477
Stock refunds		328	333
Pension plans amendment		-	947
Other		1 243	875
TOTAL OTHER INCOME		**3 191**	**10 679**
Cost for organizational changes and restructuring		(3 595)	(5 800)
Government obligation payments		(2 282)	(2 347)
Compensation and destruction of inventory		(4 246)	(572)
Loss on disposal of fixed assets		(139)	(261)
Change in value of earn-out & put option liabilities		(10 331)	(1 860)
US legal & recall expenses		(4 651)	-
Other		(3 738)	(2 611)
TOTAL OTHER EXPENSE		**(28 982)**	**(13 451)**

In 2021, organizational changes relate to changes in Middle East and Europe as well as project PHI. Change in value of earn-out & put option liabilities relate to the acquisition of subsidiaries. Other expenses include costs for Mövenpick license in Germany.

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.

2. FINANCE INCOME/EXPENSE

in CHF 1000.–	Note	2021	2020
Interest income		1 592	2 404
Gains from financial instruments at fair value through profit and loss		1 186	44
Other financial income		28	462
TOTAL FINANCE INCOME		**2 806**	**2 910**
Interest expense		(3 512)	(4 106)
Interest expense leases	25	(905)	(963)
Net foreign exchange losses		(1 767)	(1 297)
Losses from financial instruments at fair value through profit and loss		-	(1 180)
Other financial expense		(2 132)	(1 961)
TOTAL FINANCE EXPENSE		**(8 316)**	**(9 507)**

Other financial expense consist primarily of non-income tax.

3. ADDITIONAL INFORMATION ON THE NATURE OF EXPENSE

in CHF 1000.–	Note	2021	2020
Wages and salaries		(190 900)	(188 151)
Social security costs		(39 952)	(39 939)
Pension costs – defined contribution plans		(4 052)	(5 104)
Pension costs – defined benefit plans	17	(2 897)	(1 815)
TOTAL PERSONNEL EXPENSE		**(237 801)**	**(235 009)**

Personnel Expense are not reduced for government grants received in relation to wages and salaries. For further details refer to Note 4.

The Group employed 4 093 full time employees in 2021 (2020: 4 119).

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

Year ended December 31, 2021		Right-of-use assets	Property, plant and equipment	Intangible assets
	Note	Depreciation	Depreciation	Amortization
Cost of sales		(1 094)	(29 477)	(398)
Distribution expense		(1 463)	(544)	(44)
Marketing and sales		(1 892)	(305)	(1 845)
Research and development		(52)	(334)	(7)
Administrative expense		(2 479)	(3 100)	(1 903)
Other expense		(480)	(1)	-
TOTAL	7,8,25	**(7 460)**	**(33 761)**	**(4 197)**

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	7,8,25	**(7 412)**	**(32 825)**	**(4 720)**

4. GOVERNMENT GRANTS

in CHF 1000.–	Note	2021	2020
Paycheck Protection Program to Beech-Nut		-	4 911
Export subsidies in Egypt		1 123	1 519
Government grants for Schwartauer Werke jam factory		324	321
Government grants for factory equipment in Spain		36	137
Spanish education grant		52	31
Other		81	112
TOTAL GOVERNMENT GRANTS		**1 616**	**7 031**

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

in CHF 1000.–		2021	2020
Government grants deducted from cost of sales		1 262	1 730
Government grants deducted from marketing and sales		-	31
Government grants included in other income	1	354	5 270
TOTAL GOVERNMENT GRANTS		**1 616**	**7 031**

5. INCOME TAX

in CHF 1000.–	2021	2020
Current income tax expense	(10 560)	(14 120)
Current income tax expense relating to prior periods	(4 187)	(2 182)
Deferred tax income	(2 884)	5 277
TOTAL INCOME TAX EXPENSE	**(17 631)**	**(11 025)**

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.–	2021	2020
Income before taxes	**26 622**	**51 223**
Tax expense based on expected Group tax rate of the year	(7 836)	(13 938)
	29.4%	27.2%
Impact of expense not entitled for deduction for tax purposes	(4 402)	(3 616)
Impact of non taxable income and exclusively tax deductible expense	8 568	3 603
Impact of tax expense related to profits of other periods and other items*	(4 187)	(2 182)
Utilization of previously unrecognized tax losses	144	3 365
Reassessment of recognized tax losses of prior periods	(11)	1 497
Impact of unrecognized tax losses of current period**	(9 560)	-
Impact of deferred taxes on hybrid coupon	806	806
Impact of difference between statutory and deferred tax rate	268	(49)
Impact of tax law changes ***	(1 421)	(511)
EFFECTIVE GROUP TAX EXPENSE	**(17 631)**	**(11 025)**

* Mainly relates to Germany
** Mainly relates to Switzerland and the US
*** Mainly relates to the UK (2020: various countries)

6. DIVIDEND

At the Annual General Meeting in 2022 a dividend in respect of 2021 of CHF 0.49 (2020: CHF 1.78) per share amounting to a total dividend of CHF 3 million (2020: CHF 11 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, 2022. 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, 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/ JANUARY 1, 2021	**24 495**	**233 162**	**442 286**	**44 226**	**744 169**
Acquisition of subsidiary (note 26)	-	-	-	229	229
Additions	-	1 675	19 915	3 242	24 832
Derecognition/disposals of assets	-	(37)	(8 892)	(2 267)	(11 196)
Revaluation	11 946	-	-	-	11 946
Reclassification	-	269	(376)	107	-
Foreign exchange differences	(2 108)	(548)	(10 890)	(891)	(14 437)
BALANCE AT DECEMBER 31, 2021	**34 333**	**234 521**	**442 043**	**44 646**	**755 543**
Accumulated depreciation					
BALANCE AT 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/ JANUARY 1, 2021	**16**	**84 157**	**277 683**	**28 472**	**390 328**
Additions	3	7 620	22 217	3 921	33 761
Derecognition/disposals of assets	-	(24)	(8 569)	(2 227)	(10 820)
Reclassifications	-	56	(62)	6	-
Foreign exchange differences	(1)	(1 262)	(6 780)	(533)	(8 576)
BALANCE AT DECEMBER 31, 2021	**18**	**90 547**	**284 489**	**29 639**	**404 693**
Carrying amount					
At January 1, 2021	24 479	149 005	164 603	15 754	**353 841**
At December 31, 2021	34 315	143 974	157 554	15 007	**350 850**

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Germany, Sweden, Brazil, Spain, Switzerland, Turkey, Egypt and USA (2020: Spain and Turkey).

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

in CHF 1000.–	2021	2020
Balance at January 1	18 547	19 773
Foreign exchange differences	(843)	(1 226)
BALANCE AT DECEMBER 31	**17 704**	**18 547**

In the fair value measurement hierarchy of the Group land is classified as level 3 fair value instrument using significant unobservable inputs.

The fair value of the land was determined by using market comparable methods. This means that valuations performed by the appraisers are based on active market prices, adjusted for difference in the nature, location or condition of the specific land.

As significant unobservable valuation input the price per square meter in Germany was in average at EUR 55, in Sweden at SEK 74, in Brazil at BRL 169, in Spain at EUR 69, in Switzerland at CHF 350, in Turkey at TRY 1 050, in Egypt at EGP 1 750 and in the USA at USD 6.

The last external valuation for Germany was carried out in September 2021 by Marsh, for Sweden in September 2021 by Svefa, for Brazil in October 2021 by CPCON, for Spain in August 2021 by gesvalt, for Switzerland in December 2021 by BDO, for Turkey in August 2021 by TKSB, for Egypt in September 2021 by Elhabashy and in the USA in December 2021 by Armstrong Appraisals, LLC. All companies are accredited independent valuers.

8. INTANGIBLE ASSETS

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT 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/ JANUARY 1, 2021	**353 371**	**191 600**	**47 518**	**48 692**	**641 181**
Acquisition of subsidiary (note 26)	9 350	6 659	1 218	-	17 227
Additions	-	-	-	11 867	11 867
Derecognition/disposals of assets	-	-	(159)	(6 631)	(6 790)
Foreign exchange differences	(12 256)	(3 404)	218	(355)	(15 797)
BALANCE AT DECEMBER 31, 2021	**350 465**	**194 855**	**48 795**	**53 573**	**647 688**
Accumulated amortization					
BALANCE AT 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/ JANUARY 1, 2021	**31 927**	**55 012**	**43 265**	**39 475**	**169 679**
Additions	-	974	784	2 439	4 197
Derecognition/disposals of assets	-	-	(93)	(6 631)	(6 724)
Foreign exchange differences	417	(87)	323	(326)	327
BALANCE AT DECEMBER 31, 2021	**32 344**	**55 899**	**44 279**	**34 957**	**167 479**
Carrying amount					
At January 1, 2021	321 444	136 588	4 253	9 217	**471 502**
At December 31, 2021	318 121	138 956	4 516	18 616	**480 209**

Other intangibles

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

Recognized development costs

In 2021, TCHF 10 880 development costs (mainly software) were capitalized (2020: TCHF 2 160).

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 2021 as well as in 2020, 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 in relation to finance and M&A transactions, 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.

Net sales by categories have been adjusted to distinguish between net sales of branded products and non-branded products. The new net sales reporting of the produt categories reflect the strategic direction of the company with focus on branded business. Prior year numbers have been restated accordingly.

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2021 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	822 738	161 111	158 273	-	1 142 122
Operating profit	79 767	(4 813)	13 356	(54 190)	34 120
Depreciation and amortization	(29 196)	(12 580)	(3 484)	(158)	(45 418)
Avg. net working capital	51 112	25 372	31 932	(5 551)	102 865
CAPEX (tangible)	19 361	2 551	2 140	780	24 832

INFORMATION ABOUT MAJOR COUNTRIES

December 31, 2021 in CHF 1000.–	Switzerland (country of domicile)	Germany	USA	Spain	Other	Total
Net sales	77 760	229 992	139 807	130 877	563 686	1 142 122
Non-current assets	70 151	132 619	145 172	41 820	465 570	855 332

INFORMATION ABOUT CATEGORIES

December 31, 2021 in CHF 1000.–	Baby and toddler food	Natural spreads	Healthy snacks	Baby and toddler milk	Gluten free	Specialties	Non-branded	Total
Net sales	445 131	249 135	127 298	99 202	41 197	103 844	76 315	1 142 122

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 - continuing operations	56 963	18 910	30 927	(1)	106 799
CAPEX (tangible) - continuing operations	22 936	2 698	4 960	-	30 594

INFORMATION ABOUT MAJOR COUNTRIES

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

INFORMATION ABOUT CATEGORIES*

December 31, 2020 in CHF 1000.–	Baby and toddler food	Natural spreads	Healthy snacks	Baby and toddler milk	Gluten free	Specialties	Non-branded	Total
Net sales	416 464	243 444	115 511	101 230	42 351	102 451	96 054	1 117 505

* Restated

10. NON-CURRENT RECEIVABLES

in CHF 1000.–	Note	2021	2020
Reimbursement rights of Schwartauer Werke	17	1 560	1 918
Long term incentive plan loan receivable	22	672	630
Seller promissary note	21	22 132	20 024
Other non-current receivables		5 847	4 391
TOTAL NON-CURRENT RECEIVABLES		**30 211**	**26 963**

In 2021, 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 2021	Deferred tax liabilities 2021	Deferred tax assets 2020	Deferred tax liabilities 2020
Assets				
Property, plant and equipment	861	(26 488)	1 075	(23 440)
Intangible assets	7 963	(29 825)	10 187	(25 880)
Right-of-use assets	63	(3 207)	-	(2 668)
Financial assets	152	(142)	111	(433)
Trade receivables, prepayments and other receivables	784	(59)	1 093	(128)
Inventories	320	(1 945)	373	(935)
Liabilities				
Net employee defined benefit assets/liabilities	9 315	(911)	10 905	-
Accruals and provisions	2 541	(6 250)	2 679	(7 737)
Trade and other payables	88	(19)	133	(13)
Lease liabilities	3 196	(55)	2 752	-
Financial liabilities	548	-	573	-
Capitalized unused tax losses and tax credits	21 937	-	20 379	-
TOTAL DEFERRED TAXES	**47 768**	**(68 901)**	**50 260**	**(61 234)**
DEFERRED TAXES, NET	**-**	**(21 133)**	**-**	**(10 974)**

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2021	2020
Deferred tax assets	10 899	15 709
Deferred tax liabilities	(32 032)	(26 683)
DEFERRED TAX (LIABILITIES) / ASSETS, NET	**(21 133)**	**(10 974)**

Unrecognized deferred tax assets for unused tax losses

in CHF 1000.–	2021	2020
Unrecognized deferred tax assets expire in:		
reporting year +1	206	985
reporting year +2	471	206
reporting year +3	567	-
reporting year +4	370	-
reporting year +5 and beyond	28 770	14 531
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS FOR UNUSED TAX LOSSES	**30 384**	**15 722**

Net deferred tax assets / (liabilities)

in CHF 1000.–	Note	2021	2020
Balance at January 1		(10 974)	(16 542)
Deferred tax income / (expense)	5	(2 884)	5 277
Change in scope of consolidation	26	(1 811)	-
Deferred taxes directly recognized in OCI		(5 945)	(606)
Reclasses		(15)	(184)
Foreign exchange differences		496	1 081
BALANCE AT DECEMBER 31		**(21 133)**	**(10 974)**

At December 31, 2021, there was no recognized deferred tax liability (2020: 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 43.8 million (2020: CHF 47.6 million).

12. INVENTORIES

in CHF 1000.–	2021	2020
Raw materials and supplies	69 932	56 933
Semi-finished goods	11 009	13 401
Finished goods	100 659	101 721
TOTAL INVENTORIES	**181 600**	**172 055**
Write down of inventories	(3 533)	(4 096)
Inventory expensed in cost of sales	(729 150)	(695 419)

13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

in CHF 1000.–	Note	2021	2020
Trade receivables from customers		135 904	116 827
Trade receivables from related and associated parties		156	309
Less: Allowance for expected credit losses		(2 603)	(2 391)
TRADE RECEIVABLES NET	**21**	**133 457**	**114 745**
Prepayments		5 499	5 411
VAT		8 245	9 065
Other receivables		4 455	5 969
TOTAL RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES		**151 656**	**135 190**

Other receivables consist primarily of balances resulting from refundables taxes and tax credits.

Allowance for expected credit losses

in CHF 1000.–	2021	2020
Balance at January 1	(2 391)	(2 413)
Charge for the year	(306)	(125)
Amounts used / written off	25	29
Unused amounts reversed	14	35
Exchange rate differences	55	83
BALANCE AT DECEMBER 31	**(2 603)**	**(2 391)**

Maturity of trade receivables

Year ended December 31, 2021 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	136 061	122 295	5 964	2 501	1 141	1 043	3 117
Allowance for expected credit losses	(2 603)	(858)	(32)	(7)	(12)	(117)	(1 577)
TRADE RECEIVABLES, NET	**133 458**	**121 437**	**5 932**	**2 494**	**1 129**	**926**	**1 540**

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**

14. CASH AND CASH EQUIVALENTS

in CHF 1000.–	Note	2021	2020
Cash at banks		85 404	120 747
Cash equivalents		148	141
TOTAL CASH AND CASH EQUIVALENTS	**21**	**85 552**	**120 888**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 20.0 million (2020: 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 2021 was 0.23% (2020: 0.25%).

15. SHARES, HYBRID CAPITAL AND OTHER RESERVES

Number of shares

	2021	2020
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.–	2021	2020
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, 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/ JANUARY 1, 2021	**7 622**	**25 758**	**(942)**	**(31 325)**	**(288 124)**	**(287 011)**
Hedge accounting			974			974
Revaluation of land	11 240					11 240
Remeasurements				15 025		15 025
Tax effects	(2 855)		9	(2 991)	132	(5 705)
Foreign exchange differences					(16 719)	(16 719)
BALANCE AT DECEMBER 31, 2021	**16 007**	**25 758**	**41**	**(19 291)**	**(304 711)**	**(282 196)**

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	2021	2020
Current			
Bank borrowings and overdrafts	21	6 270	10 024
Loan liabilities third parties	21	1 766	1 835
Lease liabilities	25	7 074	6 075
TOTAL CURRENT BORROWINGS		**15 110**	**17 934**
Non-current			
Bank borrowings	21	80 128	80 620
Loan liabilities third parties	21	126	216
Loan liabilities related to non-controlling interest shareholders	21, 22	-	482
Lease liabilities	25	18 628	13 026
Debentures	21	135 000	135 000
TOTAL NON-CURRENT BORROWINGS		**233 882**	**229 344**

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, 2021 and 2020 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2021 was 11.30% for Emerging Markets and 0.87% outside Emerging markets (2020: 9.09% for Emerging Markets and 0.86% outside Emerging markets). The interest rates for the majority of current bank overdrafts and loan liabilities were between 3.50% - 15.00% for Emerging Markets and 0.00% - 2.50% excluding Emerging Markets (2020: 2.25%% - 19.85% for Emerging Markets and 1.12% excluding Emerging Markets). Non-current borrowings had a weighted average fixed interest rate of 0.86% (2020: 0.88%).

Debentures

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, 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/JANUARY 1, 2021	**229 344**	**17 934**
Repayment of bank loans	-	(5 365)
Proceeds from bank loans	-	1 159
Repayment of financial liabilities	(565)	(3 959)
Proceeds from financial liabilities	-	3 752
Payment of lease liabilities	-	(7 054)
New lease liabilities	14 510	-
Changes of lease liabilities	(79)	-
Reclassifications of lease liabilities	(8 244)	8 244
Amortization of bond discounts	-	49
Reclassification of bank loans	(510)	510
Foreign currency translation effects	(574)	(160)
BALANCE AT DECEMBER 31, 2021	**233 882**	**15 110**

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, 2021, for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 89% (2020: 88%) of the Group's defined benefit obligations and 93% (2020: 93%) 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, 2021, is 116.5% (2020: 112.4%, 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 plan in Switzerland has been set up according to the Swiss method of defined contributions but does not fulfill all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plan is treated as defined benefit plan in the consolidated financial statements.

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 2021 is TCHF 1 560 (2020: TCHF 1 918).

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 2022 are TCHF 1 603.

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 (2020: 0.3%).

The scheme shows based on latest information a USD 4.9 billion deficit (2020: USD 6.0 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.–	2021	2020
Balance sheet obligations for:		
Defined pension benefits	47 978	67 290
LIABILITY IN THE BALANCE SHEET	**47 978**	**67 290**
Income statement charge included in operating profit for:		
Defined pension benefits	2 897	1 815
INCOME STATEMENT CHARGE	**2 897**	**1 815**
Remeasurements for:		
Defined pension benefits	(15 025)	(8 256)
OTHER COMPREHENSIVE INCOME	**(15 025)**	**(8 256)**

Amounts recognized in the balance sheet:

in CHF 1000.–	2021	2020
Switzerland		
Present value of funded obligations	90 499	96 729
(Fair value of plan assets)	(95 328)	(88 793)
(Surplus) / deficit of funded obligations	(4 829)	7 936
(ASSET) / LIABILITY IN THE BALANCE SHEET	**(4 829)**	**7 936**
Germany		
Present value of unfunded obligations	43 259	46 957
LIABILITY IN THE BALANCE SHEET	**43 259**	**46 957**
Other		
Present value of funded obligations	8 466	8 893
(Fair value of plan assets)	(7 397)	(6 729)
Deficit of funded obligations	1 069	2 164
Present value of unfunded obligations	8 479	10 233
Total deficit of defined benefit pension plans	9 548	12 397
LIABILITY IN THE BALANCE SHEET	**9 548**	**12 397**
Total		
Present value of funded obligations	98 965	105 622
(Fair value of plan assets)	(102 725)	(95 522)
Deficit of funded obligations	(3 760)	10 100
Present value of unfunded obligations	51 738	57 190
Total deficit of defined benefit pension plans	47 978	67 290
(ASSET) IN THE BALANCE SHEET	**(4 829)**	**-**
LIABILITY IN THE BALANCE SHEET	**52 807**	**67 290**

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, 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)
BALANCE AT DECEMBER 31, 2020/ JANUARY 1, 2021	**162 810**	**(95 520)**	**67 290**	**-**	**67 290**
Current service cost	2 566	-	2 566	-	2 566
Interest expense/(income)	556	(225)	331	-	331
	3 122	**(225)**	**2 897**	**-**	**2 897**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)		(6 158)	(6 158)	-	(6 158)
Gain from change in demographic assumptions *	(5 792)	-	(5 792)	-	(5 792)
Gain from change in financial assumptions	(1 388)	-	(1 388)	-	(1 388)
Experience gain	(1 687)	-	(1 687)	-	(1 687)
	(8 867)	**(6 158)**	**(15 025)**	**-**	**(15 025)**
Contributions:					
Employers	-	(1 826)	(1 826)	-	(1 826)
Plan participants	1 440	(1 440)	-	-	-
Payments from plans:					
Benefit payments	(5 593)	2 685	(2 908)	-	(2 908)
Foreign exchange differences	(2 209)	(241)	(2 450)	-	(2 450)
AT DECEMBER 31, 2021	**150 703**	**(102 725)**	**47 978**	**-**	**47 978**

* Mainly Swiss Plan due to mortality table changes

Significant actuarial assumptions:

	Switzerland		Germany		Other*	
in %	2021	2020	2021	2020	2021	2020
Discount rate	0.30	0.10	0.50	0.50	1.67	1.13
Salary growth rate	1.00	1.00	3.00	3.00	0.05	0.05
Pension growth rate	0.00	0.00	1.75	1.75	1.46	1.17

* weighted average

Assumptions regarding future mortality:

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

	Switzerland		Germany		Other*	
in years	2021	2020	2021	2020	2021	2020
Retiring at the end of the reporting period:						
Male	23	23	21	21	21	21
Female	24	25	24	24	23	23
Retiring 20 years after the end of the reporting period:						
Male	25	25	23	23	23	23
Female	26	27	26	26	25	25

* weighted average

Sensitivity of the defined benefit obligation:

2021		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(8 966)	(5.9%)	10 038	6.7%
Salary growth rate	0.50%	846	0.6%	(803)	(0.5%)
Pension growth rate	0.25%	3 298	2.2%	(1 435)	(1.0%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		5 515	3.7%	(5 058)	(3.4)

*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:

2020		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(10 032)	(6.2%)	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

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.–	2021	in %	2020	in %
Equity instruments	27 480	26.8	23 997	25.1
Bonds	44 856	43.7	44 842	46.9
Property	26 787	26.1	24 418	25.6
Cash and cash equivalents	3 602	3.4	2 263	2.4
TOTAL	**102 725**	**100.0**	**95 520**	**100.0**

The assets of the Swiss pension funds which represent 93% (2020: 93%) of the Group's plan assets are comprised of:

- 24% (2020: 22%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 44% (2020: 48%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 28% (2020: 28%) 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).
- 4% (2020: 2%) 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, 2022 are TCHF 5 811.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

Weighted average duration:

	Switzerland		Germany		Other*	
	2021	2020	2021	2020	2021	2020
in years	12	12	14	15	13	13

* weighted average

18. PROVISIONS

in CHF 1000.–	Litigation	Employee related	Other	Total
BALANCE AT DECEMBER 31, 2020/ JANUARY 1, 2021	**1 810**	**11 259**	**4 721**	**17 790**
Additional provisions	100	1 662	1 913	3 675
Utilized	-	(2 173)	(855)	(3 028)
Unused amounts reversed/reclassifications	(11)	(1 061)	(483)	(1 555)
Foreign exchange differences	1	(158)	(12)	(169)
BALANCE AT DECEMBER 31, 2021	**1 900**	**9 529**	**5 284**	**16 713**
Analysis of total provisions				
Current provisions	32	-	4 377	**4 409**
Non-current provisions	1 868	9 529	907	**12 304**

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 (mostly related to tax).

19. OTHER NON-CURRENT LIABILITIES

in CHF 1000.–	Note	2021	2020
Earn-out liability	21	-	5 664
Put option liabilities	21	776	12 320
Withholding taxes		779	749
Other liabilities		610	612
TOTAL OTHER NON-CURRENT LIABILITIES		**2 165**	**19 345**

20. TRADE AND OTHER PAYABLES

in CHF 1000.–	Note	2021	2020
Trade payables	21	128 332	115 552
Accrued expenses	21	99 245	91 880
VAT and other taxes		9 020	8 377
Social security		3 021	3 539
Earn-out liability	21	10 809	4 101
Put option liability	21	17 040	-
Other payables	21	3 988	5 878
TOTAL TRADE AND OTHER PAYABLES		**271 455**	**229 327**

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	2021	2020	2021	2020
Financial assets - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		749	271	749	271
Financial assets measured at amortized cost					
Non-current					
Seller promissary note		22 132	20 024	21 745	19 376
Current					
Trade receivables	13	133 457	114 745	*	*
Cash and cash equivalents	14	85 552	120 888	*	*
Total (non-current and current)		**241 141**	**255 657**	-	-
Financial liabilities - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		1 307	2 325	1 307	2 325
Financial liabilities at fair value through profit or loss					
Non-current					
Earn-out liability on acquisition		-	5 664	-	5 664
Current					
Earn-out liability on acquisition		10 809	4 101	10 809	4 101
Total (non-current and current)		**10 809**	**9 765**	**10 809**	**9 765**

		Carrying amount		Fair value	
in CHF 1000.–	Note	2021	2020	2021	2020
Other financial liabilities measured at amortized cost					
Non-current					
Borrowings	16	80 254	81 318	80 210	81 311
Debentures	16	135 000	135 000	134 880	134 819
Put option liabilities over non-controlling interests		776	12 320	776	12 320
Current					
Trade and other payables	20	231 565	213 310	*	*
Borrowings	16	8 036	11 859	*	*
Put option liabilities over non-controlling interests		17 040	-	17 040	-
Total (non-current and current)		**472 671**	**453 807**	-	-

* 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.

Seller promissary note

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

Put option liability and earn-out liability goodforgrowth GmbH

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

a put option over the remaining 30%.
As part of the accounting for the acquisition of goodforgrowth GmbH, a contingent consideration (earn-out) with an estimated fair value of CHF 13.9 million was recognized at the acquisition date and remeasured to CHF 14.9 million (2020: CHF 9.8 million) of which 4.1 million were paid out in 2021 and the remaining balance is 10.8 million (2020: CHF 9.8 million) as at the reporting date based on the current development of the company. The maximum consideration to be paid is CHF 20 million. The contingent consideration is presented within other current iliabilities 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 17.0 million (2020: CHF 12.3 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 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. As at Decemember 31, 2021 the liability is mainly subject to changes as a result of foreign exchange movements (EUR/CHF) and changes in discount rates (level 2 input parameters).

Put option liability Baby Gourmet Foods Inc.
As of January 18, 2021, Hero bought 97% of the shares of Baby Gourmet Foods Inc. (Baby Gourmet). Hero paid an initial purchase price for these 97%. At the same time, Hero received a call option over the remaining 3% and is option writer of a put option over the remaining 3%.
The put option on the non-controlling interests of 3% over Baby Gourmet was recognized at an estimated present value of the redemption amount of CHF 1.0 million at the acquisition date and remeasured to CHF 0.8 million as at the reporting date based on new estimates of the future development of the company. Future developments may require further revisions to the estimate. The put option is classified as non-current liability.

Put option valuation:
Strike price: Enterprise values minus net debt +/- difference to net working capital target. Enterprise value is the result of a net sales and EBITDA multiple.
Exercise period: 31 March 2025 - 30 June 2025

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, 2021, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

As at December 31, 2021, the Group held the following financial instruments measured at fair value:

at December 31, 2021	**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	749	1 307	-
Earn-out liability on acquisition	-	-	10 809

at December 31, 2020			
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

Earn-out liability on acquisition		
in CHF 1000.–	**2021**	**2020**
Balance at January 1,	9 765	9 494
Payments	(4 083)	-
Fair value changes through profit or loss	5 127	271
Balance at December 31	**10 809**	**9 765**

Liabilities for which fair values are disclosed	**2021**	**2021**	**2020**	**2020**
in CHF 1000.–	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Borrowings	-	80 210	-	81 311
Debentures	134 880	-	134 819	-

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 as per December 31, 2021 are the final agreement on net sales and EBIT for the years 2019 - 2021. Further, the amount recorded as of 31 December 2021 is still exposed to changes of the EUR/CHF exchange rate.

The Group is holding the following forward foreign exchange contracts:

in CHF 1000.–	2021	2020
Contracts with positive fair values		
Notional amount of forward foreign exchange contracts	55 774	64 684
Contracts with negative fair values		
Notional amount of forward foreign exchange contracts	(142 496)	(110 357)

The Group entered into forward foreign exchange contracts during financial year 2021 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, 2021				
Highly probable forecast transaction	974	-	-	(930)
Total	**974**	**-**	**-**	**(930)**
Year ended December 31, 2020				
Highly probable forecast transaction	(112)	-	-	(818)
Total	**(112)**	**-**	**-**	**(818)**

22. RELATED AND ASSOCIATED PARTY TRANSACTIONS

in CHF 1000.–	2021	2020
Sales of goods		
to associated companies and joint ventures	1 362	1 505
Management services rendered		
to associated companies and joint ventures	222	142
Income		
Interest income from AOH Nahrungsmittel Group	-	3
Receivables/liabilities		
Trade receivables from associated companies and joint ventures	156	309
Other short-term receivables from associated companies and joint ventures	123	99
Long-term loan liabilities to non-controlling interest shareholders	-	482
Short-term loan liabilities to associated companies and joint ventures	1 204	1 493
Key management personnel		
Salaries and other short-term employee benefits paid	(8 748)	(6 074)
Post-employment benefits paid	(470)	(445)
Long-term incentive plans - income/(expense)	(89)	(624)
Long-term incentive plans - dividend payment	(48)	(214)
Long-term incentive plans - provision	3 954	4 652
Long-term incentive plans - loan receivable	672	630

The key management personnel are defined as the Executive Board. Transactions with related parties, associated companies 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.–	2021	2020
Contingent liabilities in favor of third parties	898	999

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

The Hero Group is exposed to certain litigation claims in the USA. The proceedings of said claims are still in its early stages and are being defended by the Group. While the outcome is still uncertain, the Hero Group believes that the resolution of these claims will not materially impact the consolidated financial statement.

24. COMMITMENTS

in CHF 1000.–	2021	2020
Commitments for the acquisition of tangible fixed assets	621	6 415
Commitments for raw materials	81 764	77 382
TOTAL COMMITMENTS	**82 385**	**83 797**

25. 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, 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/JANUARY 1, 2021	**19 338**	**1 447**	**9 986**	**30 771**
Additions	10 933	1 046	2 531	14 510
Decreases	(62)	(146)	(943)	(1 151)
Foreign exchange differences	(608)	(83)	(595)	(1 286)
BALANCE AT DECEMBER 31, 2021	**29 601**	**2 264**	**10 979**	**42 844**

in CHF 1000.–	Buildings	Plant and machinery	Other equipment	Total
Accumulated depreciation				
BALANCE AT 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/JANUARY 1, 2021	**6 980**	**1 005**	**4 704**	**12 689**
Additions	3 803	525	3 132	7 460
Decreases	(62)	(146)	(862)	(1 070
Foreign exchange differences	(109)	(46)	(353)	(508)
BALANCE AT DECEMBER 31, 2021	**10 612**	**1 338**	**6 621**	**18 571**
Carrying amount				
At December 31, 2020	12 358	442	5 282	18 082
At December 31, 2021	18 989	926	4 358	24 273

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

in CHF 1000.–	2021	2020
As at 1 January	19 101	21 616
Additions	14 510	5 422
Decreases	(79)	(141)
Accretion of interest	905	963
Payments of lease liabilities including interest	(7 959)	(7 792)
Foreign exchange differences	(776)	(967)
AS AT 31 DECEMBER	**25 702**	**19 101**
Thereof non-current	18 628	13 026
Thereof current	7 074	6 075

The following are the amounts recognised in the income statement:

in CHF 1000.–	2021	2020
Depreciation expense of right-of-use assets	(7460)	(7 412)
Interest expense on lease liabilities	(905)	(963)
Expense relating to short-term leases	(1 544)	(861)
Expense relating of low-value assets	(368)	(359)
Variable lease payments	(1 088)	(1 080)
TOTAL AMOUNT RECOGNISED IN THE INCOME STATEMENT	**(11 365)**	**(10 675)**

The Group had total cash outflows for leases of CHF 11.0 million in 2020 (2020: CHF 10.1 million)

26. BUSINESS COMBINATIONS

Acquisitions 2021

On January 18, 2021, the Hero Group acquired 97% of Baby Gourmet Foods Inc., Canada. The company operates with the main brand Baby Gorumet, which is predominantly sold in the Canadian market. Hero received a call option over the remaining 3% and is option writer of a put option over the remaining 3%. Hero has recorded a liability for the put option, see note 21. Hero has obtained control over the company through the majority of voting rights and is fully consolidating Baby Gourmet Foods Inc. with non-controlling interests (NCI) of 3%. 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.

Acquisitions 2020

There were no acquisitions in 2020.

As at Januuary 18, 2021 in CHF 1000.–	Fair value recognized on acquisition 2021
Assets	
Property, plant and equipment	229
Intangible assets	7 877
Inventories	5 080
Trade receivables, prepayments and other receivables	2 196
Cash and cash equivalents	645
	16 027
Liabilities	
Trade and other payables	(1 995)
Deferred tax liabilities	(1 811)
	(3 806)
Total identifiable net assets at fair value	**12 221**
Non-controlling interests (3% of net assets)	(367)
Goodwill arising on acquisition	9 350
Purchase consideration	**21 204**
Thereof cash paid	21 204
Net cash acquired with the subsidiary	645
Cash paid for shares	(21 204)
Total cash flow on acquisition	**(20 559)**
Revenues contributed to the Group in 2021 after acquisition	21 303
Net income contributed to the Group in 2021 after acquisition	199

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 2021 the Group incurred acquisition-related costs of TCHF 427 mainly on legal fees and due diligence costs. These costs have been included in 'administrative expense'.

27. 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.

Summarized statement of financial position of joint venture:

in CHF 1000.-	2021	2020
Current assets	**2 720**	**4 721**
Thereof cash and cash equivalents	1 008	2 521
Non-current assets	**-**	**-**
Current liabilities	**2 326**	**3 250**
Thereof current financial liabilities	-	-
Non-current liabilities	**-**	**-**
Equity	**394**	**1 471**
Group's share in equity 50%	197	736
Group's carrying amount of the investment	**197**	**736**
Other non material associates and joint ventures	174	145
Total investments in associates and joint ventures	**371**	**881**

	2021	2020
Capital contribution to joint-venture	**1 500**	**1 100**

Hero has commited to contribute CHF 1.25 million in 2022.

Summarized statement of profit or loss joint venture:

in CHF 1000.-	2021	2020
Revenue from contracts with customers	2 497	1 831
Depreciation and amortization	-	-
Interest income	-	-
Interest expense	-	-
Loss before tax	**(3 976)**	**(3 968)**
Income tax expense	-	-
Loss for the year	**(3 976)**	**(3 968)**
Group's share of loss for the year	(1 988)	(1 984)
Foreign exchange differences	(50)	(30)
Group's share of total comprehensive loss for the year	**(2 038)**	**(2 014)**

28. EVENTS AFTER THE BALANCE SHEET DATE

On March 8, 2022 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, 2021, and the date of authorization of the consolidated financial statements that would require any adjustment or disclosure.

29. 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
Canada	Baby Gourmet Foods Inc.	Calgary	CAD	1 000	97.0	F	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).

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone: +41 58 286 31 11
Fax: +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Hero AG, Lenzburg

Zurich, 8 March 2022

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 2021 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 85 to 156) give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, 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 34% of the Group's total assets and 65% of the Group's total shareholders' equity as at 31 December 2021. 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 2021 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 analyzed 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

Enclosure
- Consolidated financial statements

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	2021	2020
Net proceeds from sales of goods and services		165 056	145 606
Dividend income		32 378	422
Cost of materials		(62 777)	(58 859)
Employee expenses		(49 464)	(40 075)
Other operational costs		(41 453)	(35 834)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**43 740**	**11 260**
Depreciation, amortization and valuation adjustments		(6 613)	(7 876)
Earnings before interest and taxes (EBIT)		**37 127**	**3 384**
Financial income		1 680	1 597
Financial costs		(8 366)	(10 062)
Operating result before taxes		**30 441**	**(5 081)**
Non-operational (costs) / income	9	(38 677)	23 278
Earnings before taxes		**(8 236)**	**18 197**
Tax expense		(4 528)	(3 932)
ANNUAL PROFIT		**(12 764)**	**14 265**

BALANCE SHEET

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

Assets	Note	2021	2020
Cash and cash equivalents	1	21 452	27 638
Trade receivables	3	13 181	9 499
Other current receivables	3	76 907	58 315
Inventories	1	9 616	9 662
Accrued income and prepaid expenses		169	140
Current assets		**121 325**	**105 254**
Financial assets	3	249 552	257 044
Investments	2	483 577	475 692
Tangible fixed assets	1	31 984	33 952
Intangible assets		35 324	36 197
Non-current assets		**800 437**	**802 885**
TOTAL ASSETS		**921 762**	**908 139**

Liabilities and Equity	Note	2021	2020
Trade payables	3	13 726	9 025
Current interest-bearing liabilities	3	117 401	88 883
Other current liabilities	3	16 815	9 551
Deferred income and accrued expenses	1	19 244	14 500
Current provisions	1	1 360	2 426
Current liabilities		**168 546**	**124 385**
Non-current interest-bearing liabilities	1, 3	415 000	415 000
Other non-current liabilities		-	5 664
Non-current provisions	1	3 312	4 219
Non-current liabilities		**418 312**	**424 883**
TOTAL LIABILITIES		**586 858**	**549 268**
Share capital		62 133	62 133
Capital contribution reserve		63 632	63 632
Legal reserve		25 758	25 758
Profit carryforward		198 963	195 591
Net (loss) / income for the year		(12 764)	14 265
Voluntary retained earnings		186 199	209 856
Treasury shares	5	(2 818)	(2 508)
TOTAL EQUITY		**334 904**	**358 871**
TOTAL LIABILITIES AND EQUITY		**921 762**	**908 139**

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, 2021 amounts to TCHF 10 809 (2020: TCHF 9 765). 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 from October 2022 until December 2022.

1. EXPLANATIONS TO POSITIONS IN THE BALANCE SHEET

as at December 31
Hero AG, Lenzburg

in CHF 1000.–	2021	2020
Bank & cash	21 452	27 638
Cash and cash equivalents	**21 452**	**27 638**
Packaging material	1 063	1 189
Raw material	1 313	863
Finished goods	7 240	7 610
Inventories	**9 616**	**9 662**
Land	4 749	4 749
Buildings	20 215	20 829
Plant and machinery	5 996	7 000
Other equipment and vehicles	1 024	1 374
Tangible fixed assets	**31 984**	**33 952**
Interest	743	694
Promotions	339	569
Goods received no invoice received	539	541
Advertising	552	33
Personnel	8 476	6 824
Service	6 001	2 956
Others	2 594	2 883
Deferred income and accrued expenses	**19 244**	**14 500**
Bank loans	80 000	80 000
Perpetual and subordinated bond	200 000	200 000
Straight bond	135 000	135 000
Non-current interest-bearing liabilities	**415 000**	**415 000**
Litigation	1 842	1 754
Others	1 470	2 465
Non-current provisions	**3 312**	**4 219**

2. INVESTMENTS

Company	Domicile	Ownership*	2021 Share capital in %	2021 Share of vote in %	2020 Share capital in %	2020 Share of vote in %
Autumn Harvest Ltd.	Hong Kong, China	I	100.0	100.0	100.0	100.0
Baby Gourmet Foods Inc.	Calgary, Canada	I	97.0	97.0	-	-
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

	2021	2020
Group companies	2 087	1 790
Third	11 094	7 709
Trade receivables	**13 181**	**9 499**
Group companies	69 198	54 719
Third	7 709	3 596
Other current receivables	**76 907**	**58 315**
Participants and management bodies	672	630
Group companies - loans	248 880	256 414
Financial assets	**249 552**	**257 044**
Group companies	2 298	527
Third	11 428	8 498
Trade payables	**13 726**	**9 025**
Group companies	116 197	87 389
Third	1 204	1 494
Current interest-bearing liabilities	**117 401**	**88 883**
Group companies	4 002	2 214
Third	12 813	7 337
Other current liabilities	**16 815**	**9 551**
Group companies	-	-
Third	415 000	415 000
Non-current interest-bearing liabilities	**415 000**	**415 000**

4. EXCESS RESERVES

in CHF 1000.–
as at December 31

	2021	2020
Release of excess reserves	-	1 269

5. TREASURY SHARES

Number of registered shares

	2021	2020
Inventory as at January 1	**34 234**	**30 699**
Acquisitions from executive board members	5 974	8 578
Sales to executive board members	(4 197)	(5 043)
Inventory as at December 31	**36 011**	**34 234**

In 2021, 5 974 registered shares were purchased at a price of CHF 105.41 each. In the same year, 4 197 registered shares were sold at an average price of CHF 88.50.

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.

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

as at December 31

	2021 Number	2021 Total value in TCHF	2020 Number	2020 Total value in TCHF
Participation rights in the ownership of				
Management bodies	25 661	2 708	27 438	2 912
Option rights in the ownership of*				
Management bodies	40 781	2 878	27 083	2 418

* Provisionally determined

7. OTHER INFORMATION

in CHF 1000.–
as at December 31

	2021	2020
Lease obligations not recorded in the balance sheet	313	611
Guarantees in the name of Hero AG in the favour of third parties	19 206	18 391
Contingent liabilities	300	300

8. NUMBER OF EMPLOYEES

	2021	2020
The average number of full time employees was	between 50 to 249	between 50 to 249

9. NON-OPERATIONAL INCOME / (COSTS)

The non-operational costs in 2021 of CHF 38.7 million relates mainly to a valuation adjustment of the participation value of Hero GmbH & Co. KG of CHF 38.4 million in connection with a restructuring of the German company set-up. The non-operational income in 2020 of CHF 23.3 million referred to the sale of an intangible asset.

10. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between December 31, 2021, and the date of authorization of the financial statements that would require any adjustments or disclosure.

11. BONDS

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

Type of bond	Senior bond
Nominal value	CHF 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.–

	2021	2020
(Loss) / Profit of the year	(12 764)	14 265
Amount carried forward from last year	198 858	195 402
Gain from disposal of Treasury Shares	105	189
AVAILABLE FOR DISTRIBUTION	**186 199**	**209 856**
Total dividend payment 2021: CHF 0.49 on 6 213 272 registered shares of CHF 10.- par value	(3 045)	(10 998)
BALANCE CARRIED FORWARD	**183 154**	**198 858**

In the name of the Board of Directors:

Giovanni Ciserani

Chairman Board of Directors

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone: +41 58 286 31 11
Fax: +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Hero AG, Lenzburg

Zurich, 8 March 2022

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 164 to 173), for the year ended 31 December 2021.

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 2021 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

Enclosures
- Financial statements (balance sheet, income statement and notes)
- Proposal regarding the appropriation of available earnings

CONTACT

HERO AG

Karl Roth-Strasse 8

CH-5600 Lenzburg

Phone: +41 (0)62 885 51 11

www.hero-group.ch

investor@hero.ch