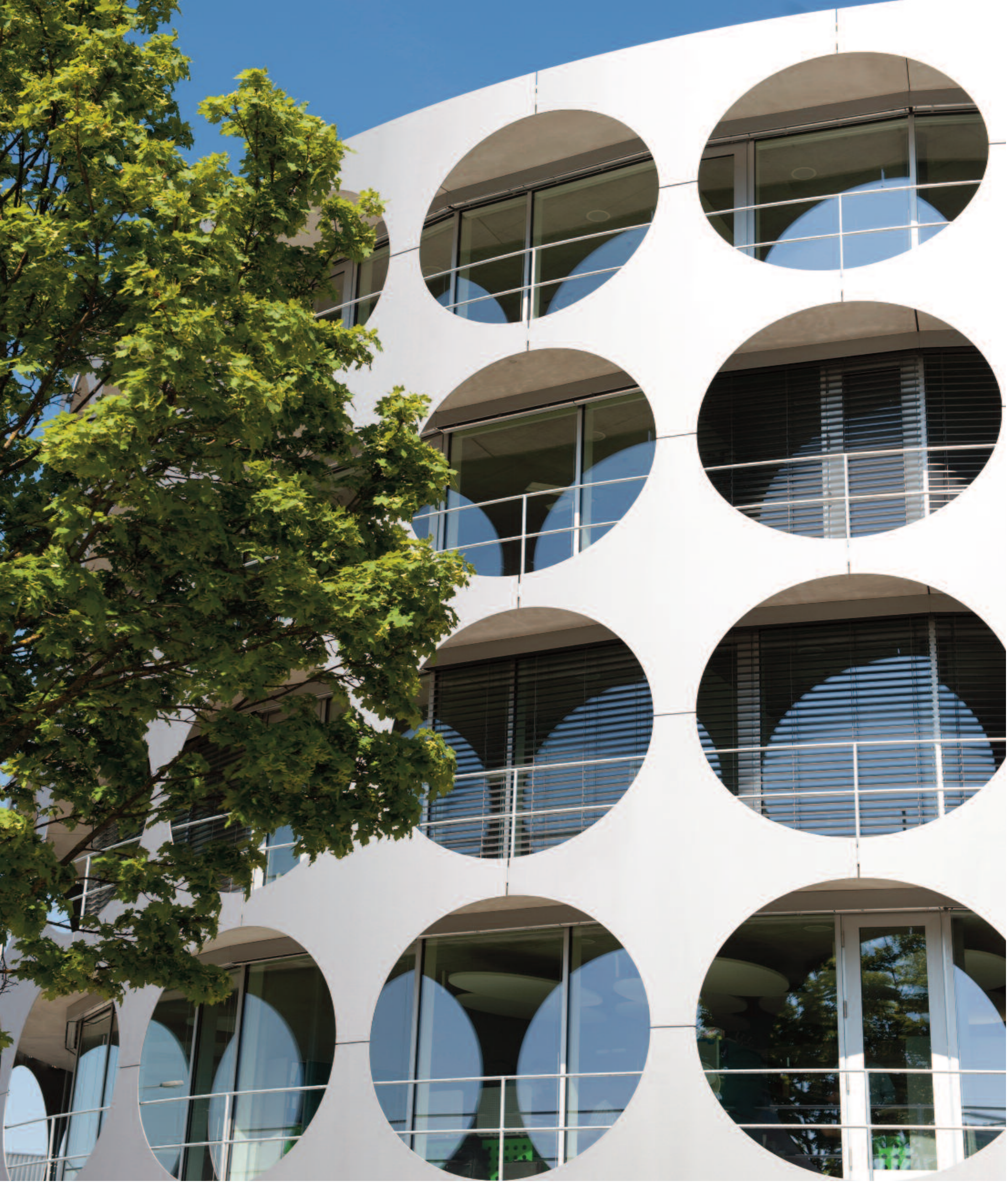
Hero

Annual Report 2013



Hero SINCE 1886

SCHWARTAU

Beech-Nut

Semper

Organix

CORNY

SB SIGNATURE BRANDS, LLC

Sunar

فيتراك Vitrac

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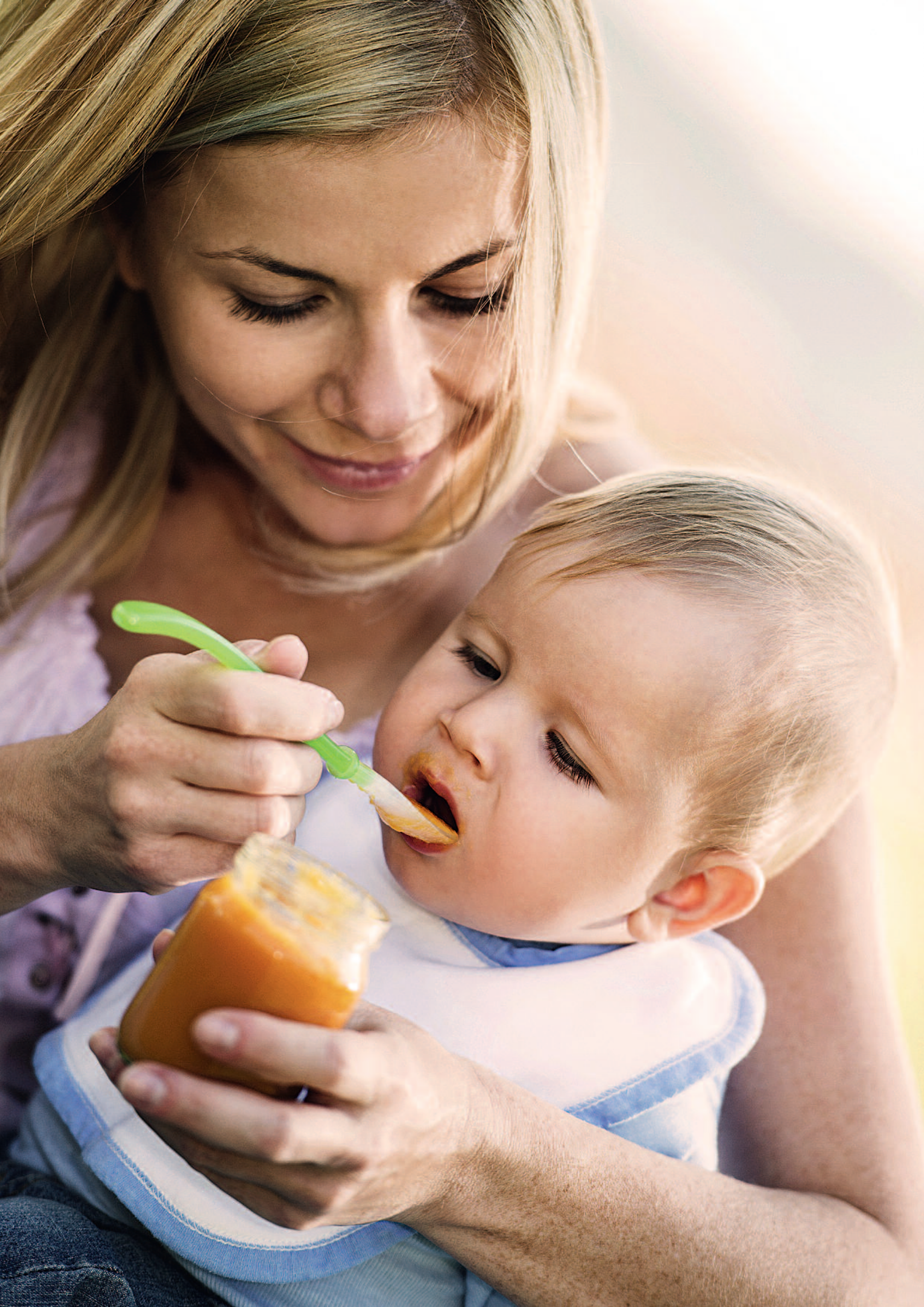


Contents

Executive Board
(Stephan Schopp, René Bänziger, Rob Versloot, Markus Lenke)

CEO Message

In 2012 we started an exciting new direction for our Group through the launch of our new mission to "delight consumers by conserving the goodness of nature" which we further refined and developed in 2013. As laid out in our new strategy, we have increased focus on our identified Lead categories: "Baby and Toddler Food", "Jams" and "Cereal Bars". Operationally, we have made great progress in leveraging our synergies across our organizations and in streamlining our brand portfolio.

In line with our strategy to increase the geographical footprint of our main brands, we have disposed of our Benelux "Friso" brand and sold it back to its original owner Royal Friesland Campina. Our Benelux Infant Nutrition business will be rebranded under our flagship brand "Hero Baby" in 2014 – coinciding with the 100th anniversary of our Dutch subsidiary.

In Turkey we are in the process of taking over our joint venture from our partner Ülker, and we will bring our fast-growing Baby and Toddler Food business also under the "Hero Baby" brand.

Innovation is our lifeblood. Enabled through a global innovation Pipeline, we develop and deliver better innovation bringing our mission alive. A good example is our launch of a new and revolutionary line up at Beech-Nut in the USA, and we look forward to its launch in the second quarter of 2014.

I am very pleased to be able to report that our new direction and way of working is starting to transform our company and that the Group's performance in 2013 has again improved significantly despite the fact that we have taken a more prudent valuation approach resulting in negative one-time effects.

Key financial figures

Net Income more than doubled to a level of CHF 75.5 million in 2013 (versus CHF 32.3 million in 2012) driven by improvement of both underlying EBIT (adjusted for one time effects) and our financial result. The absence of any material restructuring costs helped the Group's performance and we strengthened the financial foundations of our independent family business by reducing risk on our balance sheet impacting our EBIT. The Groups financial result was positively influenced by our partial and profitable divestment of our shareholding in Huishan Dairy in China. Following a strict focus on cash flow management, average working capital decreased by 12.9% in 2013 due to a group wide drive to sustainably improve our balance sheet structure. Free cash flow came in at an unprecedented level of CHF 165.5 million – a very significant increase versus 2012 and prior years. The increase in cash flow was partially used to purchase some of the existing hybrid capital. As a result of the strong increase in performance and despite the reduction of hybrid capital, Net Debt/ EBITA ratio improved to a very competitive ratio of 1.1 significantly strengthening the Group's financial freedom to act and supporting the long-term financial independence of our family business.

Net sales growth by categories

In the past year the Group managed to accelerate top line growth in most of its Lead categories. Growth in "Jams" increased by +3.2% driven by strong performances in key European markets Germany and Spain. "Cereal Bars" posted +7.6% top line growth amongst others due to strong acceleration of sales in Russia. Sales in "Baby and Toddler Food" declined with 2% as a result of decreasing market volumes and persisting economic challenges in Southern Europe. Our North American Baby and Toddler Food business showed encouraging improvements but were insufficient to offset the decline in some other markets, in particular in Southern European markets. We aim to fuel future growth in this important category through the launch of innovations, starting with Beech-Nut in the USA in the first half of 2014.

Sales of "Infant Milk Formula" in China came to a standstill in March after media reports of the Chinese state television triggered serious doubts amongst consumers concerning the quality of "Hero Nutradefense" infant milks. After intensive testing by the Chinese authorities and Hero the quality of our products in the Chinese market was undoubtedly reconfirmed and reputational damage could be limited. The absence of any infant milk sales in China in the remainder of the year has had a negative impact on the Group's overall top line growth in 2013. It will take time to rebuild consumer confidence and we aim to return to the attractive but challenging Chinese infant milk formula market with our flagship "Hero Baby" brand in the course of 2014. However, the Group managed to increase total net sales in Infant Milk Formula by +1.9%. Sales in our category of "Decoration" decreased with -6.2% mainly due to one off effects related to a prior year product issue in our USA business. Sales in "Gluten Free" continued to increase and a growth of 3.3% was recorded versus 2012.

The China Infant Milk Formula crisis and the decrease in Decoration in the USA impacted the Group's top line growth with -2.2% resulting in an overall organic top line growth of +0.4%. This is below our expectation however clearly attributable to two particular incidents – we remain with our mid term objective to post sustainable profitable top line growth of +3% in the coming years.

Net sales growth by geographies

Despite persistent challenging economic circumstances the Group managed to post +1% growth in Europe mostly driven by strong performances in Germany and The Nordics. Sales growth in the USA decreased with -2.3% due to the sales decline in Decoration. Growth in our North American Baby and Toddler Food business accelerated but did not fully compensate for the shortfall.

The Group managed to post double digit growth outside its traditional strongholds driven by substantially increasing export sales and particular positive developments in the important markets of Egypt and Turkey.

Outlook

The Group aims to accelerate its efforts to synergize in 2014 and will actively study improvements in its operating model whilst at the same time remain true to its entrepreneurial family business culture. We will further increase focus on our LEAD categories and formulate a growth agenda in line with our strategy including growth by acquisitions. We will continue to strive for consumer preference and will align and simplify our brand- and product portfolios further, building on our authentic heritage and led by our inspirational "conserving the goodness of nature" mission. We will remain focused on our profitable growth strategy and aim to increase our top line growth to 3% with an over proportionate increase in profitability.

The support of our shareholders is of crucial importance and enables the Executive Board to execute the new path forwards for Hero. In this respect, I would like to express – also on behalf of my colleagues in the Executive Board – my sincere thanks to the Oetker family in general and to our Honorary Chairman Dr. Arend Oetker in particular.

We also would like to herewith appreciate the steering and support of our Chairman Dr. Hasso Kaempfe, Vice Chairman Mr. Herbert Scheidt as well as the other members of our Board of Directors. The constructive team spirit, sharing of experience, coaching and advice have been of great importance and are an important factor behind the Group's improved performance.

We have committed ourselves "to delight consumers by conserving the goodness of nature" and will remain inspired and guided by this mission. I would like to thank all our employees across all our subsidiaries for embracing this direction. It is only thanks to their efforts and dedication that we will be able to transform our Group and satisfy the needs of all our stakeholders in a sustainable and satisfactory way.

Rob Versloot

Chief Executive Officer

Board of Directors
(dr. Hasso Kaempfe, dr. Hagen Duenbostel, Michael Pieper, Herbert J. Scheidt)

Chairman Message

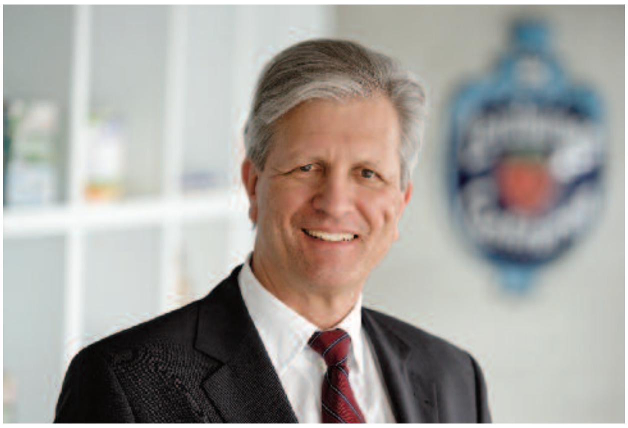
It is with great pleasure that I present to you the Annual Report of the Hero Group for 2013.

Following the new strategic approach initiated in 2012, the Group has started to harvest the first fruits of its focused path and has achieved first significant improvements both in terms of financial strength as well as operational excellence.

Despite an almost stagnating general market trend in Europe, most European countries were able to achieve a top-line growth above 3%. The EMEA region contributed again a strong double digit growth and the US infant business was able to achieve a solid increase versus prior year. Only the US decoration business suffered, mainly related to one time effects from an incident in prior years. A particular challenge emerged from a report by a Chinese State Television alleging one of our local products of significant quality issues. Although, the group acted swiftly and was able to proof that no health issue for any distributed products was ever confirmed, the local business, which had a very positive start into the year, came to a hold. The Group has been actively liaising with Chinese officials and has solved all issues related to this crisis. Due to existing risk mitigation systems, the profit implications of this incident remained minimal.

Following the exchange of shares of our the former Chinese joint venture against a direct shareholding with our former joint venture partner Huishan Dairy, the company was listed on the Hong Kong stock exchange in September. As part of the IPO, Hero divested some of its shareholding to further strengthen the Group's financial position and its secure financial independence as a family-owned company.

As the Group continues to focus on realizing the synergies from past transformation processes and focuses on improving operational excellence, M&A activity remained at a lower level. The Group sold its infant milk



brand "Friso" for the Benelux and is re-branding its portfolio to its core infant brand "Hero Baby". This is in line with the overall strategy to harmonize the international product portfolio and gradually move certain markets to core Hero brands. To the same effect, the Group has entered into a transaction to take over its joint venture in Turkey and rebrand the existing portfolio to Hero. The transaction is still subject to approval by the relevant authorities.

The Group continues its focus on the three core Group categories: Baby and Toddler Food, Jam and Cereal bars. The respective category organizations have been strengthened and the portfolio is gradually moving towards the company's vision of "conserving the goodness of nature". The supply chain is optimized by globally coordinated harmonization and efficiency projects and information technology is changing to a more unified set-up.

As announced in last year's report, Jim Schneider has retired from the Executive Board effective February 1, 2013. There have been no other changes in the composition of the Board of Directors or the Executive Board in 2013. As of February 1, 2014, Hans Huistra elected to leave the Group. His regional as well as functional responsibilities were divided amongst the existing members of the Executive Board.

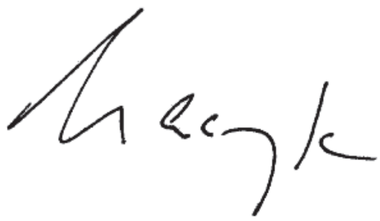
As we enter into 2014, the Group will continue to drive its core categories. Backed by the second year of substantial improvement of our financial position, the transformation will be accelerated to support the profitable growth path with a clear focus on margin improvements and above average growth targets in our core categories and regions. The ongoing organizational transformation will help improve the effectiveness of our route to market at competitive cost levels.

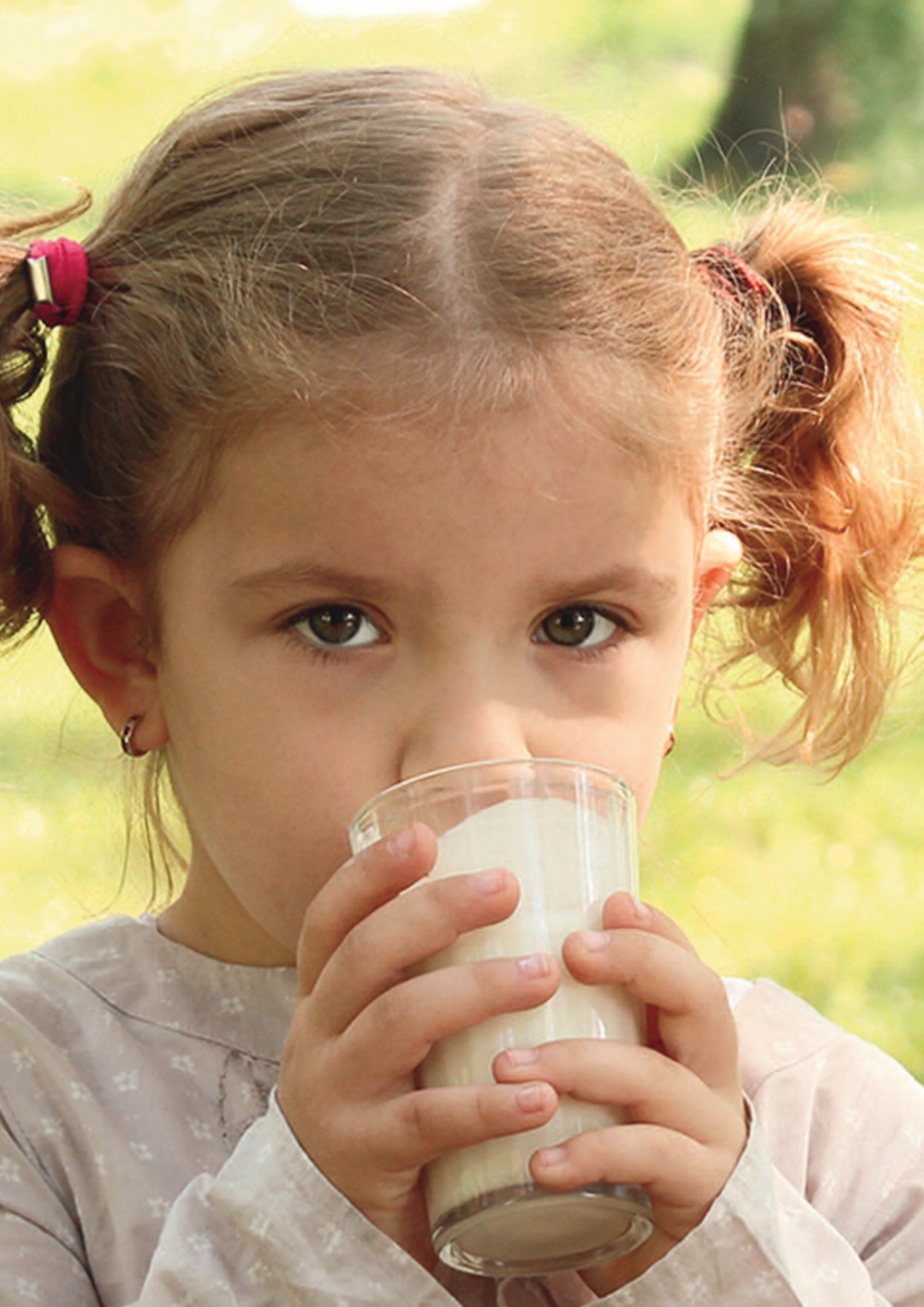
Looking at the speed and rigor of the transformation process and the achievements made during the past two years, I would like to take this opportunity to express on behalf of the Board of Directors my sincere thanks to the employees at all levels of the organization who embrace the new vision and contribute with undisputed passion to the success of the company. Under the leadership of Rob Versloot, the Executive Board unanimously developed a clear and credible path to the future and contributed significantly to lead through the challenges of the last year and drive change throughout the organization. The high level of entrepreneurial spirit combined with increasing understanding of synergies from collaboration in core processes will help to realize the ambitious mid-term plans defined and jointly shared by the employees.

I invite you to further review the information contained in this Annual Report on the development of the Group's business during 2013. The financial statements have been prepared in accordance with the International Financial Reporting Standards.

On behalf of the Board of Directors

Dr. Hasso Kaempfe
Chairman





Organization

Group Management

Rob Versloot (CEO)
René Bänziger
Stephan Schopp (CFO)
Markus Lenke
Hans Huistra (until January 31, 2014)
Jim Schneider (until February 12, 2013)

Board of Directors

Dr. Hasso Kaempfe (Chairman)
Herbert J. Scheidt (Vice Chairman)
Dr. Hagen Duenbostel
Michael Pieper

Honorary Chairman

Dr. Arend Oetker

Auditors

Ernst & Young Ltd., Zurich

Corporate Governance

Introduction

Hero is committed to modern corporate governance principles and aims to provide all stakeholders with the greatest transparency possible. Professional processes and responsible management are practised at the highest level.

Hero's corporate regulations are orientated towards the guidelines "Swiss Code of Best Practices" in addition to the provisions of Swiss law. Hero's Board of Directors and the Executive Board are separate decision-making bodies, each with distinct functions and responsibilities. No member of the Board of Directors is a member of the management team.

Board of Directors

Hero's Board of Directors consists of four members who are elected by the Annual General Meeting for a period of three years.

The Board of Directors convenes its own meetings at least four times each year. At least one Board meeting is held in a country / office outside Switzerland. The Board of Directors has delegated individual tasks to two sub-committees, which analyze specific issues in more depth on behalf of the Board:

- Finance & Audit Committee
  Herbert J. Scheidt (Chairman)
  Dr. Hagen Duenbostel
  Dr. Hasso Kaempfe

- Human Resources Committee
  Dr. Hasso Kaempfe (Chairman)
  Herbert J. Scheidt

The Board of Directors elects from its own members those Directors sitting on these Committees. The Chairmen of the Committees inform the Board of Directors at each meeting about the issues dealt with by the Committees and any corresponding Board resolutions. The Board of Directors has delegated all operative management functions to the Executive Board with the exception of those tasks assigned to other bodies as prescribed by law, the Articles of Incorporation or other corporate regulations.

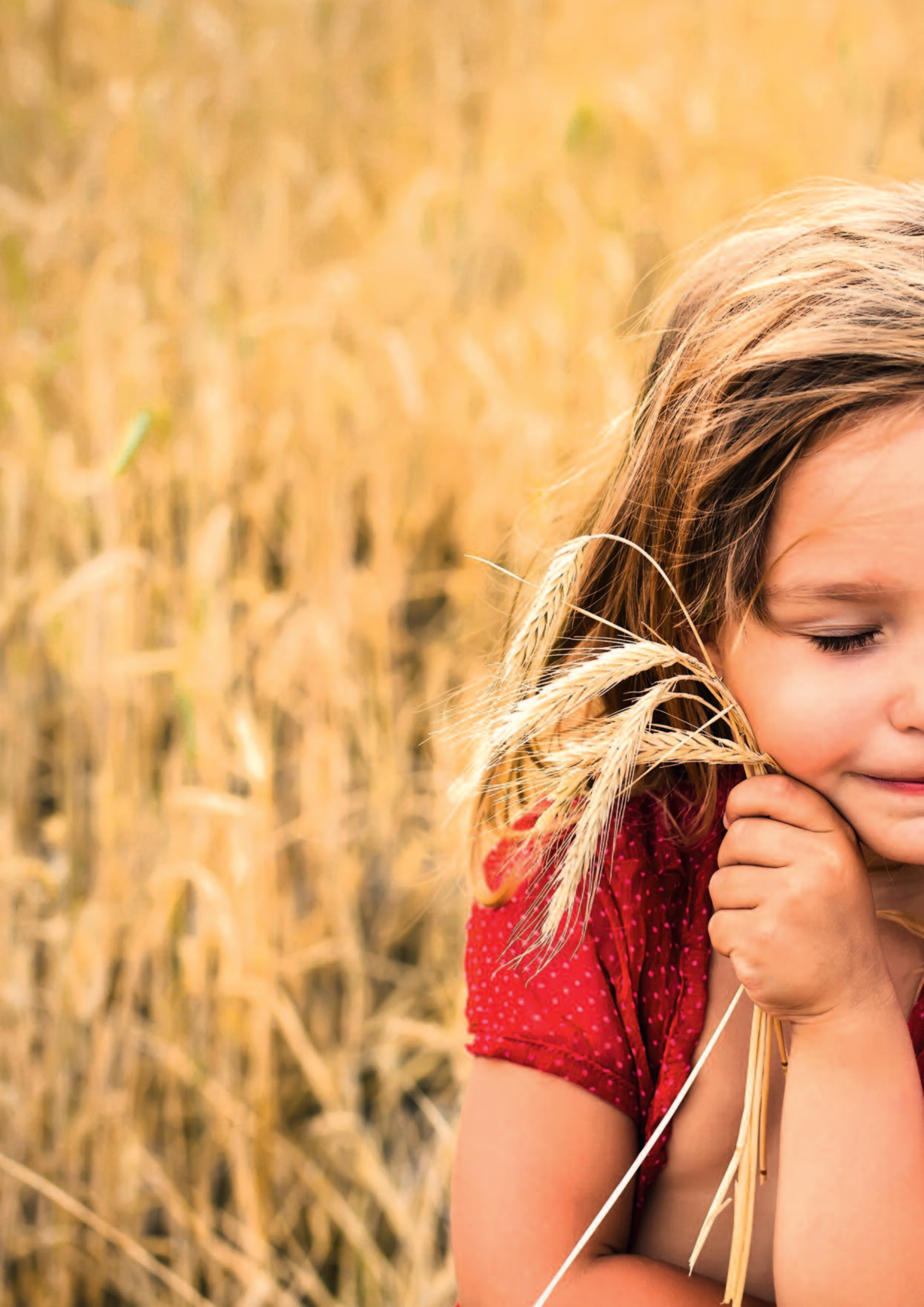
Executive Board

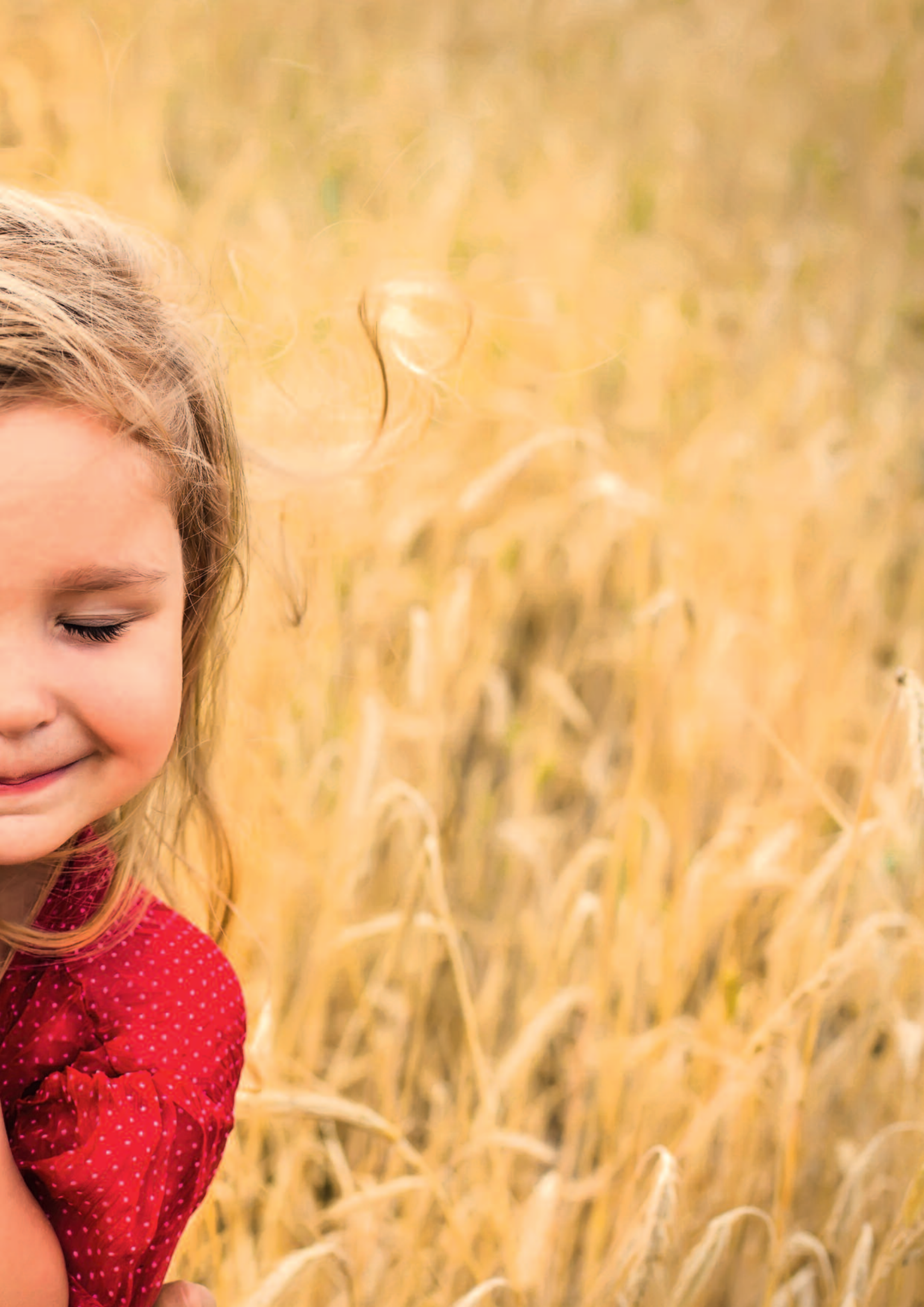
The Executive Board is ultimately responsible for the operational management of the business. The Executive Board's responsibility encompasses the execution and achievement of the Company's strategies, the direction of Group companies, as well as extracting maximum synergies from the Group's structures.

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

Auditors

In general the auditors participate in two Finance & Audit Committee Meetings per year to report verbally and in writing on audit planning, execution and recommendations.





Consolidated Income Statement

for the year ended December 31

Hero Group

in CHF 1000.–

Continuing operations	Note	2013	2012
NET SALES		**1 433 903**	**1 429 252**
Cost of sales		(913 408)	(919 890)
Gross profit		**520 495**	**509 362**
Distribution expense		(77 349)	(78 571)
Advertising and promotion		(141 331)	(137 897)
Marketing and sales		(101 259)	(99 243)
Research and development		(12 059)	(10 214)
Administrative expense		(111 095)	(121 575)
Other income	1	15 503	48 705
Other expense	1	(26 282)	(20 734)
Operating profit		**66 623**	**89 833**
Finance income	3	48 971	11 897
Finance expense	3	(45 245)	(58 592)
Share in result of associates	10	56	43
Income before tax		**70 405**	**43 181**
Income tax income / (expense)	6	5 138	(10 876)
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**75 543**	**32 305**
Attributable to:			
Owners of the parent		77 600	37 739
Non-controlling interests		(2 057)	(5 434)
NET INCOME		**75 543**	**32 305**

For comparison purposes certain prior year comparatives have been reclassified to conform to the current year's presentation, see accounting policies no. 5, comparatives.

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.–

	2013	2012
NET INCOME	**75 543**	**32 305**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(14 912)	7 296
Income tax effects	(138)	19
	(15 050)	7 315
Available-for-sale investments	87 668	15 259
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	**72 618**	**22 574**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	(8 435)	(422)
Income tax effects	2 531	105
	(5 904)	(317)
Remeasurements (losses) on defined benefit plans	2 260	(6 817)
Income tax effects	(1 037)	(1 046)
	1 223	(7 863)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:	**(4 681)**	**(8 180)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**67 937**	**14 394**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**143 480**	**46 699**
Total comprehensive income attributable to:		
Equity holders of the company	146 338	51 903
Non-controlling interests	(2 858)	(5 204)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**143 480**	**46 699**

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

Consolidated Balance Sheet

for the year ended December 31

Hero Group

in CHF 1000.–

Assets	Note	2013	2012
Non-current assets			
Property, plant and equipment	8	414 641	443 750
Intangible assets	9	609 608	686 706
Investments in associates	10	153	96
Available-for-sale investments	26	166 708	115 742
Non-current receivables	12	6 824	7 699
Deferred tax assets	13	149 827	108 478
TOTAL NON-CURRENT ASSETS		**1 347 761**	**1 362 471**
Current assets			
Inventories	14	173 083	193 973
Financial assets at fair value	26	2 341	1 819
Income tax receivables		1 408	1 798
Trade receivables, prepayments and other receivables	15	211 410	207 067
Cash and cash equivalents	16	177 918	227 423
TOTAL CURRENT ASSETS		**566 160**	**632 080**
Assets held for sale	2	8 154	–
TOTAL ASSETS		**1 922 075**	**1 994 551**

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

in CHF 1000.–

Equity and liabilities	Note	2013	2012
Shareholders' equity			
Share capital	17	51 516	51 516
Hybrid capital	17	561 947	611 315
Other reserves	17	12 016	(56 722)
Retained earnings		467 427	432 161
Equity attributable to owners of the parent		**1 092 906**	**1 038 270**
Non-controlling interests		**1 592**	**4 450**
TOTAL EQUITY		**1 094 498**	**1 042 720**
Non-current liabilities			
Borrowings	18, 26	133 297	192 668
Debentures	18, 26	129 318	–
Derivative financial liabilities	26	13 511	5 091
Deferred tax liabilities	13	89 628	69 902
Net employee defined benefit liabilities	19	63 492	69 172
Income tax payables		108	122
Provisions	20	9 922	9 928
Other liabilities	21	21 791	27 338
Total non-current liabilities		**461 067**	**374 221**
Current liabilities			
Trade and other payables	22	259 195	278 859
Income tax payables		3 393	3 496
Derivative financial liabilities	26	1 188	1 146
Borrowings	18, 26	78 019	269 908
Provisions	23	24 276	24 201
Total current liabilities		**366 071**	**577 610**
Liabilities directly associated with assets held for sale	2	439	–
TOTAL LIABILITIES		**827 577**	**951 831**
TOTAL EQUITY AND LIABILITIES		**1 922 075**	**1 994 551**

For comparison purposes certain prior year comparatives have been reclassified to conform to the current year's presentation, see accounting policies no. 5, comparatives.

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 17)	Hybrid capital (note 17)	Other reserves (note 17)	Retained earnings		
BALANCE AT JANUARY 1, 2012	**51 516**	**542 142**	**(70 886)**	**429 585**	**22 761**	**975 118**
Net income / (loss) for the period	–	–	–	37 739	(5 434)	32 305
Other comprehensive income	–	–	14 164	–	230	14 394
Total comprehensive income	–	–	14 164	37 739	(5 204)	46 699
Raising of hybrid capital shareholder	–	70 000	–	–	–	70 000
Cash flow hedges – fair value gains	–	–	–	–	(13 107)	(13 107)
Distribution on hybrid capital shareholder	–	–	–	(2 663)	–	(2 663)
Distribution on hybrid capital third parties	–	–	–	(32 500)	–	(32 500)
Deferred tax effects on capital raising costs	–	(827)	–	–	–	(827)
BALANCE AT DECEMBER 31, 2012 / JANUARY 1, 2013	**51 516**	**611 315**	**(56 722)**	**432 161**	**4 450**	**1 042 720**
Net income / (loss) for the period	–	–	–	77 600	(2 057)	75 543
Other comprehensive income	–	–	68 738	–	(801)	67 937
Total comprehensive income	–	–	68 738	77 600	(2 858)	143 480
Repayment of hybrid capital third parties	–	(49 032)	–	(7 881)	–	(56 913)
Distribution on hybrid capital shareholder	–	–	–	(6 295)	–	(6 295)
Distribution on hybrid capital third parties	–	–	–	(29 250)	–	(29 250)
Other adjustments	–	–	–	770	–	770
Tax effects	–	(336)	–	322	–	(14)
BALANCE AT DECEMBER 31, 2013	**51 516**	**561 947**	**12 016**	**467 427**	**1 592**	**1 094 498**

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	2013	2012
Cash flows from operating activities			
Cash generated from operations	24	125 317	162 009
Interest paid		(18 408)	(20 784)
Tax paid		(19 625)	(16 436)
NET CASH FROM OPERATING ACTIVITIES		**87 284**	**124 789**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	25	–	(1 811)
Purchase of property, plant and equipment	8	(24 566)	(45 163)
Purchase of intangible assets	9	(3 727)	(3 931)
Purchase of financial assets		(7 919)	(5 849)
Disposal of subsidiaries and businesses, net of cash disposed	25	–	7 627
Disposal of intangible assets		22 948	266
Disposal of financial assets	26	72 502	–
Proceeds from sale of property, plant and equipment		601	3 114
Loan repayments received		5 565	245
Interest received		3 593	3 690
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**68 997**	**(41 812)**
Cash flows from financing activities			
Repayment of hybrid capital third party		(56 913)	–
Proceeds from hybrid capital shareholder		–	33 573
Proceeds from borrowings		129 318	92 921
Repayment of borrowings		(251 467)	(44 992)
Finance lease principal payments		(16)	(72)
Distribution on hybrid capital shareholder		(6 295)	(2 663)
Distribution on hybrid capital third parties		(29 250)	(32 500)
NET CASH (USED IN) / FROM FINANCING ACTIVITIES		**(214 623)**	**46 267**
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(58 342)**	**129 244**
Movement in cash and cash equivalents			
At start of year		227 423	91 612
(Decrease) / Increase		(58 342)	129 244
Effects of exchange rate changes on cash and cash equivalents		8 837	6 567
AT END OF YEAR	16	**117 918**	**227 423**

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

Non-cash transactions

The following significant non-cash transactions took place in 2013:
– none

The following significant non-cash transactions took place in 2012:

– share swap China non-cash consideration of CHF 103.8 million (see note 25)
– raising of hybrid capital netted against loan payables of CHF 36.4 million

Notes to the Consolidated Financial Statemets

Accounting Principles

1. General

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 100% of the share capital of Hero. The Group's primary activities are the production and selling of consumer food products in the product areas of fruit, infant & nutrition and other consumer foods such as cereals and decorations. Fruit, infant & nutrition and cereal products are sold in Europe, the Middle East and North America, while decorations products are sold mainly in North America. At the end of 2013 the Group had 3'774 employees (2012: 3'956). 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 18, 2014 and are subject to approval by the annual general meeting of shareholders to be held on April 10, 2014.

2. 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, 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historic cost convention, unless otherwise stated (i.e. revaluation of land, financial assets, available-for-sale investments and financial assets and liabilities held-for-trading). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's Accounting Principles. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Accounting Principles no. 8 Critical Accounting Estimates and Judgements.

2.1 Changes in accounting policies and disclosures

The following new and amended / revised IFRS standards were applied with effect from January 1, 2013:

– IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

– IFRS 10 – Consolidated Financial Statements

– IFRS 11 – Joint Arrangements

– IFRS 12 – Disclosure of Interests in Other Entities

– IFRS 13 – Fair Value Measurement

– IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

– IAS 28 – Investments in Associates and Joint Ventures (revised)

– IAS 36 – Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

– Annual Improvements 2009–2011 Cycle

The individual changes do not have any material impact on accounting policies or are not relevant.

The Group has no joint ventures, significant non-controlling interests, or unconsolidated structured entities.

The amendment to IAS 36 Impairment of Assets that applies with effect from the financial year 2014 was adopted by the Group before the effective date. This did not result in any changes in disclosures.

The application of all implemented changes did not have any material impact on the Group's financial position, results of operations, and cash flows.

2.2 Published standards, interpretations, and amendments not yet applied

The new and revised standards are not currently expected to have any material impact on accounting policies. In addition, there is not expected to be any material impact on the Group's financial position, results of operations, and cash flows. The development of IFRS 9 – Financial Instruments is being monitored on an ongoing basis. The full impact of IFRS 9 will be analyzed once it has been completed. There are no plans to adopt IFRS 9 prior to the mandatory effective date, which has not yet been set by the IASB.

3. Consolidation

Consolidation Method

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

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

Business Combinations

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

When the Group acquires a business, it assesses the financial 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. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

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

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

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

Companies jointly controlled are accounted for using the equity method of accounting.

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

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

A list of investments, the investment percentage and the applicable consolidation method can be found on page 71.

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.

Associated Companies

Associated companies include AOH Nahrungsmittel Group companies (Germany).

Changes in the Scope of Consolidation

The scope of consolidation did not change in the reporting period.

4. 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:

	2013	2012
AVERAGE EXCHANGE RATES		
EUR/CHF	1.2303	1.2053
USD/CHF	0.9256	0.9379
GBP/CHF	1.4505	1.4858
SEK/CHF	0.1422	0.1385
CLOSING EXCHANGE RATES		
EUR/CHF	1.2251	1.2071
USD/CHF	0.8883	0.9148
GBP/CHF	1.4666	1.4793
SEK/CHF	0.1383	0.1405

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 or the repayment of a loan 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.

5. Valuation Principles

Revenue Recognition

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

Revenue is recognized as follows:

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

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

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

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

Segment Reporting

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

Research and Development Costs

Research costs are recorded in the income statement in the period in which they are incurred. Development costs are recognized as intangible assets to the extent that they meet the recognition criteria of IAS 38, i.e. the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. 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.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Deferred Taxes

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

Unused tax credits and unused tax losses arising on temporary differences 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 substantially 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 tax assets are presented separately from deferred tax liabilities.

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 either 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.

Cash and Cash Equivalents

Cash and cash equivalents are carried on the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, postal and bank account balances, other short term highly liquid investments, which are repayable or receivable within 90 days from the date of original maturity. Bank overdrafts are included in borrowings (current liabilities).

Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement within marketing and sales costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against marketing and sales costs in the income statement.

Inventories

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

Property, Plant and Equipment

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

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

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

Land is shown at fair value, based on periodic valuations by external independent valuers. All other property, plant and equipment is stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation of land are credited to other comprehensive income in the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income in other reserves; all other decreases are charged to the income statement. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Leases

Leases where the Group has substantially retained all the risks and rewards of ownership are classified as finance leases. Finance leases include primarily equipment. Assets acquired through finance leases are capitalized at the fair value of the leased property, or, if lower, the present value of the minimum lease payments.

Subsequently the assets are depreciated over the shorter of the useful economic life and the term of the lease. Liabilities arising from lease contracts are recorded as other short-term liabilities (if due within one year) or as other long-term liabilities. Finance costs are charged to the income statement over the lease period so as to produce a constant periodic rate of interest.

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

Intangible Assets

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

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

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

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

– Brands (up to 20 years)
– Software (1 to 3 years)
– Customer relationships (up to 8 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 cashflows (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.

Borrowings

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

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

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. 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 asset ceiling are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in income.

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

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.

Financial Guarantee Contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for an incurred loss because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

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 and notes issued to Schwartau International GmbH. The listed bonds are undated securities in respect of which there is no maturity date and where there is no obligation of 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.

Hybrid capital also represents two undated floating rate subordinated notes issued by Hero and sold to Schwartau International GmbH. These notes have no fixed maturity date and Schwartau International has no right to call the notes for its redemption. The notes constitute a direct, unconditional and subordinated obligation of Hero. Interest will be payable if Hero or any of its subsidiaries declared or paid a dividend. Interest payments are recorded directly in equity.

Non-Current Assets (or disposal groups) Held for Sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Comparatives

Comparative information is included in the narrative and/or descriptive information when it is relevant to an understanding of the current period's financial statements where changes in presentation have occurred.

For comparison purposes the following 2012 numbers were reclassified:

Consolidated Income Statement 2012 in CHF 1000.–	Reported 2012	Amor tization / Impairment	Sundry Income	Other income / expense	Restated 2012
Net sales	1 429 252	–	–	–	1 429 252
Cost of sales	(916 537)	(3 353)	–	–	(919 890)
Distribution expense	(78 567)	(4)	–	–	(78 571)
Advertising and promotion	(137 897)	–	–	–	(137 897)
Marketing and sales	(89 642)	(9 601)	–	–	(99 243)
Research and development	(10 171)	(43)	–	–	(10 214)
Administrative expense	(109 195)	(12 380)	–	–	(121 575)
Sundry income	18 577	–	(18 577)	–	–
Amortization / Impairment	(35 217)	35 217	–	–	–
Other income / (expense)	19 230	–	–	(19 230)	–
Other income	–	–	18 577	30 128	48 705
Other expense	–	(9 836)	–	(10 898)	(20 734)
OPERATING PROFIT	**89 833**	**–**	**–**	**–**	**89 833**

Consolidated Balance Sheet December 31, 2012 in CHF 1000.–	Reported 2012	Defined benefit liabilities	Tax	Social Benefits	Restated 2012
Non current liabilities					
Net employee defined benefit liabilities	–	69 172	–	–	69 172
Income tax payables	–	–	122	–	122
Provisions	76 549	(66 507)	(114)	–	9 928
Other liabilities	27 346	–	(8)	–	27 338
TOTAL NON-CURRENT LIABILITIES	**371 556**	**2 665**	**–**	**–**	**374 221**
Current liabilities					
Trade and other payables	274 357	–	(36)	4 538	278 859
Income tax payables	625	–	2 870	1	3 496
Provisions	34 239	(2 665)	(2 834)	(4 539)	24 201
TOTAL CURRENT LIABILITIES	**580 275**	**(2 665)**	**–**	**–**	**577 610**

6. Financial Instruments

General

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

Financial 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. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the associated receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise cash and cash equivalents, trade receivables and certain other receivables.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months of the balance sheet date.

Purchases and sale of financial assets are recognized on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest rate method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses on disposal of available-for-sale investments.

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

Accounting for Derivative Financial Instruments and Hedging Activities

Derivative financial instruments are initially recognized in the balance sheet at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or (3) a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other financial result'. Gains and losses accumulated in other comprehensive income are included in the income statement when the foreign operation is partially disposed of or sold.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in other comprehensive income. Where the forecast transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in other comprehensive income are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecast transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized, when the committed or forecast transaction ultimately is recognized in the income statement. However, if a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair Value Estimation

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

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

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

7. Financial Risk Management

Financial Risk Factors

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

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

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to EUR and USD. Companies in the Group use forward contracts, transacted with Group Treasury, to hedge their exposure to foreign currency risk in the local reporting currency. Group Treasury is responsible for hedging the net position in each currency by using currency borrowings and external forward currency contracts.

External foreign exchange contracts are generally designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions. The Group hedges between 50% and 100% of anticipated export sales in each major currency for the following 12 months. In 2013 and 2012, no sales in each major currency qualified as "highly probable" for which hedge accounting was used.

Additionally, the Group hedges the foreign currency exposure from material purchases. The Group enters into forward rate agreements to protect against any adverse foreign currency movement. The forward contracts used in its program mature in 18 months or less, consistent with the related purchase commitments.

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 operative cash flows (non-discounted) in foreign currency. The estimates are made assuming normal market conditions, using a 97.7% 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 511 as per December 31, 2013 (2012: TCHF 337).

Foreign Currency Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of forward foreign exchange contracts). There is no effect on the Group's equity as the Group does not apply hedge accounting.

	Increase/ (decrease) in USD rate	Increase/ (decrease) in EUR rate	Effect on profit before tax in CHF 1000.–	Effect on equity in CHF 1000.–
2013	5%	5%	4 732	–
	(5%)	(5%)	(4 732)	–
2012	5%	5%	3 091	–
	(5%)	(5%)	(3 091)	–

Interest Rate Risk

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group sometimes borrows at variable and fixed rates and uses interest rate swaps as cash flow hedges of future interest payments, which have the economic effect of converting borrowings from floating rates to fixed rates or vice-versa. Interest rate swaps allow the Group to raise long-term borrowings at floating rates and swap them into fixed rates that are lower than those available if borrowed at fixed rates directly or vice versa. Under interest rate swaps, the Group agrees with other parties to exchange, at specific intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Interest Rate Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Effect on profit before tax in CHF 1000.–
2013	100	(780)
	(100)	780
2012	100	(2 699)
	(100)	2 661

Credit Risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparts 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. Sometimes the Group uses the instrument of deferred consideration when disposing investments in subsidiaries or other operating assets. In that case it is the Group's policy to obtain adequate pledges or guarantees until the outstanding receivables are settled. The Group also makes loans to related parties. Where material the Group seeks adequate pledges or guarantees. The maximum credit risk represents net carrying value of the loans and receivables included.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents [note 16]) on the basis of expected cash flows.

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

in CHF 1000.– at December 31, 2013	Carrying value	Within 1 year	1–2 years	2–3 years	3–4 years	More than 4 years	Total
Derivatives							
Forward contracts – cash (inflow)	–	*(1 103)*	–	–	–	–	*(1 103)*
Forward contracts – cash outflow	–	*1 153*	–	–	–	–	*1 153*
Forward contracts – net	1 189	50	–	–	–	–	50
Trend Swap *)	13 511	7 919	7 919	7 919	–	–	23 757
Borrowings	211 316	34 291	48 815	66 849	15 396	53 079	218 430
Debentures	129 318	1 616	1 616	1 616	1 616	134 167	140 631
Other liabilities – non current	7 773	–	2 750	1 259	1 234	2 530	7 773
Trade and other payables	235 538	235 538	–	–	–	–	235 538

*) future cash outflows assumed to correspond to current year's cash outflow

in CHF 1000.– at December 31, 2012	Carrying value	Within 1 year	1–2 years	2–3 years	3–4 years	More than 4 years	Total
Derivatives							
Forward contracts – cash (inflow)	–	*(260)*	–	–	–	–	*(260)*
Forward contracts – cash outflow	–	*95*	–	–	–	–	*95*
Forward contracts – net	1 146	(165)	–	–	–	–	(165)
Trend Swap *)	5 091	5 849	5 849	5 849	5 849	–	23 396
Borrowings	462 576	279 166	59 225	67 936	15 400	53 613	475 340
Other liabilities – non current	8 949	–	3 063	1 312	1 187	3 387	8 949
Trade and other payables	243 862	243 862	–	–	–	–	243 862

*) future cash outflows assumed to correspond to current year's cash outflow

8. 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:

(a) Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the valuation principles stated in Accounting Principle No. 5 Intangible Fixed Assets. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9, Intangible Assets).

Hero's major single goodwill positions as well as management's key assumptions are summarized below:

December 31, 2013 CGU	Goodwill	Total in CHF million	Eternal growth	WACC pre Tax	Growth rates p.a. years 2014–2019	Profit margin between years 2014 and 2019	Im-pair-ment
Schwartauer Werke	Schwartauer Werke	180.8	1.9%	10.9%	between 0.4% and 4.8%	increasing by 0.4%*)	no
Semper/Eastern Europe Infant Business	Semper	103.7	2.0%	10.3%	between 1.8% and 5.4%	increasing by 2.1%*)	no
Signature Brands	Signature Brands	64.8	2.2%	12.2%	between 2% and 3.7%	increasing by 1.4%*)	no
Benelux Infant	Benelux Infant	19.4	0.8%	11.3%	between –21.8% and 11.5%	increasing by 6.0%*)	yes
Organix	Organix	28.9	2.0%	10.9%	between 6% and 7%	increasing by 1.6%*)	no
Vitrac	Vitrac	6.3	12.3%	22.2%	between 12.9% and 16.6%	increasing by 2.2%*)	no
Other	Other	3.8					yes
	TOTAL	407.7					

*) Over the total period 2014–2019

December 31, 2012 CGU	Goodwill	Total in CHF million	Eternal growth	WACC pre Tax	Growth rates p.a. years 2013–2018	Profit margin between years 2013 and 2018	Im pair-ment
Schwartauer Werke	Schwartauer Werke	178.2	2.1%	11.7%	between 0.7% and 4.4%	increasing by 0.4%*)	no
Semper/Eastern Europe Infant Business	Semper	103.1	2.0%	11.5%	between 2% and 7.6%	increasing by 1.7%*)	no
Signature Brands	Signature Brands	62.1	2.1%	12.7%	between 2.1% and 10.4%	increasing by 2.3%*)	no
Benelux Infant	Benelux Infant	41.5	2.1%	11.7%	between –1.5% and 15.2%	increasing by 0.6%*)	no
Organix	Organix	29.1	1.9%	11.9%	between 1.9% and 10%	0% increase*)	no
Vitrac	Vitrac	7.2	6.5%	24.3%	between 6.5% and 15.0%	increasing by 2.9%*)	yes
Other	Other	13.8					no
	TOTAL	435.0					

*) Over the total period 2013–2018

Management based its growth assumptions on internal forecasts and on external data such as the current inflation rate at December 31, 2013 of the respective countries where the cash generating units are located.

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

In 2012 goodwill relating to Vitrac of CHF 9.8 million has been impaired. The impairment charge is included in "other expense" in the income statement.

Vitrac is a Group subsidiary located in Egypt. The company predominantly operates in the Middle East and Africa. In order to reflect the political changes and difficult economic environment in Egypt and the region, the board revised its future growth plans for the company which led to an impairment.

In 2013 goodwill relating to the Benelux infant business of CHF 22.2 million has been impaired. The impairment charge is included in "other expense" in the income statement. The recoverable amount of the CGU Benelux Infant, CHF 24.8 million as at December 31, 2013, has been determined based on value in use calculation.

The Group's infant business in the Benelux was traded under the Friso brand, a locally well-known and well established infant milk formula brand. The Group disposed of the Friso brand on November 8, 2013, as part of an overall initiative to harmonize the brand architecture. The Benelux infant business will be re-branded to Hero Baby. In order to reflect the uncertainty associated to re-brand an established infant formula brand under the Hero brand, the board took a more prudent approach to the future growth plans for the company which led to an impairment.

In 2013 goodwill relating to the Turkish infant business of CHF 1.8 million has been impaired. The impairment charge is included in "other expense" in the income statement. The recoverable amount of the CGU Turkey, CHF 22.1 million as at December 31, 2013, has been determined based on value in use calculation.

The Group's infant business in Turkey includes biscuit business. The Group committed to sell the biscuit business in Turkey in 2014 realizing the associated goodwill attributable to this business. Hero will take over the remaining infant food business in Turkey from its former partner. To reflect the potential risk associated to the new business set-up the board took a more conservative approach to the future growth plans for the company which led to a full impairment of the remaining goodwill.

(b) 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 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.

Hero's major brands positions as well as management's key assumptions are summarized below:

December 31, 2013

CGU *)	Brands	Total in CHF million	Eternal growth	Growth rates p.a. years 2014 – 2019	Impairment
Semper	Semper	56.9	2.0%	between 0.1% and 4.7%	no
Signature Brands	Signature Brands	29.9	2.2%	between –1.4% and 2%	yes
Organix	Organix	24.5	2.0%	between 2% and 6.5%	no
Schwartau	Schwartau	22.4	1.9%	between –8.2% and 5.7%	no
Beech-Nut	Beech-Nut	15.8	2.2%	between 2.2% and 19.6%	no
Other	Other	11.6	2.0%	between 2% and 12%	no
	TOTAL	161.1			

*) where the majority of sales took place

December 31, 2012

CGU *)	Brands	Total in CHF million	Eternal growth	Growth rates p.a. years 2013 – 2018	Impairment
Semper	Semper	58.0	2.0%	between 1.8% and 11.4%	no
Signature Brands	Signature Brands	37.8	2.1%	between – 0.8% and 3%	no
Organix	Organix	24.7	1.9%	between 1.9% and 12.3%	no
Schwartau	Schwartau	22.0	2.1%	between 1% and 2.8%	no
Beech-Nut	Beech-Nut	16.3	2.1%	between 2.1% and 12.1%	no
Benelux Infant	Friso	15.6	2.1%	between –1.5% and 9.7%	no
Other	Other	12.0	2.0%	between –1.1% and 3.1%	no
	TOTAL	186.4			

*) Where the majority of sales took place

In 2012 no impairment was identified.

In 2013 Cake Mate brand which is included in Signature Brands was impaired by CHF 7.2 million to reflect a strategic shift from Cake Mate to other brands with a higher brand awareness amongst customers. Thus the board reduced its future growth plans for the Cake Mate brand which led to an impairment.

(c) Income taxes

As described in note 6, 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.

(d) Recognized tax loss carryforwards

The Group has recognized deferred tax assets in relation to the recoverability of net loss carryforwards (Note 13, Development of Deferred Tax Assets and Liabilities). 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. In addition, the Group has a global tax planning strategy in place which would support that loss carryforwards could be realized in the event that there will not be sufficient future taxable profits. Management re-evaluates the recoverability at each balance sheet date.

(e) Intangible assets acquired in business combinations

As a result of past acquisitions the Group has carried out purchase price allocations which resulted in the recognition of additional intangible assets mainly relating to brand, distribution networks, and customer relationships. These values are based on internal and third-party valuations. The calculations required the use of estimates. To the extent that future cash flows are not realized, a portion of such intangible assets may become impaired. Management re-evaluates this potential at each balance sheet date.

f) Reserve for bad debts

As described in note 15, the Group has provisions for bad debts based on estimates. Such estimates are based on analyses of ageing of customer balances, specific credit circumstances, historical trends and the Group's experience, taking also into account economic conditions.

Management believes that the total provision 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.

g) Valuation of financial instruments

As described in note 26, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 26 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments (i.e. Trend Swap). Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments and are constantly applied.

h) Valuation of inventory

The Group has provisions for inventories based on estimates. Such estimates are based on analyses of ageing of inventory balances and 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.

i) Provisions

The Group has provisions for various cases based on estimates. 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.

j) Pension benefits

The cost of the defined benefit pension plan and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. 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.

9. 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 2013 and 2012 the Group complied with this requirement. See also comments in Note 18 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, 2013 and December 31, 2012.

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" 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, 2013 and 2012 were as follows:

in CHF 1000.–	2013	2012
Total borrowings / debentures	340 634	462 576
Less: cash and cash equivalents	(177 918)	(227 423)
Net debt	162 716	235 153
Total Equity	1 094 498	1 042 720
Total Capital (Equity plus net debt)	1 257 214	1 277 873
Gearing ratio	13%	18%

The gearing ratio changed 2013 compared to 2012 due to lower net debt.

10. Risk Management disclosure in accordance with Swiss code of obligations

The Group has implemented a risk management system. Management carries out an annual risk assessment to identify material risks including their probability of occurrence and impact on the Group. The Board of Directors takes appropriate measures to avoid, mitigate or transfer these risks. Risks which are not mitigated are closely monitored by the Group. The latest risk assessment by the Board of Directors was approved in September 2013. Management may take ad-hoc initiatives in order to ensure a timely response to changes in the risk environment.

1. Details on Other Income / Expense

in CHF 1000.–	Note	2013	2012
Government grants	5	399	7 245
Insurance recovery		1 111	–
Litigation settlements		2 990	–
Reversal accruals		1 599	2 772
Disposal result	25	–	29 037
Asset disposal		7 905	1 205
Other		1 499	8 446
TOTAL OTHER INCOME		**15 503**	**48 705**
Restructuring		(2 280)	(10 818)
Goodwill impairments	9	(24 002)	(9 836)
Other		–	(80)
TOTAL OTHER EXPENSE		**(26 282)**	**(20 734)**

Certain prior year comparatives have been reclassified to conform to the current year's presentation, see accounting policies no. 5, comparatives.

In 2013 restructuring expenses mainly relate to reorganizational changes in the scope of business undertaken in the country organizations of the US, UK and Spain.

In 2012 restructuring expenses mainly relate to reorganizational changes in the scope of business undertaken in the country organizations of the US, Switzerland, Eastern Europe and Spain.

Where the costs are not yet incurred, a restructuring provision has been set up, see note 20 and note 23.

2. Non-current Assets held for Sale

The brand, attributable goodwill, and related liabilities contained within the segment „International" were presented as non-current assets held for sale and liabilities respectively following the commitment of the Group's management in December 2013 to dispose of its biscuit business activities in Turkey.

Assets

in CHF 1000.–	Note	2013	2012
Brand	9	3 102	–
Goodwill	9	5 052	–
ASSETS CLASSIFIED AS HELD FOR SALE		**8 154**	**–**

Liabilities

in CHF 1000.–	2013	2012
Trade and other payables	439	–
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**439**	**–**

3. Financing Income / Expense

in CHF 1000.–	Note	2013	2012
Interest expense	24	(14 803)	(22 104)
Interest expense – finance leases	24	(19)	(36)
Net foreign exchange losses		(10 316)	(4 893)
Fair value losses on financial instruments held for trading		(19 349)	(30 468)
Other financial expense		(758)	(1 091)
TOTAL FINANCE EXPENSE		(45 245)	(58 592)
Interest income	24	3 593	3 690
Fair value gains on financial instruments held for trading		3 489	8 207
Gain on disposal of available-for-sale investments*)	26	41 889	–
TOTAL FINANCE INCOME		48 971	11 897

*) Represents the net book gain on disposal of Huishan Dairy (formerly Treasure Ally) shares.

4. Additional Information on the Nature of Expense

in CHF 1000.–	Note	2013	2012
Wages and salaries		(184 088)	(186 379)
Social security costs		(38 304)	(36 891)
Pension costs – defined contribution plans		(3 379)	(5 478)
Pension costs – defined benefit plans	19	(4 861)	(3 601)
TOTAL PERSONNEL EXPENSE		(230 632)	(232 349)

The Group employed 3'774 employees in 2013 (2012: 3'956).
The prior year headcount was adjusted for temporary workers in Egypt.

Depreciation of property, plant and equipment	8	(31 461)	(39 745)
Impairment of property, plant and equipment	8	(2 879)	(3 307)
Amortization of intangible assets	9	(16 832)	(22 074)
Impairment of intangible assets	9	(33 601)	(9 836)
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENTS		(84 773)	(74 962)

5. Government Grants deducted from Expense

in CHF 1000.–	2013	2012
Government grants for Beech-Nut Infant plant	2 862	3 752
Government grants for Signature Brands Popcorn plant	23	–
Netherlands workforce education grant	47	133
Government grants for Schwartauer Werke Jam Factory	369	–
Export subsidies in Switzerland	9	1
Other	30	–
TOTAL GOVERNMENT GRANTS	3 340	3 886

Government grants are deducted from the following type of expense:

in CHF 1000.–	Note	2013	2012
Government grants deducted from cost of sales		2 872	(3 492)
Government grants deducted from research and development		47	39
Government grants deducted from administrative expense		22	94
Government grants included in other income	1	399	7 245
TOTAL GOVERNMENT GRANTS		**3 340**	**3 886**

In 2012 government grants deducted from cost of sales include the Beech-Nut grants correction.

6. Income Tax

in CHF 1000.–	Note	2013	2012
Current income tax expense		(18 839)	(15 784)
Deferred tax expense / (income) – temporary differences		414	(10 395)
Deferred tax income – tax loss		23 678	13 734
Deferred tax income – changes in tax rates and tax laws		1 011	1 214
Tax (expense) / income relating to prior periods		(1 126)	355
TOTAL INCOME TAX INCOME / (EXPENSE)	24	**5 138**	**(10 876)**

Analysis of tax rate

The variation in the Group's average expected tax rate is caused by changes in volumes, product mix and profitability of the Group's subsidiaries in the various jurisdictions, as well as changes in local statutory tax rates.

The main elements contributing to the difference between the Group's overall expected tax rate (the weighted average tax rate based on the results before tax of each subsidiary) and the effective tax expense are:

in CHF 1000.–	2013	2012
Income before taxes	70 405	43 181
Tax expense based on expected group tax rate	(12 196) *17.3%*	(9 257) *21.4%*
Impact of expense not entitled for deduction for tax purposes	(7 062)	(5 863)
Impact of non taxable income	24 535	243
Impact of taxes related to profits of other periods	(1 126)	355
Impact of past losses, for which no deferred tax asset is recognized	147	95
Impact of past losses, for which a deferred tax asset is recognized	(171)	(8 046)
Impact of past tax losses, for which no deferred tax assets have been recognized, but which are reassessed and released in current period	–	130
Impact of changes in the local tax rates	1 011	1 214
EFFECTIVE GROUP TAX INCOME / (EXPENSE)	**5 138**	**(10 876)**

7. Distribution to Equity Holders

At the Annual General Meeting in 2014, no dividend is to be proposed in respect of 2013 (2012: no dividend).

On March 18, 2014 the Board of Directors resolved to pay the annual coupon of 6.5% on the Hybrid Bond of CHF 450 million which is TCHF 29'250.

The interest of TCHF 6'295 (2012: TCHF 2'663) for the undated Floating Rate Subordinated Note purchased by Schwartau International GmbH is treated as distribution to shareholders, see note 17.

8. Property, Plant and Equipment

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Cost or valuation					
JANUARY 1, 2012	**45 380**	**279 973**	**332 117**	**28 319**	**685 789**
Additions	41	17 327	25 319	2 476	45 163
Disposals of subsidiaries	(82)	(3 065)	(4 004)	(262)	(7 413)
Disposals of assets	–	(913)	(3 179)	(4 581)	(8 673)
Reclassifications / Revaluation	(422)	(8 741)	1 224	6 677	(1 262)
Reclassification to held for sale	–	(8 996)	(875)	(740)	(10 611)
Foreign exchange differences	(171)	(4 749)	(4 590)	(538)	(10 048)
BALANCE AT DECEMBER 31, 2012 / JANUARY 1, 2013	**44 746**	**270 836**	**346 012**	**31 351**	**692 945**
Additions	–	2 958	19 135	2 473	24 566
Disposals of assets	(398)	(7 851)	(1 189)	(535)	(9 973)
Reclassifications	(8 435)	–	3 288	42	(5 105)
Foreign exchange differences	(316)	(3 717)	(5 096)	(535)	(9664)
BALANCE AT DECEMBER 31, 2013	**35 597**	**262 226**	**362 150**	**32 796**	**692 769**
Accumulated depreciation / impairment					
JANUARY 1, 2012	**253**	**44 954**	**162 783**	**19 125**	**227 115**
Additions	179	9 356	28 150	2 060	39 745
Impairments	164	3 036*)	107	–	3 307
Disposals of subsidiaries	(5)	(1 572)	(2 835)	(168)	(4 580)
Disposals of assets	–	(2)	(2 518)	(4 120)	(6 640)
Reclassifications	–	2 546	(11 305)	4 232	(4 527)
Reclassification to held for sale	(178)	(41)	(1 744)	(141)	(2 104)
Foreign exchange differences	11	(810)	(1 971)	(351)	(3 121)
BALANCE AT DECEMBER 31, 2012 / JANUARY 1, 2013	**424**	**57 467**	**170 667**	**20 637**	**249 195**
Additions	2	5 096	24 205	2 158	31 461
Impairments	–	–	2 879**)	–	2 879
Disposals of assets	(398)	(7 851)	(1 397)	(600)	(10 246)
Reclassifications	–	2 955	3 938	–	6 893
Foreign exchange differences	1	(128)	(1 594)	(333)	(2 054)
BALANCE AT DECEMBER 31, 2013	**29**	**57 539**	**198 698**	**21 862**	**278 128**

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Carrying amount					
At January 1, 2013	44 322	213 369	175 345	10 714	**443 750**
At December 31, 2013	35 568	204 687	163 452	10 934	**414 641**

*) Represents the impairment of a closed US plant.
**) Represents the impairment of a production line in the Netherlands.

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Spain and the Netherlands.

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

in CHF 1000.–	2013	2012
Land at historical cost	22 585	23 650
Land at historical depreciation	(29)	(424)
NET BOOK AMOUNT	**22 556**	**23 226**

Fair value of the land was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific land. The last external valuation for Spain was carried out in December 2013 by Tisa and for Netherlands in January 2013 by Van de Water. Both companies are accredited independent valuers. As significant unobservable valuation input the price per square meter in the Netherlands was EUR 85 and in Spain in a range between EUR 66 to 317 depending on the land condition.

9. Intangible Assets

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT JANUARY 1, 2012	**460 021**	**251 931**	**86 763**	**64 749**	**863 464**
Additions	–	1 200	–	2 731	3 931
Disposals of subsidiaries	–	(59)	–	(147)	(206)
Disposals of assets and businesses	–	–	–	(546)	(546)
Reclassifications	–	–	–	369	369
Reclassifications to held for sale	–	(12)	–	–	(12)
Foreign exchange differences	(951)	735	(1 169)	(869)	(2 254)
BALANCE AT DECEMBER 31, 2012 / JANUARY 1, 2013	**459 070**	**253 795**	**85 594**	**66 287**	**864 746**
Additions	–	20	–	3 707	3 727
Disposals of assets and businesses	–	(15 761)	–	(53)	(15 814)
Reclassifications	2 690	(3 278)	–	(3 498)	(4 086)
Reclassifications to held for sale*)	(5 052)	(5 913)	–	–	(10 965)
Foreign exchange differences	(4 590)	(3 912)	(1 571)	(914)	(10 987)
BALANCE AT DECEMBER 31, 2013	**452 118**	**224 951**	**84 023**	**65 529**	**826 621**

*) See note 2

In CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Accumulated amortization / impairment					
BALANCE AT JANUARY 1, 2012	**14 664**	**42 035**	**52 798**	**38 853**	**148 350**
Additions	–	7 399	9 979	4 696	22 074
Impairments	9 836	–	–	–	9 836
Disposals of subsidiaries	–	(61)	–	(56)	(117)
Disposals of assets and businesses	–	–	–	(280)	(280)
Reclassifications	–	395	–	(395)	–
Reclassifications to held for sale	–	(13)	–	–	(13)
Foreign exchange differences	(418)	94	(988)	(498)	(1 810)
BALANCE AT DECEMBER 31, 2012 / JANUARY 1, 2013	**24 082**	**49 849**	**61 789**	**42 320**	**178 040**
Additions	–	3 593	7 123	6 116	16 832
Impairments	24 002	9 599	–	–	33 601
Disposals of assets and businesses	–	–	–	(49)	(49)
Reclassifications	(2 029)	(1 599)	1 266	(1 734)	(4 096)
Reclassifications to held for sale*)	–	(2 811)	–	–	(2 811)
Foreign exchange differences	(1 686)	(869)	(1 222)	(727)	(4 504)
BALANCE AT DECEMBER 31, 2013	**44 369**	**57 762**	**68 956**	**45 926**	**217 013**
Carrying amount					
At January 1, 2013	434 988	203 946	23 805	23 967	**686 706**
At December 31, 2013	407 749	167 189	15 067	19 603	**609 608**

*) See note 2

Development costs of TCHF 1'396 (2012: 1'136) were capitalized in 2013.

Other intangibles

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

Impairment of Brands

Impairment of brands represents Cake Mate CHF 7.2 million (see accounting policies no. 8.b) and Adapta CHF 2.4 million. The impairment of Adapta is based on reduced expectations for certain export markets. The board revised its growth assumptions for these brands which led to an impairment. Any further negative change in the key assumptions taken in the impairment test would lead to an additional impairment.

Intangible assets with indefinite lives

The carrying amount of brands with indefinite useful lives is CHF 161 million in 2013 (CHF 186.4 million in 2012). Brands are deemed to have an indefinite life if the brand has sufficient history and there is no foreseeable limit to the period over which the brands are expected to generate net cash inflows.

Impairment tests for goodwill

Goodwill is allocated to the respective cash-generating units (CGUs), which primarily represent the legal entity. See accounting policies no. 8. Annual goodwill impairment tests are performed in December.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management and forecasts covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rates stated below. The growth rates generally correspond to the inflation rates plus general real gross domestic product (GDP) growth of the corresponding country. They are individually assessed and in case where management expects a significant deviation from general economic conditions they might be adjusted. Management determined budgeted growth rates based on past performance and its expectations for the market development. Where general industry forecasts do not reflect the growth expectations of management for specific businesses, the growth rates used depart from forecasts included in such industry reports in order to better reflect the specific growth potentials expected by management. The key assumptions used for the value-in-use calculations are disclosed in the accounting policies no. 8.a and no. 8.b.

Goodwill for Benelux Infant was impaired by CHF 22.2 million. Any further negative change of the assumptions taken would lead to an additional impairment. Goodwill for Turkey was impaired by CHF 1.8 million (2012: Vitrac CHF 9.8 million). Goodwill Turkey is part of the disposal group held for sale. See also accounting policies no. 8.a. For all other CGU's the recoverable amount exceeded the carrying amount and no reasonable possible change in any key assumptions would lead to an impairment.

10. Investments in Associates

Investments in associates

in CHF 1000.–	Hero WhiteWave	Other	Total
BALANCE AT JANUARY 1, 2012	**4 635**	**98**	**4 733**
Share of profit	43	–	43
Capital contributions	1 811	–	1 811
Disposal of subsidiary	(6 312)	–	(6 312)
Foreign exchange differences	(177)	(2)	(179)
BALANCE AT DECEMBER 31, 2012 / JANUARY 1, 2013	**–**	**96**	**96**
Reversal of value adjustments	–	56	56
Foreign exchange differences	–	1	1
BALANCE AT DECEMBER 31, 2013	**–**	**153**	**153**

The Group disposed of its investment in Hero WhiteWave as per December 18, 2012.

11. Segment Reporting

For management purposes, the Group is organized in business units based on their geographical areas, and has three reportable operating segments: Europe, North America and International.

The segment Europe produces and sells mainly consumer food products such as fruit, infant & nutrition and other consumer foods such as cereals.

The segment North America produces and sells mainly consumer food products such as infant and other consumer foods such as decoration.

The segment International produces and sells mainly consumer food products such as fruit and infant & nutrition and includes the region Middle East and Asia and countries such as Russia, Ukraine, Belarus and China.

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

The Group accounts for intersegmental sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Net working capital consists of trade and other receivables plus inventories less trade and other liabilities and accruals and provisions.

Capital employed is the sum of trade and other receivables, inventories, non-current assets held for sale, other long-term receivables, tangible and intangible assets less trade and other liabilities, accruals and provisions, liabilities held for sale, other long-term liabilities and long term provisions.

Year ended December 31, 2013

in CHF 1000.–	Europe	North America	International	Consolidation entries	Consolidated
Net sales					
External customer	1 001 062	288 277	144 564	–	1 433 903
Inter-segment [1]	13 417	102	2 936	(16 455)	–
TOTAL NET SALES	**1 014 479**	**288 397**	**147 500**	**(16 455)**	**1 433 903**
Results					
Depreciation and amortization	(30 492)	(14 069)	(3 732)	–	(48 293)
Share in result of associates	56	–	–	–	56
INCOME / (LOSS) BEFORE TAX	**59 324**	**(25 462)**	**36 543**	**–**	**70 405**
Impairment of assets	(27 555)	(7 150)	(1 775)	–	(36 480)
Net working capital	73 686	11 551	5 004	–	90 241
Capital employed	838 089	279 339	(80 962)	–	1 036 466
Capital expenditure (tangible)	14 009	8 505	2 052	–	24 566

in CHF 1000.–	Infant & Nutrition	Fruit	Other consumer foods	Consolidated
Net sales from external customers by products	665 841	401 835	366 227	1 433 903

[1] Inter-segment net sales are eliminated on consolidation.

Net sales from external customers in Switzerland amount to TCHF 95'909. Non-current assets excluding deferred tax assets and financial instruments located in Switzerland amount to TCHF 525'346.

Year ended December 31, 2012

in CHF 1000.–	Europe	North America	Inter-national	Consoli-dation entries	Consoli-dated
Net sales					
External customer	985 036	299 262	144 954	–	1 429 252
Inter-segment [1]	14 587	173	3 524	(18 284)	–
TOTAL NET SALES	**999 623**	**299 435**	**148 478**	**(18 284)**	**1 429 252**
Results					
Depreciation and amortization	(30 175)	(25 603)	(6 041)	–	(61 819)
Share in result of associates	–	43	–	–	43
INCOME / (LOSS) BEFORE TAX	**61 995**	**(74)**	**(18 740)**	**–**	**43 181**
Impairment of assets	(9 836)	(3 307)	–	–	(13 143)
Net working capital	67 596	1 901	12 223	–	81 720
Capital employed	895 054	286 854	(65 929)	–	1 115 979
Capital expenditure (tangible)	30 476	2 064	12 623	–	45 163

in CHF 1000.–	Infant & Nutrition	Fruit	Other consumer foods	Consoli-dated
Net sales from external customers by products	667 225	400 186	361 841	1 429 252

[1] Inter-segment net sales are eliminated on consolidation.

Net sales from external customers in Switzerland amount to TCHF 105'330. Non-current assets excluding deferred tax assets and financial instruments located in Switzerland amount to TCHF 549'381.

12. Non-current Receivables

in CHF 1000.–	Note	2013	2012
Reimbursement rights of Schwartauer Werke	19	3 954	4 086
Other non-current receivables	26	2 870	3 613
TOTAL NON-CURRENT RECEIVABLES		**6 824**	**7 699**

13. Development of Deferred Tax Assets and Liabilities

in CHF 1000.–	Deferred tax assets 2013	Deferred tax liabilities 2013	Deferred tax assets 2012	Deferred tax liabilities 2012
Assets				
Property, plant and equipment	14 881	51 651	2 630	42 282
Intangible assets	15 708	15 620	6 407	5 111
Financial assets	358	2 410	1 320	2 213
Trade receivables, prepayments and other receivables	6 894	–	3 060	130
Inventories	1 986	685	1 491	886
Liabilities				
Provisions	14 624	16 418	21 485	19 280
Trade and other payables	236	43	502	–
Financial liabilities	257	2 801	293	–
CAPITALIZED UNUSED TAX LOSSES AND TAX CREDITS	94 883	–	71 290	–
TOTAL DEFERRED TAXES	**149 827**	**89 628**	**108 478**	**69 902**

Unused Tax Losses not recognized

in CHF 1000.–	2013	2012
Items for which no deferred tax asset is recognized in balance sheet expire in:		
reporting year +1	205	1 351
reporting year +2	239	411
reporting year +3	202	478
reporting year +4	173	405
reporting year +5 and beyond	162	–
TOTAL UNUSED TAX LOSSES NOT RECOGNIZED	**981**	**2 645**

Net deferred tax assets / (liabilities)

in CHF 1000.–	2013	2012
BALANCE AT JANUARY 1	**38 576**	**34 425**
Deferred tax income	25 103	4 551
Deferred taxes directly recognized in equity	1 356	(922)
Foreign exchange differences	(4 836)	522
BALANCE AT DECEMBER 31	**60 199**	**38 576**

14. Inventories

in CHF 1000.–	2013	2012
Raw materials and supplies	67 888	77 784
Work-in-progress	11 503	12 364
Finished goods	93 692	103 825
TOTAL INVENTORIES	**173 083**	**193 973**
Write down of inventories	(11 708)	(712)
Inventory expensed in cost of sales	(910 529)	(916 944)

15. Trade Receivables, Prepayments and other Receivables

in CHF 1000.–	Note	2013	2012
Trade receivables from customers	26	181 320	163 397
Less: Allowance for bad and doubtful trade receivables		(4 884)	(4 326)
TRADE RECEIVABLES NET		**176 436**	**159 071**
Prepayments		3 739	9 107
Loans to third parties	26	6 047	11 896
Other receivables		25 188	26 993
TOTAL RECEIVABLES AND PREPAYMENTS		211 410	207 067

Allowance for bad and doubtful trade receivables

in CHF 1000.–	2013	2012
At January 1	(4 326)	(4 535)
Charge for the year	(1 056)	(577)
Amounts written off	108	122
Unused amounts reversed	199	611
Exchange rate differences	191	53
AT DECEMBER 31	**(4 884)**	**(4 326)**

Maturity of trade receivables

in CHF 1000.–	2013	2012
Neither past due nor impaired	124 735	78 765
< 30 days	16 370	36 857
30–60 days	17 014	22 100
60–90 days	12 930	15 509
90–120 days	1 422	1 118
> 120 days	8 849	9 048
TOTAL TRADE RECEIVABLES	181 320	163 397
Less: Allowance for bad and doubtful trade receivables	(4 884)	(4 326)
TOTAL TRADE RECEIVABLES NET	176 436	159 071

Loans to third parties in 2013 represent a loan to a distributor.

Loans to third parties in 2012 include a credit linked loan which serves as a default guarantee on a joint venture credit facility and does not bear interest. The instrument terminated on August 12, 2013.

16. Cash and Cash Equivalents

in CHF 1000.–		2013	2012
Cash at banks		177 518	227 407
Cash equivalents		400	16
CASH AND CASH EQUIVALENTS	26	177 918	227 423

Cash and cash equivalents at the end of the period include deposits with banks of CHF 7.5 million (2012: CHF 4.5 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.

Cash equivalents contain cash deposits in cash pools with other entities and cheques.

The weighted average effective interest rate on cash and cash equivalents in 2013 was 0.10% (2012: 0.12%).

17. Shares, Hybrid Capital and Other Reserves

a) Number of shares	2013	2012
Common stock	5 151 600	5 151 600
TOTAL SHARES AT DECEMBER 31	**5 151 600**	**5 151 600**

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.

b) Hybrid capital

in CHF 1000.–	2013	2012
Hybrid Capital Third Party	441 283	490 315
Hybrid Capital Shareholder	120 000	120 000
Tax effect	664	1 000
TOTAL HYBRID CAPITAL AT DECEMBER 31	**561 947**	**611 315**

Hybrid Capital Third Party

In 2010 Hero issued CHF 100 million Undated Fixed to Floating Rate Subordinated Bonds in addition to the CHF 400 million Undated Fixed to Floating Rate Subordinated Bonds issued in October 2009. Hero repurchased on May 27, 2013 a nominal amount of CHF 34.35 million and on June 12, 2013 a nominal amount of CHF 15.65 million. The bonds bear interest on their principal amount at a fixed rate of 6.5% p.a. from the payment date up to October 28, 2016, and thereafter at a floating interest rate. 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.

Hybrid Capital Shareholder

In 2012 Hero issued an undated Floating Rate Subordinated Note of CHF 70 million which was purchased by Schwartau International GmbH, Bad Schwartau. The terms and conditions of the note are such, that in accordance with IAS 32, the note qualifies for treatment as equity in the financial statements of the Group. Payments of the interest relating to the note are recorded as distribution on hybrid capital to shareholders. The note bears interest on its principal amount at a floating rate of the one-year CHF Libor plus 5.0% p.a.

In 2011 Hero issued an undated Floating Rate Subordinated Note of CHF 50 million which was purchased by Schwartau International GmbH, Bad Schwartau. The terms and conditions of the note are such, that in accordance with IAS 32, the note qualifies for treatment as equity in the financial statements of the Group. Payments of the interest relating to the note are recorded as distribution on hybrid capital to shareholders. The note bears interest on its principal amount at a floating rate of the one-year CHF Libor plus 5.0% p.a.

c) Other reserves

for the year ended December 31 in CHF 1000.–	Re-valuation reserve	Legal reserves	Fair value reserve	Pensions reserve	Equity loans translation reserve	Foreign currency translation reserve	Total
BALANCE AT JANUARY 1, 2012	**31 217**	**25 758**	**–**	**(10 988)**	**(2 465)**	**(114 408)**	**(70 886)**
Revaluation of land	(422)	–	–	–	–	–	(422)
Available-for-sale investments	–	–	15 259	–	–	–	15 259
Remeasurements	–	–	–	(6 817)	–	–	(6 817)
Tax effects	105	–	–	(1 046)	19	–	(922)
Foreign exchange differences	(571)	–	737	2 576	(39)	4 363	7 066
BALANCE AT DECEMBER 31, 2012/ JANUARY 1, 2013	**30 329**	**25 758**	**15 996**	**(16 275)**	**(2 485)**	**(110 045)**	**(56 722)**
Revaluation of land	(8 435)	–	–	–	–	–	(8 435)
Available-for-sale investments	–	–	87 668	–	–	–	87 668
Remeasurements	–	–	–	2 260	–	–	2 260
Tax effects	2 531	–	–	(1 037)	(138)	–	1 356
Foreign exchange differences	(205)	–	(3 687)	(24)	(104)	(10 091)	(14 111)
BALANCE AT DECEMBER 31, 2013	**24 220**	**25 758**	**99 977**	**(15 076)**	**(2 727)**	**(120 136)**	**12 016**

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.

Fair value reserve
Fair value reserve contains fair value adjustments of available-for-sale investments.

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

Equity loans translation reserve
The equity loans translation reserve is used to record exchange differences arising from the translation of equity loans.

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 subsidiaries.

18. Borrowings

in CHF 1000.–		2013	2012
Current			
Bank overdrafts		64 291	173 745
German Promissory Note		–	77 805
Loan liabilities third parties		249	232
Loan liabilities related and associated companies	27	13 476	18 107
Finance lease liabilities		3	19
TOTAL CURRENT BORROWINGS	26	78 019	269 908
Non-current			
Bank borrowings	26	133 297	192 668
Debentures	26	129 318	–
TOTAL NON-CURRENT BORROWINGS		262 615	192 668

Analysis of unsecured non-current borrowings 2013

in CHF 1000.–	2013
Expiring in	
2015	65 531
2016	15 000
2017	27 766
2018 and beyond	154 318
TOTAL NON-CURRENT BORROWINGS AT THE YEAR END 2013	262 615

Analysis of unsecured non-current borrowings 2012

in CHF 1000.–	2012
Expiring in	
2014	57 780
2015	66 592
2016	15 000
2017 and beyond	53 296
TOTAL NON-CURRENT BORROWINGS AT THE YEAR END 2012	192 668

The carrying amounts of non-current borrowings approximate their fair values.

German Promissory Note

Effective August 11, 2008 Hero, through its fully owned subsidiary Hero España SA raised EUR 115 million of additional funding by means of two German Promissory Notes with a maturity of 3 and 5 years and a fixed interest rate of 5.68% and 5.75% respectively. One note of EUR 50.5 million was repaid on August 11, 2011. The other note of EUR 64.5 million was repaid on August 11, 2013.

Covenants

Hero is engaged in different kind 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, 2013 and 2012 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2013 was 2.06% (2012: 4.2%). The interest rates for the majority of current bank overdrafts and loan liabilities were between 1.73% and 6% fixed interest rates. Non-current bank borrowings had fixed interest rates between 1.13% and 2.4%.

Debentures

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

19. Pensions and Other Post-Retirement 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, 2013 for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 85% (2012: 85%) of the Group's defined benefit obligations and 88% (2012: 88%) of the Group's plan assets.

Pension plans in Switzerland

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

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

The Swiss pension plan "Hero Pensionskasse" has the legal structure of a foundation. All actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries/wages, and the return on plan assets) and are regularly assessed by the Board of Trustees. In addition, an annual actuarial report is drawn up in accordance with the requirements of the BVG.

The report is not produced using the projected unit credit method, as required by IFRS. The definitive funded status according to the BVG is determined in the first quarter of the following year. According to estimates, the funded status at December 31, 2013, is 102.0% (2012: 96.4%, definitive). In addition, a report is prepared annually in accordance with IFRS requirements.

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

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 some of the benefits payable under the pension scheme. They are disclosed as an asset (see note 12). The book value of the reimbursement rights in 2013 is TCHF 3 954 (2012: TCHF 4 086) and the expected rate of return of the insurance policy in 2013 is 3.25% (in 2012 3.5%).

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 2014 are TCHF 2 252. The most significant multi-employer plan is Beech-Nut Bakery and Confectionery Union and Industry International Health Benefits and Pension Fund. It is funded by employer contributions made pursuant to collective bargaining agreements between employers and the Bakery, Confectionary, Tobacco Workers and Grain Millers International Union. The plan is funded on an hours worked basis. The rate is set based on the pension rules.

The plan rates are set by the Pension Board of Trustees. This Board consists of 6 employers and 6 union officials. Beech-Nut's share in the scheme is approximately 0.3% of the plan.

The scheme shows based on latest information a USD 4.9 billion deficit. Therefore the scheme is in a "work-out plan" – a federal requirement for funds less than 65% funded. The workout plan requires the fund to get above 65% funding within 10 years and it requires an actuarial certified plan. This work-out plan has triggered a reset of pension contributions for employers at the next renegotiation of the union contract.

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

in CHF 1000.–	2013	2012
Balance sheet obligations for:		
Defined pension benefits	63 492	69 172
LIABILITY IN THE BALANCE SHEET	**63 492**	**69 172**
Income statement charge included in operating profit for:		
Defined pension benefits	4 861	3 601
INCOME STATEMENT CHARGE	**4 861**	**3 601**
Remeasurements for:		
Defined pension benefits	(2 260)	6 817
OTHER COMPREHENSIVE INCOME	**(2 260)**	**6 817**

The amounts recognized in the balance sheet are determined as follows:

in CHF 1000.–	2013	2012
Switzerland		
Present value of funded obligations	90 959	95 698
(Fair value of plan assets)	(88 014)	(83 708)
Deficit of funded obligations	2 945	11 990
LIABILITY IN THE BALANCE SHEET	**2 945**	**11 990**
Germany		
Present value of funded obligations	45 106	43 312
LIABILITY IN THE BALANCE SHEET	**45 106**	**43 312**
Other		
Present value of funded obligations	13 109	13 951
(Fair value of plan assets)	(12 107)	(11 519)
Deficit of funded obligations	1 002	2 432
Present value of unfunded obligations	11 010	10 871
Total deficit of defined benefit pension plans	12 012	13 303
Impact of minimum funding requirement / asset ceiling	922	567
LIABILITY IN THE BALANCE SHEET	**12 934**	**13 870**
Total		
Present value of funded obligations	104 068	109 649
(Fair value of plan assets)	(100 121)	(95 227)
Deficit of funded obligations	3 947	14 422
Present value of unfunded obligations	56 116	54 183
Total deficit of defined benefit pension plans	60 063	68 605
Impact of minimum funding requirement / asset ceiling	3 429	567
LIABILITY IN THE BALANCE SHEET	**63 492**	**69 172**

The movement in the net defined benefit obligation over the year is as follows:

in CHF 1000.–	Present value of obligation	Fair value of plan assets	Total	Impact of minimum funding requirement/ asset ceiling	Total
AT JANUARY 1, 2012	**157 982**	**(92 912)**	**65 070**	**654**	**65 724**
Current service cost	2 038	–	2 038	–	2 038
Past service cost	(1 084)	–	(1 084)	–	(1 084)
Interest expense / (income)	5 265	(2 619)	2 646	–	2 646
	6 219	**(2 619)**	**3 600**	**–**	**3 600**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense / (income)	–	(4 341)	(4 341)	–	(4 341)
Loss from change in demographic assumptions	8 973	–	8 973	–	8 973
(Gain) / loss from change in financial assumptions	5 495	(223)	5 272	–	5 272
Experience gains	(2 986)	–	(2 986)	–	(2 986)
Change in asset ceiling, excluding amounts included in interest expense	–	–	–	(101)	(101)
	11 482	**(4 564)**	**6 918**	**(101)**	**6 817**
Contributions:					
Employers	–	(3 715)	(3 715)	–	(3 715)
Plan participants	1 448	(1 448)	–	–	–
Payments from plans:					
Benefit payments	(12 198)	9 320	(2 878)	–	(2 878)
Insurance premiums	(598)	598	–	–	–
Foreign exchange differences	(502)	114	(389)	13	(376)
AT DECEMBER 31, 2012 / JANUARY 1, 2013	**163 832**	**(95 226)**	**68 606**	**566**	**69 172**
Current service cost	2 579	–	2 579	–	2 579
Past service cost	–	–	–	–	–
Interest expense / (income)	4 362	(2 080)	2 282	–	2 282
	6 941	**(2 080)**	**4 861**	**–**	**4 861**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense / (income)	–	(451)	(451)	–	(451)
Gain from change in financial assumptions	(2 353)	–	(2 353)	–	(2 353)
Experience gains	(2 320)	–	(2 320)	–	(2 320)
Change in asset ceiling, excluding amounts included in interest expense	–	–	–	2 864	2 864
	(4 673)	**(451)**	**(5 125)**	**2 864**	**(2 260)**
Contributions:					
Employers	–	(6 105)	(6 105)	–	(6 105)
Plan participants	1 376	(1 376)	–	–	–
Payments from plans:					
Benefit payments	(7 667)	4 861	(2 806)	–	(2 806)
Insurance premiums	–	–	–	–	–
Foreign exchange differences	375	256	631	(1)	632
AT DECEMBER 31, 2013	**160 184**	**(100 121)**	**60 063**	**3 429**	**63 492**

One of the plans has a surplus that is not recognized on the basis that future economic benefits are not available to the entity in the form of a reduction in future contributions or a cash refund.

The significant actuarial assumptions were as follows:

	SWITZERLAND		GERMANY		OTHER	
in %	2013	2012	2013	2012	2013	2012
Discount rate	2.20	1.90	3.50	3.75	3.50–4.60	3.50–4.20
Salary growth rate	1.00	1.00	3.00	3.00	0.00–3.00	0.00
Pension growth rate	0.00	0.00	2.00	2.00	0.00–2.40	0.00–2.40

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	SWITZERLAND		GERMANY		OTHER	
in years	2013	2012	2013	2012	2013	2012
Retiring at the end of the reporting period:						
Male	21	21	19	19	19–23	21–23
Female	24	24	23	23	22–25	22–25
Retiring 20 years after the end of the reporting period:						
Male	23	23	22	21	21–24	19–24
Female	25	25	26	25	23–26	20–26

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact of defined benefit obligation					
in CHF 1000.–	Change in assumption	Increase in assumption			Decrease in assumption		
Discount rate	0.50%	Decrease by	8 749	5.5%	Increase by	9 660	6.0%
Salary growth rate	0.50%	Increase by	1 225	0.8%	Decrease by	1 113	0.7%
Pension growth rate	0.25%	Increase by	3 265	2.0%	Decrease by	(672)	(0.4%)

		Increase by 1 year in assumption			Decrease by 1 year in assumption		
Life expectancy		Increase by	4 459	2.8%	Decrease by	3 747	2.3%

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.

Plan assets are comprised as follows:

in CHF 1000.–	2013	in %	2012	in %
Equity instruments	28 432	28.4	27 817	29.2
Bonds	52 687	52.6	48 400	50.9
Property	15 387	15.4	14 509	15.2
Cash and cash equivalents	3 406	3.4	4 303	4.5
Other	209	0.2	197	0.2
TOTAL	**100 121**	**100.0**	**95 226**	**100.0**

The assets of the Swiss pension funds which represent 88% (2012: 88%) of the Group's plan assets are comprised of:

- 23% (2012: 23%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 55% (2012: 55%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 18% (2012: 17%) 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% (2012: 4%) Cash and cash equivalents with quoted prices in an active market (level 1 fair value classification).

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

Asset volatility

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

Changes in bond yields

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

Inflation risk

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

Life expectancy

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

Expected contributions to post-employment benefit plans for the year ending December 31, 2014 are TCHF 2'721.

The weighted average duration of the defined benefit obligations are:

SWITZERLAND		GERMANY		OTHER	
2013	2012	2013	2012	2013	2012
10 years	12 years	12 years	11 years	11–25 years	13–25 years

20. Non-current Provisions

in CHF 1000.–	Litigation	Social Benefits	Other	Total
Balance at January 1, 2013	51	4 443	5 434	9 928
Additional provisions	–	250	1 028	1 278
Utilized	–	(628)	(15)	(643)
Unused amounts reversed / reclassifications	–	(203)	(507)	(710)
Foreign exchange differences	(6)	69	6	69
BALANCE AT DECEMBER 31, 2013	**45**	**3 931**	**5 946**	**9 922**

Certain prior year comparatives have been reclassified to conform the current year's presentation, see accounting policies no. 5, comparatives.

Social Benefits

This position represents a provision for jubilee and early retirement payments.

For further narratives refer to note 23 (Current Provisions).

21. Other Non-current Liabilities

in CHF 1000.–	Note	2013	2012
Other liabilities	26	21 791	27 338
TOTAL OTHER NON-CURRENT LIABILITIES		**21 791**	**27 338**

Certain prior year comparatives have been reclassified to conform the current year's presentation, see accounting policies no. 5, comparatives.

Other non-current liabilities consist primarily of deferred government grant income and license fees.

22. Trade and Other Payables

in CHF 1000.–	Note	2013	2012
Trade payables	26	148 439	142 959
Amounts due to related and associated companies	26, 27	7 880	6 108
Social security		9 827	9 653
Accrued expense	26	79 219	94 795
Other payables		13 830	25 344
TOTAL TRADE AND OTHER PAYABLES		**259 195**	**278 859**

Certain prior year comparatives have been reclassified to conform the current year's presentation, see accounting policies no. 5, comparatives.

Other payables consist primarily of obligations arising from government grants and VAT.

23. Current Provisions

in CHF 1000.–	Litigation	Discounts	Restruc-turing	Other	Total
Balance at January 1, 2013	–	11 368	68	12 765	24 201
Additional provisions	78	8 185	268	12 723	21 254
Utilized	(1)	(8 161)	(54)	(11 147)	(19 363)
Unused amounts reversed / reclassifications	9	(1 201)	(9)	(808)	(2009)
Foreign exchange differences	(10)	175	(3)	31	193
BALANCE AT DECEMBER 31, 2013	**76**	**10 366**	**270**	**13 564**	**24 276**

Certain prior year comparatives have been reclassified to conform to the current year's presentation, see accounting policies no. 5, comparatives.

Litigation

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

Discounts

The amounts represent provisions for sales discounts and similar transactions.

Restructuring

The amount represents a provision for redundancy payments and other costs in the course of restructurings.

Other

Other provisions are set up for obligations which do not fall into one of the before mentioned group of provisions, including performance bonus accruals, untaken holidays and deferred wages.

24. Cash Generated from Operations

in CHF 1000.–	Note	2013	2012
Net income		**75 543**	**32 305**
Adjustments for:			
Tax (income) / expense	6	(5 138)	10 876
Depreciation / Impairment	8, 11	34 340	43 052
Amortization / Impairment	9, 11	50 433	31 910
Net gain on sale of property, plant and equipment and businesses		(8 062)	(30 128)
Fair value (gains) / losses, net		(26 028)	22 261
Interest income	3	(3 593)	(3 690)
Interest expense	3	14 822	22 140
Share in result of associates	10	(56)	(43)
Net loss in foreign exchange		9 986	1 055
Other non-cash expense		672	–
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)			
Inventories		17 137	36 588
Trade and other receivables		(13 162)	801
Trade and other payables		(5 595)	(8 519)
Provisions		(15 982)	3 401
CASH GENERATED FROM OPERATIONS		**125 317**	**162 009**

25. Business Combinations, Acquisition of Minority Interests and Disposals

There are no acquisitions and disposals in 2013.

Major Disposals in 2012

Effective February 29, 2012, the Group disposed of its 100% interest in Cap'Fruit SAS.

Effective August 30, 2012, the Group disposed of its 50% interest in Orient Link Holdings in exchange for a 6.5% share in Treasure Ally Limited.

Effective December 18, 2012, the Group disposed of its 50% interest in Hero WhiteWave.

Details of disposal consideration at fair value 2012

in CHF 1000.–	Cap'Fruit	Orient Link Holdings	Hero WhiteWave	Total
Net assets disposed	(4 623)	(78 545)*)	(6 269)	(89 437)
(Gain)/loss on disposal of subsidiaries and businesses, net	(3 826)**)	(25 211)**)	(43)***)	(29 080)
TOTAL DISPOSAL CONSIDERATION	**(8 449)**	**(103 756)**	**(6 312)**	**(118 517)**
Non cash consideration	–	103 756	–	103 756
Cash disposed with subsidiaries	606	6 528	–	7 134
CASH (INFLOW)/OUTFLOW ON DISPOSALS	**(7 843)**	**6 528**	**(6 312)**	**(7 627)**
Revenues contributed to the Group in 2012	2 540	607	–	3 147
Operating profit contributed to the Group in 2012	110	(10 615)	–	(10 505)
Revenues contributed to the Group in 2011	18 288	113	–	18 401

*) Includes goodwill of CHF 33.8 million.
**) Included in other income.
***) Included in result from associates.

26. 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:

in CHF 1000.–	Note	Carrying amount 2013	Carrying amount 2012	Fair value 2013	Fair value 2012
Financial assets at fair value through OCI					
Non-current					
Available-for-sale investments		166 708	115 742	166 708	115 742
Financial assets at fair value through profit or loss – held for trading					
Current					
Financial assets at fair value		2 341	1 819	2 341	1 819
Loans and receivables					
Non-current					
Non-current receivables	12	2 870	3 613	**)	**)
Current					
Trade receivables and other receivables	15	187 367	175 293	**)	**)
Cash and cash equivalents	16	177 918	227 423	**)	**)
Financial liabilities at fair value through profit or loss – held for trading					
Non-current					
Derivative financial liability		13 511	5 091	13 511	5 091
Current					
Derivative financial liabilities		1 188	1 146	1 188	1 146
Other financial liabilities					
Non-current					
Borrowings	18	133 297	192 668	133 153	192 374
Debentures	18	129 318	–	124 616	–
Other liabilities	21	21 791	27 388	*)	*)
Current					
Trade and other payables	22	235 538	243 862	**)	**)
Borrowings	18	78 019	269 908	**)	**)

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.

*) The fair values of other non-current liabilities approximate their fair values.

**) The fair values of cash and cash equivalents, trade receivables, prepayments, other receivables and current financial liabilities are approximate to their carrying amounts largely due to the short-term maturities of these instruments.

Derivative financial instruments

in CHF 1000.–

at December 31, 2013	Assets	Liabilities
Non-current		
Interest-Rate Swap	–	13 511
TOTAL NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**–**	**13 511**
Current		
Forward foreign exchange contracts	2 341	1 188
TOTAL CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**2 341**	**1 188**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS AT DECEMBER 31, 2013	**2 341**	**14 699**

at December 31, 2012	Assets	Liabilities
Non-current		
Interest-Rate Swap	–	5 091
TOTAL NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**–**	**5 091**
Current		
Forward foreign exchange contracts	1 819	1 146
TOTAL CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**1 819**	**1 146**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS AT DECEMBER 31, 2012	**1 819**	**6 237**

Interest-Rate Swap

The Group entered into a structured CHF Interest-Rate Swap linked to Deutsche Bank's Trends USD Index. Starting October 28, 2009 and ending at October 28, 2016 Hero receives in the first two years 6.5% and pays 5.5% interest p.a. on the underlying amount of CHF 500 million. From the 3rd year until the end of the instrument Hero receives 6.5% interest and pays interest in the range of 0% – 8% p.a. on the underlying amount of CHF 500 million depending on the performance of the underlying Deutsche Bank's Trends USD Index. This Interest-Rate Swap is fair valued every year using a Monte-Carlo-Simulation with the resulting profit or loss being recognized in the income statement. While applying this Monte-Carlo valuation technique the longest available historical data set of the underlying index has been used to determine parameters such as volatility and average performance of the index. The discount rate is based on a 7 year risk free interest rate. In 2013 a loss of CHF 16.3 million (2012: loss of CHF 27.6 million) has been recognized in the financial result.

Available-for-sale Investments

As per August 30, 2012 the Group sold its 50% interest in Orient Link Holdings for a consideration of a 6.5% share in the diluted share capital of Treasury Ally Limited. The fair value of the shares is based on a third party valuation as per October 31, 2012. The valuers adopted the Discounted Free Cash Flow method. The valuation contains unobservable inputs such as weighted average cost capital (WACC) (15.20%), long-term revenue growth (between 110% and 187%), EBIT margin (between 33% and 44%), discount of lack of marketability (20%) and discount for lack of control (10%). The valuation as per December 31, 2012 resulted in a fair value of CHF 115.7 million. The fair value gain of CHF 15.3 million was recorded in Other Comprehensive Income. Group management assessed the input parameters used and assumptions made in the external valuation for the period from November 1, 2012 to December 31, 2012. This assessment confirmed the valuation. The disposal of the shares also included a put option agreement for the Group, where the Group has the option under certain circumstances to sell its share in Treasure Ally to the former joint-venture partner of Orient Link Holdings. This option met the definition of an embedded derivative and its current value as per December 31, 2012 was zero. The put option is no longer in place.

The shares were quoted on September, 27 2013 at the Hong Kong stock exchange under the name China Huishan Dairy Holdings Co. Ltd. Hero reduced at IPO and subsequently its shareholding to 3.6%. The disposal of the shares resulted in cash proceeds of CHF 72.5 million and a book gain of CHF 41.9 million which is included in the financial result. This amount includes CHF 5.0 million which were reclassified from OCI to the income statement. Hero has a restriction to sell its remaining shares until March 27, 2014. The shares are valued at the quoted market price as per December 31, 2013. The valuation gain as per December 31, 2013 of CHF 84.0 million is included in availble-for-sale reserve in other-comprehensive-income.

Debentures

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

Forward Foreign Exchange Contracts

The notional amounts of the outstanding foreign exchange contracts include commitments to sell for a notional amount of CHF 79.6 million (2012: CHF 41.7 million) and commitments to buy for a notional amount of CHF 546.4 million (2012: CHF 431.6 million).

in CHF 1000.–	2013	2012
Contracts with positive fair values		
Forward foreign exchange contracts	79 609	41 908
Contracts with negative fair values		
Forward foreign exchange contracts	(546 438)	(431 195)

Derivative Liabilities Related Parties

See note 28 (Contingent Liabilities).

Fair Value Hierarchy

As at December 31, 2012, the Group held the following financial instruments measured at fair value:

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, 2013, there were no transfers between Level 1 and Level 2 fair value measurements. Huishan Dairy shares were transferred from level 3 fair value measurements to level 1 fair value measurements as the shares are quoted since September 27, 2013 on the Hong Kong stock exchange.

The transfer from level 3 to level 1 has occured at the date of the event that caused the transfer, i.e. at IPO.

Assets measured at fair value

at December 31, 2013 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Available-for-sale investments	166 708	–	–	166 708
Forward foreign exchange contracts	–	2 341	–	2 341

at December 31, 2012 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Available-for-sale investments	–	–	115 742	115 742
Forward foreign exchange contracts	–	1 819	–	1 819

Liabilities measured at fair value

at December 31, 2013 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Interest-Rate Swap	–	–	13 511	13 511
Forward foreign exchange contracts	–	1 188	–	1 188

at December 31, 2012 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Interest-Rate Swap	–	–	5 091	5 091
Forward foreign exchange contracts	–	1 146	–	1 146

Liabilities for which are fair values disclosed

at December 31, 2013 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Borrowings	–	133 153	–	133 153
Debentures	–	124 616	–	124 616

at December 31, 2012 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Borrowings	–	192 374		192 374
Debentures	–	–	–	–

27. Related and Associated Party Transactions

in CHF 1000.–	Note	2013	2012
Sales of Goods			
to associated companies		49 073	42 872
Purchases			
from associated companies		16 263	13 867
Other expense			
Administrative expenses to associated companies		(859)	–
Interest expense to AOH Nahrungsmittel Group		(119)	(302)
Receivables			
Trade receivables from associated companies		12 034	8 470
Payables			
Trade payables to AOH Nahrungsmittel Group	22	27	–
Trade payables to associated companies	22	4 630	3 879
Other short-term liabilities to AOH Nahrungsmittel Group	22	2 625	–
Other short-term liabilities to associated companies	22	598	2 229
Short-term loan liabilities to AOH Nahrungsmittel Group	18	13 476	18 107
Other long-term liabilities to associated companies		219	428
Raisig of hybrid capital shareholder		–	70 000
Distribution on hybrid capital to shareholder		(6 295)	(2 663)
Key management compensation			
Salaries and other short-term employee benefits		(6 924)	(5 939)
Termination benefits		–	(4 600)
Post-employment benefits		(568)	(616)

Key Management Compensation

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel, which reflects the Executive Board.

Transactions with associated companies are conducted on commercial terms and conditions and at market prices. Transactions with associated companies include exchange of goods and administration services.

28. Contingent Liabilities

in CHF 1000.–	2013	2012
Contingent liabilities in favor of third parties	5 188	5 253

Contingent liabilities are composed primarily of a third-party guarantee granted in connection with the relocation of the Lenzburg site and various bank and custom guarantees.

One element of the Lenzburg site guarantee is an amount of up to CHF 4.0 million, which could be payable in the event that contaminated material must be removed from the site.

29. Commitments

in CHF 1000.–	2013	2012
Commitments for the acquisition of tangible fixed assets	10 634	10 110
Commitments for raw materials	69 198	60 701
TOTAL CAPITAL COMMITMENTS	79 832	70 811

Commitments for operating lease are as follows:

in CHF 1000.–	2013	2012
Amount due within one year	9 366	7 050
Between one and five years	19 588	13 479
After five years	706	929
TOTAL OPERATING LEASE COMMITMENTS	29 660	21 458
TOTAL OPERATING LEASE EXPENSE RECOGNIZED IN THE INCOME STATEMENT	(7 699)	(7 475)

30. Events after the Balance Sheet Date

The Group entered into an agreement to acquire 100% of the non-controlling interests in Hero Gida, Turkey in March 2014. Final negotiations are ongoing. It is expected that the transaction value will cover the net book value of the assets to be disposed of. The completion of the transaction is subject to approval of Turkish competition authorities.

31. Principal Group Companies

Country	Name of company	Location	Share capital in thousands local currency		Equity interest in %	Consolidation method *)	Activity **)
China	Spring Harvest Ltd.	Hong Kong	HKD	1	100.0	F	H
Czech Republic	Hero Czech s.r.o.	Prague	CZK	200	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	237'412	100.0	F	S
	Schönauer IAV AG	Bad Schwartau	EUR	404	100.0	F	H
	Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau	EUR	57'500	100.0	F	P; S; R
Italy	Hero Italia SpA	Verona	EUR	3'616	100.0	F	S
Netherlands	Friso Nederland B.V.	Breda	EUR	18	100.0	F	S
	Hero Nederland B.V.	Breda	EUR	14'520	100.0	F	P; S
	Organix Nederland B.V.	Breda	EUR	18	100.0	F	S
	Koninklijke Maatschappij de Betuwe B.V.	Breda	EUR	1'010	100.0	F	H
Norway	Semper AS	Lysaker	NOK	933	100.0	F	S
Poland	Hero Polska Sp. z o.o.	Warsaw	PLN	15'204	100.0	F	S
Portugal	Hero Portugal Lda	Amadora	EUR	4'607	100.0	F	S
Russia	Hero Rus OOO	Moscow	RUB	10	100.0	F	S
Slovakia	Hero Slovakia s.r.o.	Nitra	EUR	7	100.0	F	S
Spain	Hero Espana SA	Alcantarilla	EUR	22'538	100.0	F	P; S; R
Sweden	Semper AB	Sundbyberg	SEK	45'000	100.0	F	P; S
	SP HoldCo AB	Sundbyberg	SEK	576	100.0	F	H
Switzerland	Hero AG	Lenzburg	CHF	51'516	100.0	F	H;P;S
	Hero Beteiligungen AG	Lenzburg	CHF	30'433	100.0	F	H
Turkey	Hero Gida San.ve Tic. AS	Istanbul	TRY	11'500	50.0	F	P; S
Ukraine	Hero UA LLC	Kiev	UAH	53	100.0	F	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 Inc.	Amsterdam, NY	USD	15'000	100.0	F	H
	Milnot Holding Corp.	Amsterdam, NY	USD	1	100.0	F	H
	Signature Brands LLC	Ocala	USD	–	100.0	F	P; S

* Consolidation: F = fully consolidated

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

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

Report of the Statutory Auditor

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Hero AG, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 14 to 71) for the year ended 31 December 2013.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standard (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

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

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

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd.

Philip Klopfenstein	André Schaub
Licensed audit expert (Auditor in charge)	Licensed audit expert

Zurich, 18 March 2014

Index to the Statutory Financial Statements of Hero AG

Income Statement

for the year ended December 31

Hero AG

in CHF 1000.–

	2013	2012
NET SALES	**131 923**	**157 283**
Material	(76 231)	(102 950)
Personnel	(31 320)	(33 435)
Depreciation	(32 288)	(11 633)
Production and distribution	(9 186)	(7 879)
Advertising and promotion	(11 380)	(11 832)
Sales and general administration	(13 658)	(13 236)
Total operating expenses	**(174 063)**	**(180 965)**
OPERATING LOSS	**(42 140)**	**(23 682)**
Financial income	64 739	67 671
Financial expense	(107 099)	(98 362)
Financial result	**(42 360)**	**(30 691)**
Participation income	31 190	32 394
Gains on fixed assets disposed	7 099	1 876
Other income	39 172	35 250
Total other income	**77 461**	**69 520**
Other expense	(6 202)	(29 520)
Total other expenses	(6 202)	**(29 520)**
LOSS BEFORE TAXES	**(13 241)**	**(14 373)**
Taxes	(4 297)	(4 511)
NET LOSS	(17 538)	(18 884)

Balance Sheet

as at December 31, before appropriation of profit

Hero AG

in CHF 1000.–

Assets	2013	2012
Cash	2	5
Banks	88 233	151 901
Liquid funds	**88 235**	**151 906**
Trade receivables	14 578	16 619
Receivables from subsidiaries	240 267	148 869
Other short-term receivables	7 101	2 533
Prepaid expenses	71	191
Receivables	**262 017**	**168 212**
Raw material and supplies	8 542	9 720
Work-in-progress and finished goods	1 558	1 581
Inventories	**10 100**	**11 301**
CURRENT ASSETS	**360 352**	**331 419**
Land	4 749	4 749
Buildings	27 309	28 164
Plant and machinery	10 878	11 831
Other equipment and vehicles	477	643
Tangible fixed assets	**43 413**	**45 387**
Financial investments	91	91
Long-term loans bank	–	11 396
Long-term loans to subsidiaries	411 306	400 816
Investments in subsidiaries	415 387	434 532
Intangible assets	52 758	80 455
Financial and intangible assets	**879 542**	**927 290**
FIXED ASSETS	**922 955**	**972 677**
TOTAL ASSETS	**1 283 307**	**1 304 096**

in CHF 1000.–

Liabilities and shareholders’ equity	2013	2012
Banks	35 532	243 812
Trade payables	10 755	9 878
Payables to subsidiaries	213 482	128 629
Other short-term liabilities	2 216	3 940
Other short-term liabilities to associates	2 625	–
Accruals	12 218	14 338
Short-term provisions	8 374	8 754
Current liabilities	**285 202**	**409 351**
Long-term bank liabilities	133 298	90 000
Long-term loans from subsidiaries	–	9 427
Other long-term liabilities	498	685
Long-term provisions	26 376	18 480
Debentures	579 318	500 000
Debentures to associates	120 000	120 000
Medium and long-term liabilities	**859 490**	**738 592**
TOTAL LIABILITIES	**1 144 692**	**1 147 943**
Share capital	51 516	51 516
Legal reserve	25 758	25 758
Retained earnings	61 341	78 879
SHAREHOLDERS’ EQUITY	**138 615**	**156 153**
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	**1 283 307**	**1 304 096**

Notes to the Statutory Accounts of Hero AG

1.
Guarantees amounting to CHF 135 million (2012: CHF 108 million) exist in favor of third parties.

2.
Hero AG is a party to certain legal actions arising in the ordinary course of its business. Provisions have been recorded for such litigation risks based on best estimates. Because judicial process for such cases is complex, management cannot estimate the amount of any additional losses which might be incurred in excess of the amounts provided. In the opinion of management, the ultimate outcome of these situations will not have a material impact on the financial position and results of operations.

3.
Hero AG has committed itself to compensate any current or future asset under-coverage in relation to the senior management pension scheme.

4.
The fire insurance value of tangible assets amounts to CHF 73.2 million (2012: CHF 77.1 million).

5.
There are no payables outstanding with the pension funds.

6.
The bond issued in 2010 of CHF 500 million has a coupon rate of 6.5% and is perpetual and subordinated. Hero AG bought CHF 50 million over the market. The terms and conditions of these bonds are such, that in accordance with IAS 32, the bonds qualify for treatment as equity in the financial statements of the Group.

7.
The note issued in 2011 and 2012 of CHF 120 millions have a coupon rate of annual Libor plus 5% and are perpetual and subordinated. The terms and conditions of these notes are such, that in accordance with IAS 32, the notes qualify for treatment as equity in the financial statements of the Group.

In accordance with the Swiss Code of Obligations all assets and liabilities to associated companies or shareholders have to be reported separately. At December 31, 2012 the CHF 120 million position was reported as debentures to third parties. This classification error was corrected retroactively.

8.
The bond issued in 2013 of CHF 130 million has a coupon rate of 1.25 % and matures June 26, 2020.

9.
An overview of the significant group companies can be found on page 71.

10.
As of December 31, 2013, Schwartau International GmbH, Bad Schwartau, Deutschland, holds 100% (2012:100%) of the share capital of Hero AG ranking for dividends.

11.
Net release of excess reserves:
During 2013 excess reserves amounting to CHF 0.0 million (2012:0.1 million) have been released.

12.
The company has implemented a risk management system. Management carries out an annual risk assessment to identify material risks including their probability of occurrence and impact on the group. The board of directors takes appropriate measures to avoid, mitigate or transfer these risks. Risks which are not mitigated are closely monitored by the group. The latest risk assessment by the board of directors was approved in September 2013. Management is entitled to take ad-hoc initiatives in order to ensure a timely response to changes in the risk environment.

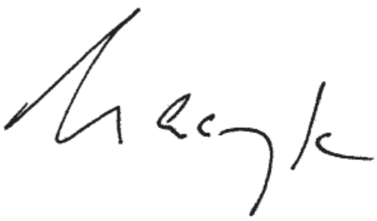
Proposal of the Board of Directors concerning the distribution of a Dividend

in CHF 1000.–	2013
Amount carried forward from last year	78 879
Net loss for the current year	(17 538)
TOTAL AVAILABLE FOR DISTRIBUTION	**61 341**

DIVIDEND

CHF 0.– on 5'151'600 registered shares of CHF 10.– par value	0
TOTAL DIVIDEND PAYMENT	**0**
BALANCE CARRIED FORWARD	**61 341**

In the name of the Board of Directors:
Chairman:
Dr. Hasso Kaempfe



Report of the Statutory Auditor of Hero AG

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Hero AG, which comprise the balance sheet, income statement and notes (pages 74 to 77), for the year ended 31 December 2013.

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 2013 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

Ernst & Young Ltd.

Philip Klopfenstein	André Schaub
Licensed audit expert (Auditor in charge)	Licensed audit expert

Zurich, 18 March 2014

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Hero Group Controlling

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3-Year Key Figures

in CHF 1000.–		2013	2012	2011
Consolidated results				
Net sales		1 433 903	1 429 252	1 431 100
Change to previous year	in %	0.3	(0.1)	(14.1)
Net income (equity holders)		77 600	37 739	4 380*)
Change to previous year	in %	105.6	761.6	(96.9)
Net cash flow from operating activities		87 284	124 789	(20 490)
Change to previous year	in %	30.1	709.0	(129.7)
Net debt		162 716	235 153	375 128
Change to previous year	in %	(30.8)	(37.3)	17.5
Consolidated balance sheet				
Non-current assets		1 347 761	1 362 471	1 344 792*)
Current assets		566 160	632 080	700 833
Current liabilities		366 071	577 610	597 848
Long-term liabilities		461 067	374 221	472 659*)
Total liabilities		827 577	951 831	1 070 507*)
Equity attributable to owners of the parent		1 092 906	1 038 270	952 357*)
Non-controlling interests		1 592	4 450	22 761
Balance sheet total		1 922 075	1 994 551	2 045 625*)
Miscellaneous data				
Capital expenditure (property, plant & equipment)		24 566	45 163	67 901
Consolidated depreciation		31 461	39 745	26 984
Headcount (Heads)	Number	3 774	3 956	4 144
Net sales per employee	in CHF	379 943	361 287	345 343

*) Restatement due to early adoption of IAS 19 revised.