Hero

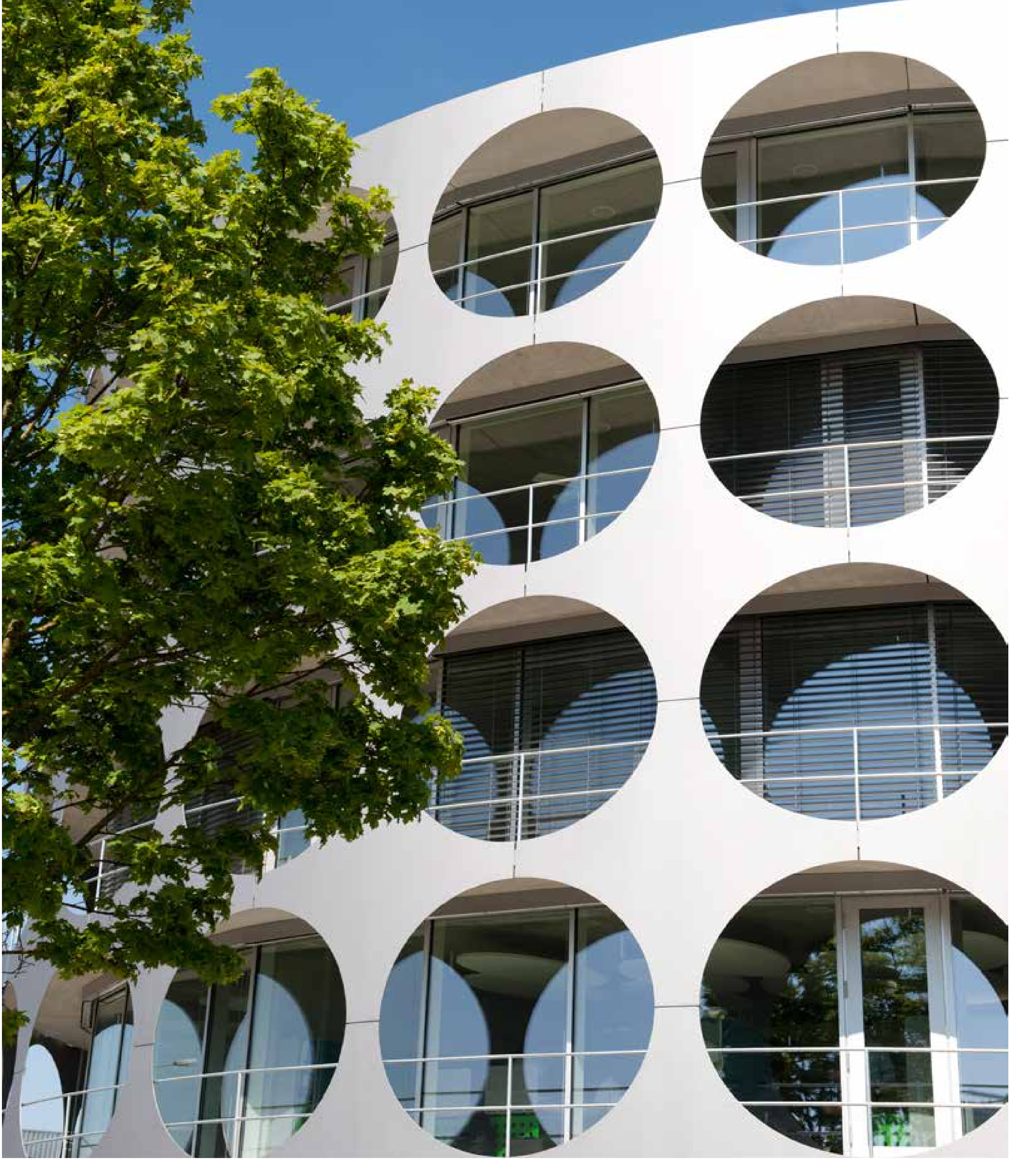
Annual Report 2014

3-Year Key Figures

in CHF 1000.–		2014	2013	2012
Consolidated results				
Net sales		1 343 423	1 401 939**)	1 429 252
Change to previous year	in %	(4.2)	(1.9)	(0.1)
Net income (equity holders)		112 375	75 498*)	37 739
Change to previous year	in %	48.8	100.1*)	761.6
Cash flow from operations		104 878	87 284	124 789
Change to previous year	in %	20.2	30.1	709.0
Net debt		125 457	162 716	235 153
Change to previous year	in %	(22.9)	(30.8)	(37.3)
Consolidated balance sheet				
Non-current assets		1 102 178	1 262 297*)	1 336 606*)
Current assets		571 566	566 160	632 080
Current liabilities		392 934	366 071	577 610
Long-term liabilities		369 471	402 736**)	374 221
Total liabilities		761 177	769 246**)	951 831
Equity attributable to equity holders of the parent		911 339	1 065 773*)	1 012 405*)
Non-controlling interests		–	1 592	4 450
Balance sheet total		1 673 744	1 836 611*)	1 968 686*)
Miscellaneous data				
Capital expenditure (property, plant & equipment)		20 424	24 566	45 163
Consolidated depreciation		37 229	31 461	39 745
Headcount (Heads)	Number	3 685	3 774	3 956
Net sales per employee	in CHF	364 565	371 473	361 287

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustements made, refer to accounting policies, no. 5.

**) Certain amounts shown here have been reclassified to conform to the current year's presentation.



Contents

BOARD OF DIRECTORS

DR. HASSO KAEMPFE, DR. HAGEN DUENBOSTEL, MICHAEL PIEPER, HERBERT J. SCHEIDT

EXECUTIVE BOARD

STEPHAN SCHOPP, RENÉ BÄNZIGER, ROB VERSLOOT, MARKUS LENKE

CEO Message

2014 has been a busy and exciting year for Hero, implementing our mission 'to delight consumers by conserving the goodness of nature' and moving our strategy forward.

Our net income increased by 54% in 2014 compared to the previous year, from CHF 73.4 million to CHF 112.9 million, despite a conservative approach driven by stricter risk management. The increased net income is complemented by the substantial reduction of our net debts, which decreased from CHF 163 million to CHF125 million in 2013 – this represents a reduction of nearly a half since 2012. Both the increase in net income and decrease in net debt are the result of our improved operational performance combined with positive one-time effects and strict cash management. The positive results came despite a slight decrease of 1% in organic growth with the market conditions in Europe and the USA remaining challenging. After a period of successful consolidation over the past few years, we now aim to increase our focus on growth.

Our mission to 'delight consumers by conserving the goodness of nature' guides our strategy and seeks to drive profitable growth in our lead categories of Jams, Baby and Toddler Food and Cereal Bars, supported by our businesses in gluten-free and decoration. Branding, portfolio, innovation, business development, emerging markets, supply chain and people are areas on which we are concentrating in order to bring our strategy alive.

We have made good strides forward in 2014 with the implementation of our strategy. The positioning and identity of our flagship Hero brand was renewed and harmonized and will be rolled out across our markets in 2015. We have strengthened our Group's brands and portfolios to better meet the increasing consumer demand for natural and healthy products. In the USA, an innovative, all-natural range of baby food was launched that has enabled us to grow our market share. Growth in emerging markets was accelerated through strong results in Turkey and Russia and the re-launch of Baby and Toddler Milks in the fast-growing Chinese market. The Cereal Bar segment posted a double digit growth performance on the back of strong innovations and business development. We will continue to increase our efforts further in these areas in line with our intention to accelerate our organic growth.

Last year saw the continued implementation of our unique 'United Local Hero' vision, which has seen increased synergies between our different subsidiaries and improved working processes. In 2014, we also took a hard look at the way the Group operates and created a new operating model. The implementation started in the autumn and will be fully realized during 2015. This new model will enable us to further improve coordination within the group and create more alignment in the important areas of branding, portfolio and innovation whilst at the same time ensuring stronger focus on distribution, business development and sales for our country organizations. We have created clusters within our European and export organizations with the objective of improving our operational efficiency and effectiveness in our routes to market. In line with our new operating model, we have changed the distribution of responsibilities within our Executive Board.

Change is one of our company values. That said, we don't take change lightly and we have asked all our employees to live up to this value during the past year. Thanks to their efforts, we have managed to improve results and take important steps towards a growing future. On behalf of the Executive Board, I would like to thank all our people wholeheartedly for their strong support and contributions in 2014.

Our Board of Directors, under the leadership of the Chairman, Dr. Hasso Kaempfe, and Vice-Chairman Herbert Scheidt, have provided strong support and guidance in 2014. I herewith would like to express my sincere appreciation for their important contribution to our improved results.

Last but not least, and on behalf of the entire Hero family, I would like very much to thank our shareholders for their trust and support. We are proud to be a family business and are very grateful to Dr. Arend Oetker and his family for giving us the opportunity to contribute to the further growth of the company.

Rob Versloot

Chief Executive Officer

Chairman's Message

I am delighted to present the Annual Report of the Hero Group for 2014.

After a period of strong growth mainly driven by various acquisitions, three years ago the Executive and the Supervisory Board jointly embarked on a different strategic direction for the Group, focusing on the three lead categories Jam, Baby and Toddler Food and Cereal bars supported by specialties which combine our decoration and gluten free activities. Consequently during the first phase of this process, we saw moderate sales growth rates in some European markets as well as in the US. In 2014, in particular the Nordic countries and many Eastern European markets outperformed this trend and contributed + 7.6% and +4.9% respectively. In addition and in line with a growing trend towards healthy snacking, our cereal bar category was able to achieve double digit growth rates, strongly supported by our growth in Eastern Europe and Germany.

Despite the rather flat top line development, we achieved again a very satisfactory level of net results, substantially up against our overall profitability before the strategic shift and supported by positive one time effects in Europe and China. The related improvement in cash flow combined with a rigorous cash management resulted in a substantial reduction in net debt so all covenants were comfortably met. In addition, the Group reduced its outstanding hybrid capital to improve overall net financing costs. Today the group stands on very solid financial grounds and is in a good position to actively develop and drive activities to support profitable growth.

As a result of a stricter risk management process, we took a more conservative approach on certain markets and assets which resulted in one-time adjustments of 36m CHF for 2014. In this regard the continuous level of net income is even more satisfactory and in line with the expectations we set ourselves for the current year and well on track to achieve our mid-term ambition and expectations of our shareholders.

Supported by the financial success and following our strategic vision, the group started in 2014 a process of developing a sustainable organizational model which will support profitable growth in our lead categories. Our category organization will be empowered to drive the innovation process in all lead categories and align our initiatives under the common Hero Group vision. They will support the international roll-out of winning concepts and further drive local branding strategies as well as a consistent application of the Hero masterbrand. In addition, we will implement cluster organizations to combine organizations that operate in comparable set-ups in terms of category mix or geographical closeness. As of 2015, three clusters have been implemented for Nordics, Central, and Southern Europe. Our US and Asian markets continue to be served by our existing entities in those regions as their product portfolios are too diverse and would not lead to relevant synergies.

In the future we will combine our export activities which have been operated independently in order to leverage existing organizations and drive a more aligned strategic business development in those markets and offer our customers a broader portfolio of the Group.

Our country organizations remain key to execute local as well as category driven initiatives and ensure our closeness to consumers and customers across our markets.

These changes also required a new definition of roles within the executive board. All categories will be under the responsibility of Rene Bänziger in his new role as Chief Marketing Officer (CMO). As such he will also oversee all innovation activities and ensure a consistent Hero branding across the Group. Markus Lenke has been appointed as Chief Operating Officer (COO). He will lead all cluster and country organizations as well as our export activities. Rob Versloot continues to act as Chief Executive Officer (CEO). Despite his strategic responsibilities, he also assumes responsibility for Group Supply chain and HR. Stephan Schopp continues to act as Chief Financial Officer (CFO) which includes next to his Finance function also M&A and IT.

The last years have truly been transformational for Hero. The Board of Directors as well as our family shareholders are truly thankful for the drive, passion and support we have experienced across employees on all levels of the organization to achieve this fundamental change. We are very pleased with the progress made in 2014 and together with the Executive Board, we are fully convinced that we will jointly achieve our ambitious objectives for the coming years as a powerful independent long-term oriented family owned company.

I invite you to review the information contained in this Annual Report on the development of Hero's business during 2014. 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)
Markus Lenke (COO)
René Bänziger (CMO)
Stephan Schopp (CFO)

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 practiced 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	2014	2013 Restated*)
NET SALES		**1 343 423**	**1 401 939****)
Cost of sales		(894 611)	(913 408)
Gross profit		**448 812**	**488 531**
Distribution expense		(73 002)	(77 349)
Advertising and promotion		(115 927)	(110 590)**)
Marketing and sales		(99 907)	(100 036)**)
Research and development		(11 855)	(12 059)
Administrative expense		(97 747)	(111 095)
Other income	1	16 815	15 503
Other expense	1	(2 207)	(26 282)
Operating profit		**64 982**	**66 623**
Finance income	3	68 081	48 971
Finance expense	3	(25 032)	(45 245)
Share in result of associated companies	10	–	56
Income before tax		**108 031**	**70 405**
Income tax income	6	4 834	3 036*)
INCOME FOR THE YEAR		**112 865**	**73 441**
Attributable to:			
Equity holders of the parent		112 375	75 498*)
Non-controlling interests		490	(2 057)
INCOME FOR THE YEAR		112 865	73 441

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer to accounting policies, no. 5.

**) Prior year comparatives have been reclassified to conform the current year's presentation.

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.–

	2014	2013 Restated*)
NET INCOME	**112 865**	**73 441**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(16 274)	(14 078)
Income tax effects	(124)	(138)
	(16 398)	(14 216)
Available-for-sale investments	(99 107)	87 668
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(115 505)**	**73 452**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	–	(8 435)
Income tax effects	–	2 531
	–	(5 904)
Remeasurements (losses)/gains on defined benefit plans	(17 277)	2 260
Income tax effects	2 254	(1 037)
	(15 023)	1 223
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**(15 023)**	**(4 681)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(130 528)**	**68 771**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(17 663)	142 212
Total comprehensive income attributable to:		
Equity holders of the parent	(18 095)	145 070
Non-controlling interests	432	(2 858)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(17 663)	142 212

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer to accounting policies, no. 5.

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	2014	2013 Restated*)	As at January 1, 2013 Restated*)
Non-current assets				
Property, plant and equipment	8	379 575	414 641	443 750
Intangible assets	9	599 572	609 608	686 706
Investments in associated companies and interest in joint ventures	10	152	153	96
Available-for-sale investments	24	–	166 708	115 742
Non-current receivables	12	8 384	6 824	7 699
Deferred tax assets	13	114 495	64 363	82 613
TOTAL NON-CURRENT ASSETS		**1 102 178**	**1 262 297**	**1 336 606**
Current assets				
Inventories	14	171 247	173 083	193 973
Financial assets at fair value	24	1 743	2 341	1 819
Income tax receivables		1 886	1 408	1 798
Trade receivables, prepayments and other receivables	15	205 938	211 410	207 067
Cash and cash equivalents	16	190 752	177 918	227 423
TOTAL CURRENT ASSETS		**571 566**	**566 160**	**632 080**
Assets held for sale	2	–	8 154	–
TOTAL ASSETS		**1 673 744**	**1 836 611**	**1 968 686**

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer to accounting policies, no. 5.

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

in CHF 1000.–

Equity and liabilities	Note	2014	2013 Restated*)	As at January 1, 2013 Restated*)
Shareholders' equity				
Share capital	17	61 516	51 516	51 516
Share premium	17	60 000	–	
Hybrid capital	17	403 088	561 947	611 315
Other reserves	17	(117 620)	12 850	(56 722)
Retained earnings		504 355	439 460	406 296
Equity attributable to the equity holders of the parent		**911 339**	**1 065 773**	**1 012 405**
Non-controlling interests		**–**	**1 592**	**4 450**
TOTAL EQUITY		**911 339**	**1 067 365**	**1 016 855**
Non-current liabilities				
Borrowings	18, 24	69 998	133 297	192 668
Debentures	18, 24	129 419	129 318	–
Derivative financial liabilities	24	12 609	13 511	5 091
Deferred tax liabilities	13	48 548	31 297	69 902
Net employee defined benefit liabilities	19	78 569	63 492	69 172
Income tax payables		113	108	122
Provisions	20	11 335	9 922	9 928
Other liabilities	21, 24	18 880	21 791	27 338
Total non-current liabilities		**369 471**	**402 736**	**374 221**
Current liabilities				
Trade and other payables	22, 24	255 495	268 844	278 859
Income tax payables		4 812	3 393	3 496
Derivative financial liabilities	24	1 869	1 188	1 146
Borrowings	18, 24	116 792	78 019	269 908
Provisions	20	13 966	14 627	24 201
Total current liabilities		**392 934**	**366 071**	**577 610**
Liabilities directly associated with assets held for sale	2	–	439	–
TOTAL LIABILITIES		**762 405**	**769 246**	**951 831**
TOTAL EQUITY AND LIABILITIES		1 673 744	1 836 611	1 968 686

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer to accounting policies, no. 5.

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)	Share premium (note 17)	Hybrid capital (note 17)	Other reserves (note 17)	Retained earnings		
BALANCE AT JANUARY 1, 2013	**51 516**	**–**	**611 315**	**(56 722)**	**432 161**	**4 450**	**1 042 720**
Adjustment on correction of error (accounting policies, no. 5)	–	–	–	–	(25 865)	–	(25 865)
BALANCE AT JANUARY 1, 2013 (restated*)	**51 516**	**–**	**611 315**	**(56 722)**	**406 296**	**4 450**	**1 016 855**
Net income/(loss) for the period	–	–	–	–	75 498	(2 057)	73 441
Other comprehensive income	–	–	–	69 572	–	(801)	68 771
Total comprehensive income	–	–	–	69 572	75 498	(2 858)	142 212
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 (restated*) / JANUARY 1, 2014	**51 516**	**–**	**561 947**	**12 850**	**439 460**	**1 592**	**1 067 365**
Net income for the period	–	–	–	–	112 375	490	112 865
Other comprehensive income	–	–	–	(130 470)	–	(58)	(130 528)
Total comprehensive income	–	–	–	(130 470)	112 375	432	(17 663)
Capital increase / (Redemption of hybrid capital shareholder)	10 000	60 000	(120 000)	–	–	–	(50 000)
Repayment of hybrid capital third parties	–	–	(38 597)	–	(5 359)	–	(43 956)
Distribution on hybrid capital shareholder	–	–	–	–	(7 222)		(7 222)
Distribution on hybrid capital third parties	–	–	–	–	(27 306)		(27 306)
Acquisition of non-controlling interests	–	–	–	–	(7 855)	(2 024)	(9 879)
Tax effects	–	–	(262)	–	262	–	–
BALANCE AT DECEMBER 31, 2014	**61 516**	**60 000**	**403 088**	**(117 620)**	**504 355**	**–**	**911 339**

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer to accounting policies, no. 5.

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	2014	2013 Restated*)
Cash flows from operating activities			
Net income		112 865	73 441
Adjustments for:			
Tax income	6	(4 834)	(3 036)
Depreciation / Impairment	8, 11	72 284	34 340
Amortization / Impairment	9, 11	14 889	50 433
Net gain on sale of property, plant and equipment and businesses		(1 340)	(8 062)
Fair value gains, net		(57 821)	(26 028)
Interest income	3	(1 093)	(3 593)
Interest expense	3	7 274	14 822
Share on result before tax of associates and joint-ventures		–	(56)
Net loss in foreign exchange		2 991	9 986
Other non-cash expense		–	672
Changes in working capital			
Inventories		3 852	17 137
Trade and other receivables		(2 076)	(13 162)
Trade and other payables		(11 368)	(5 595)
Accruals and provisions		(5 545)	(15 982)
Interest paid		(7 240)	(18 408)
Tax paid		(17 960)	(19 625)
NET CASH FROM OPERATING ACTIVITIES		**104 878**	**87 284**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(20 424)	(24 566)
Purchase of intangible assets	9	(3 881)	(3 727)
Purchase of financial assets		(8 166)	(7 919)
Loans made		(161)	–
Disposal of intangible assets		9 605**)	22 948
Disposal of financial assets	24	129 670	72 502
Proceeds from sale of property, plant and equipment		437	601
Loan repayments received		6 297	5 565
Interest received		1 093	3 593
NET CASH FROM INVESTING ACTIVITIES		**114 470**	**68 997**

	Note	2014	2013 Restated*)
Cash flows from financing activities			
Repayment of hybrid capital shareholder		(50 000)	–
Repayment of hybrid capital third parties		(43 956)	(56 913)
Proceeds from shareholder		30 068	–
Proceeds from borrowings		2 272	129 318
Repayment of borrowings		(55 119)	(251 483)
Distribution on hybrid capital shareholder		(7 222)	(6 295)
Distribution on hybrid capital third parties		(27 306)	(29 250)
Acquisition of non-controlling interests		(9 879)	–
NET CASH USED IN FINANCING ACTIVITIES		**(161 142)**	**(214 623)**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		58 206	(58 342)
Movement in cash and cash equivalents			
At start of year		177 918	227 423
Increase / (Decrease)		58 206	(58 342)
Effects of exchange rate changes on cash and cash equivalents		(45 372)	8 837
AT END OF YEAR	16	190 752	117 918

*) Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer to accounting policies, no. 5.

**) Includes TCHF 9'586, see note 2.

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

Non-cash transactions

The following significant non-cash transactions took place in 2014:

The total hybrid capital shareholder of nominal CHF 120 million was settled. CHF 50 million were repaid in cash and CHF 70 million were transformed into share capital and share premium.

Notes to the Consolidated Financial Statements

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 2014 the Group had 3'685 employees (2013: 3'774). 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 12, 2015, and are subject to approval by the annual general meeting of shareholders to be held on April 15, 2015.

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, 2014, 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

A number of smaller amendments to various standards including IAS 32, IAS 39 etc. became effective for annual periods beginning on January 1, 2014. None of these changes materially impacts the Group accounting policies or are not relevant.

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 following new and revised IFRSs are not yet mandatorily effective but allow early application for the year ending December 31, 2014. There are no plans to adopt any standard or amendment prior to the mandatory effective date. The impact of the new and revised IFRSs on the Group is still in the process of being analysed.

- IFRS 9 Financial instruments – Effective January 1, 2018, with early adoption allowed early application of the own credit risk improvements, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

- IFRS 15 Revenue from Contracts with Customers – Annual periods beginning on or after January 1, 2017. Earlier application permitted.
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – An entity shall apply those amendments prospectively in annual periods beginning on or after January 1, 2016.
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization – An entity shall apply those amendments prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted.
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Annual periods beginning on or after January 1, 2016, with earlier application being permitted.
- Annual Improvements 2012–2014 Cycle – Annual periods beginning on or after January 1, 2016, with earlier application being permitted.
- Amendments to IAS 1 Disclosure Initiative – Annual periods beginning on or after January 1, 2016, with early application permitted.
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Annual periods beginning on or after January 1, 2016, with early application permitted.

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 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 in note 29.

Eliminations in the Course of Consolidation

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

Related Parties

Include AOH Nahrungsmittel Group companies (Germany).

Changes in the Scope of Consolidation

The scope of consolidation has changed in the reporting period as follows:

Effective March 7, 2014, Hero acquired additional 50% in Hero Turkey and now holds 100%. Hero Turkey was already fully consolidated before (note 23).

Effective August 31, 2014, Hero liquidated its 100% investment in Hero Polska.

Effective May 28, 2014, Hero founded Hero (Shanghai) Trading Co. Ltd. which is fully consolidated.

Effective December, 2014, Hero started to operate its 100% investment in Autumn Harvest Ltd.

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:

	2014	2013
AVERAGE EXCHANGE RATES		
EUR/CHF	1.2150	1.2303
USD/CHF	0.9154	0.9256
GBP/CHF	1.5066	1.4505
SEK/CHF	0.1338	0.1422
CLOSING EXCHANGE RATES		
EUR/CHF	1.2027	1.2251
USD/CHF	0.9892	0.8883
GBP/CHF	1.5393	1.4666
SEK/CHF	0.1278	0.1383

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 Executive Board.

Research and Development Costs

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

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

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

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

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

Current Income Tax

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

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

Government Grants and Other Subsidies

Government grants are recognized only when the Group complies with the applicable conditions and if there is reasonable assurance that the grants will be received. Government grants are 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.

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 cash inflows (cash generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

Provisions

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

Pension Obligations

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

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

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

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

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

Past-service costs are recognized immediately 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.

Long Term Incentive Plan

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

Contingent Liabilities

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

Dividends

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

Share Capital

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

Hybrid Capital

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

Hybrid capital also represented two undated floating rate subordinated notes issued by Hero and sold to Schwartau International GmbH. These notes were partly transformed into Shareholders equity or paid back in 2014.

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.

Correction of an Error

In January 2015, the US companies conducted a detailed review of their deferred tax calculations and discovered that the historical tax records have been erroneously compiled. As a consequence, the net deferred tax asset was overstated. The majority of the error relates to the periods prior to 2013.

The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Impact on balance sheet items and decrease in equity

in CHF 1000.–	Deferred tax assets / Impact on equity
BALANCE AT JANUARY 1, 2013	(25 865)
Deferred tax expense 2013	(2 102)
Foreign exchange differences	834
BALANCE AT DECEMBER 31, 2013	(27 133)

Decrease in income for the year

in CHF 1000.–	December 31, 2013
Income tax income	(2 102)
INCOME FOR THE YEAR	(2 102)
Attributable to:	
Equity holders of the parent	(2 102)
Non controlling interests	–

The change did not have an impact on OCI for the period or the Group's operating, investing and financing cash flows.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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.

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.

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.

Accounting for Derivative Financial Instruments

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.

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.

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 2014 and 2013, no hedge accounting was applied.

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 50 as per December 31, 2014 (2013: TCHF 511).

Foreign Currency Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in the USD, GBP, SEK and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (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/EUR/GBP/SEK rate	Effect on profit be-fore tax in CHF 1000.–	Effect on equity in CHF 1000.–
2014	5%	222–	
	(5%)	(222)	–
2013	5%	4 732–	
	(5%)	(4 732)	–

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 exposed to changes in market interest rates. The Group sometimes borrows at variable and fixed rates and uses interest rate swaps, which have the economic effect of converting borrowings from floating rates to fixed rates. 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 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.–
2014	100	(884)
	(100)	1485
2013	100	(780)
	(100)	780

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, 2014	Carrying value	Within 1 year	1–2 years	2–3 years	3–4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	–	*(647)*	–	–	–	–	*(647)*
Forward contracts – cash outflow	–	*790*	–	–	–	–	*790*
Forward contracts – net	126	143	–	–	-	–	143
Trend Swap *)	12 609	7 919	7 919	–	–	–	15 838
Borrowings	186 790	120 981	16 432	30 748	482	25 484	194 127
Debentures	129 419	1 618	1 618	1 618	1 618	132 654	139 126
Other liabilities – non current	900	–	466	23	357	54	900
Trade and other payables	243 059	243 059	–	–	–	–	243 059

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

in CHF 1000.– at December 31, 2013	Carrying value	Within 1 year	1–2 years	2–3 years	3–4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	–	*(1 152)*	–	–	–	–	*(1 152)*
Forward contracts – cash outflow	–	*49*	–	–	–	–	*49*
Forward contracts – net**)	(1 153)	(1 103)	–	–	–	–	(1 103)
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**)	1 600	–	660	103	23	814	1 600
Trade and other payables**)	250 270	250 270	–	–	–	–	250 270

*) Future cash outflows assumed to correspond to current year's cash outflow
**) Prior year comparatives have been changed to conform to the current year's presentation

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 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).

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

December 31, 2014

CGU	Goodwill	Total in CHF million	Eternal growth	WACC pre-tax	Growth rates p.a. years 2015–2020	Profit margin between years 2015–2020	Impairment
Schwartauer Werke	Schwartauer Werke	177.5	1.7%	10.1%	between -0.1% and 3.1%	increasing by 0.5%*)	no
Semper/Eastern Europe Infant Business	Semper	95.2	2.0%	10.0%	between 2.0% and 8.8%	increasing by 1.3%*)	no
Signature Brands	Signature Brands	72.2	2.0%	11.8%	between 2.0% and 6.1%	increasing by 1.1%*)	no
Benelux Infant	Benelux Infant	19.4	1.4%	10.4%	between 0.4% and 5.4%	decreasing by -1.8%*)	no
Organix	Organix	30.3	2.0%	10.1%	between -3.5% and 19.6%	decreasing by -0.8%*)	no
Vitrac	Vitrac	6.8	12.0%	23.0%	between 9.4% and 12.6%	increasing by 0.7%*)	no
Other	Other	3.6					no
	TOTAL	**405.0**					

*) Over the total period 2015–2020

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	Impairment
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 2.0% 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 6.0% and 7.0%	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

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

December 31, 2014

CGU*)	Brands	Total in CHF million	Eternal growth	WACC pre-tax	Growth rates p.a. years 2015–2020	Im-pair-ment
Semper	Semper	53.0	2.0%	10.0%	between 2.0% and 7.1%	no
Signature Brands	Signature Brands	33.3	2.0%	11.8%	between 2.0% and 2.3%	no
Organix	Organix	25.7	2.0%	10.1%	between -7.1% and 18.3%	no
Schwartau	Schwartau	21.9	1.7%	10.1%	between 0.7% and 3.7%	no
Beech-Nut	Beech-Nut	17.6	2.0%	11.8%	between 2.0% and 11.3%	no
Other	Other	11.5	2.0%		between 1.1% and 6.5%	no
	TOTAL	163.0				

*) Where the majority of sales took place

December 31, 2013

CGU*)	Brands	Total in CHF million	Eternal growth	WACC pre-tax	Growth rates p.a. years 2014–2019	Im-pair-ment
Semper	Semper	56.9	2.0%	10.3%	between 0.1% and 4.7%	no
Signature Brands	Signature Brands	29.9	2.2%	12.2%	between −1.4% and 2%	yes
Organix	Organix	24.5	1.9%	10.9%	between 2% and 6.5%	no
Schwartau	Schwartau	22.4	1.9%	10.9%	between –8.2% and 5.7%	no
Beech-Nut	Beech-Nut	15.8	2.2%	12.0%	between 2.2% and 19.6%	no
Other	Other	11.6	2.0%		between 2.0% and 12.0%	no
	TOTAL	161.1				

*) Where the majority of sales took place

Management based its growth assumptions on internal forecasts and on external data such as the current inflation rate at December 31, 2014, 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 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 2014, neither goodwill nor indefinite life brand was impaired.

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 took 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.

In 2014, 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). 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) Valuation of financial instruments

As described in note 24, 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 24 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.

f) Provisions (Note 20)

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.

g) Pension benefits (Note 19)

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 2014 and 2013 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, 2014, and December 31, 2013.

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, 2014, and December 31, 2013, were as follows:

in CHF 1000.–	2014	2013*)
Total borrowings / debentures	316 209	340 634
Less: cash and cash equivalents	(190 752)	(177 918)
Net debt	125 457	162 716
Total Equity	911 339	1 067 365
Gearing ratio	14%	15%

*) Restated, see accounting policies, no. 5

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 held in September 2014. 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	2014	2013
Government grants	5	394	399
Insurance recovery		12 260	1 111
Litigation settlements		–	2 990
Reversal accruals		1 471	1 599
Asset disposal		1 340	7 905
Other		1 350	1 499
TOTAL OTHER INCOME		16 815	15 503
Restructuring		(2 123)	(2 280)
Goodwill impairments	9	–	(24 002)
Other		(84)	–
TOTAL OTHER EXPENSE		(2 207)	(26 282)

Insurance recovery in 2014 represents the settlement of the China insurance claim 2013.

In 2014, restructuring expenses mainly relate to reorganizational change in the scope of business in the country organizations of the US, Spain, Netherlands, Egypt and Group.

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.

2. Non-current Assets held for Sale

In 2013, 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. The assets were disposed of March 7, 2014, for a disposal consideration of TCHF 9'586.

Assets

in CHF 1000.–	Note	2014	2013
Brand	9	–	3 102
Goodwill	9	–	5 052
ASSETS CLASSIFIED AS HELD FOR SALE		–	8 154

Liabilities

in CHF 1000.–	2014	2013
Trade and other payables	–	439
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	–	439

3. Financing Income / Expense

in CHF 1000.–	2014	2013
Interest expense	(7 274)	(14 803)
Interest expense – finance leases	–	(19)
Net foreign exchange losses	(4 597)	(10 316)
Fair value losses on financial instruments held for trading	(11 364)	(19 349)
Other financial expense	(1 797)	(758)
TOTAL FINANCE EXPENSE	(25 032)	(45 245)
Interest income	1 093	3 593
Fair value gains on financial instruments held for trading	3 309	3 489
Gain on disposal of available-for-sale investments*)	63 587	41 889
Other financial income	92	–
TOTAL FINANCE INCOME	68 081	48 971

*) 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	2014	2013
Wages and salaries		(178 326)	(184 088)
Social security costs		(37 480)	(38 304)
Pension costs – defined contribution plans		(3 631)	(3 379)
Pension costs – defined benefit plans	19	(4 378)	(4 861)
TOTAL PERSONNEL EXPENSE		(223 815)	(230 632)

The Group employed 3'685 employees in 2014 (2013: 3'774).

Depreciation, amortization and impairments are included in the consolidated statements of income:

Year ended December 31, 2014		Property, plant and equipment		Intangible assets	
in CHF 1000.–	Note	Depreciation	Impairment	Amortization	Impairment
Cost of sales		(31 248)	(35 055)	(21)	–
Distribution expense		(842)	–	(177)	–
Marketing and sales		(266)	–	(5 310)	(862)
Research and development		(967)	–	(1 022)	–
Administration expense		(3 906)	–	(7 497)	–
TOTAL	8, 9	(37 229)	(35 055)	(14 027)	(862)

Year ended December 31, 2013 in CHF 1000.–	Note	Property, plant and equipment Depreciation	 Impairment	Intangible assets Amortization	 Impairment
Cost of sales		(26 845)	(2 879)	(30)	–
Distribution expense		(917)	–	(7)	–
Marketing and sales		(349)	–	(6 581)	(2 449)
Research and development		(956)	–	(1 130)	–
Administration expense		(2 394)		(9 084)	(7 150)
Other expense		–	–	–	(24 002)
TOTAL	8, 9	(31 461)	(2 879)	(16 832)	(33 601)

5. Government Grants deducted from Expense

in CHF 1000.–	2014	2013
Government grants for Beech-Nut Infant plant	1 768	2 862
Government grants for Signature Brands Popcorn plant	–	23
Netherlands workforce education grant	38	47
Export subsidies in Switzerland	87	9
Export subsidies in Egypt	964	–
Government grants for Schwartauer Werke Jam Factory	365	369
Other	29	30
TOTAL GOVERNMENT GRANTS	3 251	3 340

Government grants are deducted from the following type of expense:

in CHF 1000.–	Note	2014	2013
Government grants deducted from cost of sales		2 819	2 872
Government grants deducted from research and development		38	47
Government grants deducted from administrative expense		–	22
Government grants included in other income	1	394	399
TOTAL GOVERNMENT GRANTS		3 251	3 340

6. Income Tax

in CHF 1000.–	2014	2013*)
Current income tax expense	(19 501)	(18 839)
Deferred tax income	24 230	23 001
Tax income / (expense) relating to prior periods	106	(1 126)
TOTAL INCOME TAX INCOME	**4 834**	**3 036**

*) Restated, see accounting policies, no. 5

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.–	2014	2013
Income before taxes	108 031	70 405
Tax expense based on expected group tax rate	(21 018) 19.5%	(12 196) 17.3%
Impact of expense not entitled for deduction for tax purposes	(3 675)	(7 062)
Impact of non taxable income	23 041	16 523
Impact of taxes related to profits of other periods and other items	1 505	(1 126)
Utilization of previously unrecognized tax losses	(257)	147
Reassessment of recognized tax losses of prior periods	(1 554)	(2 273)
Impact of deferred taxes on hybrid coupon	7 246	8 012
Impact of difference between statutory and deferred tax rate	(357)	–
Impact of changes in the local tax rates	(97)	1 011
EFFECTIVE GROUP TAX INCOME	4 834	3 036

7. Dividend

At the Annual General Meeting in 2015, no dividend is to be proposed in respect of 2014 (2013: no dividend).

On March 12, 2015, the Board of Directors resolved to pay the annual coupon of 6.5% on the hybrid capital third parties of nominal CHF 410.6 million which is TCHF 26’692.

8. Property, Plant and Equipment

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Cost or valuation					
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)	(9 664)
BALANCE AT DECEMBER 31, 2013 / JANUARY 1, 2014	35 597	262 226	362 150	32 796	692 769
Additions	–	1 427	16 445	2 552	20 424
Disposals of assets	–	–	(1 219)	(282)	(1 501)
Reclassifications	–	(5 053)	(13 833)	(2 382)	(21 268)
Foreign exchange differences	9	12 529	9 162	657	22 357
BALANCE AT DECEMBER 31, 2014	35 606	271 129	372 705	33 341	712 781

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Accumulated depreciation					
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 / JANUARY 1, 2014	**29**	**57 539**	**198 698**	**21 862**	**278 128**
Additions	2	8 105	25 007	4 115	37 229
Impairments	–	7 226*)	27 829*)	–	35 055
Disposals of assets	–	–	(839)	(268)	(1 107)
Reclassifications	(27)	(5 086)	(12 644)	(3 511)	(21 268)
Foreign exchange differences	1	1 022	3 723	423	5 169
BALANCE AT DECEMBER 31, 2014	**5**	**68 806**	**241 774**	**22 621**	**333 206**
Carrying amount					
At January 1, 2014	35 568	204 687	163 452	10 934	**414 641**
At December 31, 2014	35 601	202 323	130 931	10 720	**379 575**

*) Represents the impairment of buildings and/or production lines in the Netherlands and Beech Nut, USA.
The recoverable amount for Beech Nut of CHF 158.5 million was based on value in use and was determined at the level of the CGU.
The recoverable amount for Netherlands is based on the fair value less cost to sell of the individual assets.

**) 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.–	2014	2013
Land at historical cost	22 832	22 585
Land at historical depreciation	(5)	(29)
NET BOOK AMOUNT	**22 827**	**22 556**

Fair value of the land was determined by using market comparable method. This means that valuations performed by the appraiser are based on active market prices, 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 2015, 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. In the fair value measurement hierarchy of the Group land is classified as level 3 instrument using significant unobservable inputs.

9. Intangible Assets

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT 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 / JANUARY 1, 2014	452 118	224 951	84 023	65 529	826 621
Additions	–	–	–	3 881	3 881
Disposals of assets	–	–	–	(51)	(51)
Reclassifications	(1 109)	(20)	–	20	(1 109)
Foreign exchange differences	(1 070)	2 717	5 688	2 971	10 306
BALANCE AT DECEMBER 31, 2014	449 939	227 648	89 711	72 350	839 648

*) See note 2

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Accumulated amortization					
BALANCE AT 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 / JANUARY 1, 2014	44 369	57 762	68 956	45 926	217 013
Additions	–	1 828	6 037	6 162	14 027
Impairments	–	862	–	–	862
Disposals of assets	–	–	–	(32)	(32)
Reclassifications	(1 109)	–	–	–	(1 109)
Foreign exchange differences	1 591	733	4 591	2 400	9 315
BALANCE AT DECEMBER 31, 2014	44 851	61 185	79 584	54 456	240 076
Carrying amount					
At January 1, 2014	407 749	167 189	15 067	19 603	609 608
At December 31, 2014	405 088	166 463	10 127	17 894	599 572

*) See note 2

Development costs of TCHF 1'511 (2013: 1'396) were capitalized in 2014.

Other intangibles

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

Impairment of Brands

Impairment of brands in 2014, represents Adapta. The brand has been fully impaired as the board has decided to discontinue business under this brand.
Impairment of brands in 2013, represents Cake Mate CHF 7.2 million (see accounting policies no. 8.b) and Adapta CHF 2.4 million. The board revised its growth assumption for these brands which led to an impairment.

Intangible assets with indefinite lives

The carrying amount of brands with indefinite useful lives is CHF 163 million in 2014 (CHF 161 million in 2013).

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. In 2014, the recoverable amount exceeded the carrying amount for all CGU's. In 2013, goodwill for Benelux Infant was impaired by CHF 22.2 million and goodwill for Turkey by CHF 1.8 million.

in %	Eurozone	Middle East	US	Nordic	Other
Growth rate [1]	1.4 – 2.0	12.0	2.0	2.0	2.0
Discount rate [2]	10.1 – 10.4	23.0	11.8	10.0	8.7

1) Growth rate used to extrapolate cash flows beyond the budget
2) Pre-tax discount rate applied to cash flow projections

These assumptions have been used for the analysis of each CGU. The discount rates used are pre-tax and reflect specific risks relating to the relevant country.

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

10. Investments in Associates

Investments in associated companies

in CHF 1000.–	Other	Total
BALANCE AT JANUARY 1, 2013	96	96
Reversal of value adjustments	56	56
Foreign exchange differences	1	1
BALANCE AT DECEMBER 31, 2013 / JANUARY 1, 2014	153	153
Foreign exchange differences	(1)	(1)
BALANCE AT DECEMBER 31, 2014	152	152

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.

Year ended December 31, 2014

in CHF 1000.–	Europe	North America	International	Consolidation entries	Consolidated
Net sales					
External customer	942 881	269 718	130 824	–	1 343 423
Inter-segment [1]	11 800	–	1 121	(12 921)	–
TOTAL NET SALES	954 681	269 718	131 945	(12 921)	1 343 423
Results					
Depreciation and amortization	(29 850)	(18 014)	(3 392)	–	(51 256)
INCOME / (LOSS) INCOME BEFORE TAX	90 068	(48 783)	66 746	–	108 031
Impairment of assets	(11 791)	(24 126)	–	–	(35 917)
Net working capital	45 019	42 350	17 427	–	104 796
Capital employed	589 398	349 428	44 323	–	983 149
Capital expenditure (tangible)	(13 312)	(4 880)	(2 232)	–	(20 424)

1) Inter-segment net sales are eliminated on consolidation.

in CHF 1000.–	Infant & Nutrition	Fruit	Other consumer foods	Consoli-dated
Net sales from external customers by products	629 835	351 932	361 656	1 343 423

Net sales from external customers in Switzerland amount to TCHF 100'492. Non-current assets excluding deferred tax assets and financial instruments located in Switzerland amount to TCHF 508'134.

Year ended December 31, 2013

in CHF 1000.–	Europe	North America	Inter-national	Consoli-dation entries	Consoli-dated
Net sales					
External customer	969 098	288 277	144 564	–	1 401 939*)
Inter-segment 1)	13 417	102	2 936	(16 455)	–
TOTAL NET SALES	**982 515**	**288 397**	**147 500**	**(16 455)**	**1 401 939*)**
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	Consoli-dated
Net sales from external customers by products	664 594	378 848	358 497	1 401 939*)

1) Inter-segment net sales are eliminated on consolidation.

*) Prior year comparatives have been reclassified to conform to the current year's presentation.

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.

12. Non-current Receivables

in CHF 1000.–	Note	2014	2013
Reimbursement rights of Schwartauer Werke	19	3 545	3 954
Loans to third parties	24	174	–
Prepaid customer incentives		4 545	2 870
Other non-current receivables	24	120	–
TOTAL NON-CURRENT RECEIVABLES		8 384	6 824

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

13. Development of Deferred Tax Assets and Liabilities

in CHF 1000.–	Deferred tax assets 2014	Deferred tax liabilities 2014	Deferred tax assets 2013 *)	Deferred tax liabilities 2013 *)
Assets				
Property, plant and equipment	103	44 646	1 548	44 493
Intangible assets	5 567	26 406	6 166	29 312
Financial assets	149	1 748	349	2 410
Trade receivables, prepayments and other receivables	6 594	–	6 903	–
Inventories	2 050	453	1 947	645
Liabilities				
Net employee defined benefit liabilities	3 398	–	1 232	2 256
Provisions	6 743	14 433	14 674	17 639
Trade and other payables	4 368	–	193	–
Financial liabilities	25 981	–	11 299	26
CAPITALIZED UNUSED TAX LOSSES AND TAX CREDITS	98 680	–	85 536	–
TOTAL DEFERRED TAXES	153 633	87 686	129 847	96 781
DEFERRED TAXES, NET	65 947	–	33 066	–

*) Restated, see accounting policies, no. 5

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2014	2013
Deferred tax assets	114 495	64 363
Deferred tax liabilities	48 548	31 297
DEFERRED TAX ASSETS, NET	65 947	33 066

Unused Tax Losses not recognized

in CHF 1000.–	2014	2013
Items for which no deferred tax asset is recognized in balance sheet expire in:		
reporting year +1	–	205
reporting year +2	–	239
reporting year +3	–	202
reporting year +4	–	173
reporting year +5 and beyond	–	162
TOTAL UNUSED TAX LOSSES NOT RECOGNIZED	–	981

Net deferred tax assets/(liabilities)

in CHF 1000.–	2014	2013
Balance at January 1	**33 066**	**12 711**
Deferred tax income / (expense)	24 230	23 001
Deferred taxes directly recognized in OCI	2 130	1 356
Foreign exchange differences	6 521	(4 002)
BALANCE AT DECEMBER 31	65 947	33 066

At 31 December 2014, there was no recognised deferred tax liability (2013: 0) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

The temporary differences associated with unremitted retained earnings for which a deferred tax liability has not been recognised, aggregate to CHF 57.9 million (2013: CHF 49.9 million).

14. Inventories

in CHF 1000.–	2014	2013
Raw materials and supplies	63 108	67 888
Work-in-progress	11 167	11 503
Finished goods	96 972	93 692
TOTAL INVENTORIES	171 247	173 083
Write down of inventories	(6 508)	(11 708)
Inventory expensed in cost of sales	(859 556)	(910 529)

15. Trade Receivables, Prepayments and Other Receivables

in CHF 1000.–	Note	2014	2013
Trade receivables from customers	24	182 893	181 320
Less: Allowance for bad and doubtful trade receivables		(4 316)	(4 884)
TRADE RECEIVABLES NET		**178 577**	**176 436**
Prepayments		5 594	3 739
Loans to third parties	24	–	6 047
VAT		8 824	5 878
Other receivables		12 943	19 310
TOTAL RECEIVABLES AND PREPAYMENTS		**205 938**	**211 410**

Allowance for bad and doubtful trade receivables

in CHF 1000.–	2014	2013
At January 1	(4 884)	(4 326)
Charge for the year	(702)	(1 056)
Amounts written off	787	108
Unused amounts reversed	124	199
Exchange rate differences	359	191
AT DECEMBER 31	(4 316)	(4 884)

Maturity of trade receivables

in CHF 1000.–	2014	2013
Not past due	153 847	124 735
< 30 days	10 792	16 370
30–60 days	9 969	17 014
60–90 days	1 483	12 930
90–120 days	924	1 422
> 120 days	5 878	8 849
TOTAL TRADE RECEIVABLES	182 893	181 320
Less: Allowance for bad and doubtful trade receivables	(4 316)	(4 884)
TOTAL TRADE RECEIVABLES NET	178 577	176 436

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

Other receivables consist primarily of balances resulting from government subsidies, deposits paid, refundable taxes and duties paid for exports.

16. Cash and Cash Equivalents

in CHF 1000.–	Note	2014	2013
Cash at banks		190 274	177 518
Cash equivalents		478	400
CASH AND CASH EQUIVALENTS	24	190 752	177 918

Cash and cash equivalents at the end of the period include deposits with banks of CHF 17.7 million (2013: CHF 7.5 million) held by some subsidiaries which are not freely remissible to the holding company because those deposits are used to secure bank facilities and guarantees.

Cash equivalents contain cheques.

The weighted average effective interest rate on cash and cash equivalents in 2014, was 0.11% (2013: 0.10%).

17. Shares, Share Premium, Hybrid Capital and Other Reserves

a) Number of shares	2014	2013
Common stock	6 151 600	5 151 600
TOTAL SHARES AT DECEMBER 31	6 151 600	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) Share premium

in CHF 1000.–	2014	2013
Share premium	60 000	–
TOTAL SHARES AT DECEMBER 31	60 000	–

Excess cash received for the issuance of 1 million shares with a par value of CHF 10 per share.

c) Hybrid capital

in CHF 1000.–	2014	2013
Hybrid capital third parties	402 686	441 283
Hybrid capital shareholder	–	120 000
Tax effect	402	664
TOTAL HYBRID CAPITAL AT DECEMBER 31	403 088	561 947

Hybrid Capital Third Parties

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 in 2013 a total nominal amount of CHF 50 million and during 2014 a total nominal amount of CHF 39.4 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 2014, Hero settled the undated Floating Rate Subordinated Notes of total CHF 120 million. CHF 50 million were paid back and CHF 70 million were transformed into shareholders equity out of which CHF 10 million into share capital and CHF 60 million into share premium.

In 2011 and 2012, Hero issued an undated Floating Rate Subordinated Note of CHF 120 million in total which was purchased by Schwartau International GmbH, Bad Schwartau. The terms and conditions of the notes are such, that in accordance with IAS 32, the notes qualifies for treatment as equity in the financial statements of the Group. Payments of the interest relating to the notes are recorded as distribution on hybrid capital to shareholders. The notes bears interest on its principal amount at a floating rate of the one-year CHF Libor plus 5.0% p.a.

d) 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, 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)	(9 257)	(13 277)
BALANCE AT DECEMBER 31, 2013 / JANUARY 1, 2014	24 220	25 758	99 977	(15 076)	(2 727)	(119 302)	12 850
Available-for-sale investments	–	–	(99 107)	–	–	–	(99 107)
Remeasurements	–	–	–	(17 277)	–	–	(17 277)
Tax effects	–	–	–	2 254	(124)	–	2 130
Foreign exchange differences	1 546	–	(870)	(21)	239	(17 110)	(16 216)
BALANCE AT DECEMBER 31, 2014	25 766	25 758	–	(30 120)	(2 612)	(136 412)	(117 620)

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 operations.

18. Borrowings

in CHF 1000.–		2014	2013
Current			
Bank borrowings and overdrafts		73 240	64 291
Loan liabilities third parties		255	249
Loan liabilities related and associated companies	25	43 297	13 476
Finance lease liabilities		–	3
TOTAL CURRENT BORROWINGS	24	116 792	78 019
Non-current			
Bank borrowings	24	69 998	133 297
Debentures	24	129 419	129 318
TOTAL NON-CURRENT BORROWINGS		199 417	262 615

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, 2014, and December 31, 2013, no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2014 was 1.86% (2013: 2.06%).

The interest rates for the majority of current bank overdrafts and loan liabilities were between 1.16% and 5% fixed interest rates. Non-current borrowings had fixed interest rates between 1.14% and 1.96%.

Debentures

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

19. Defined Benefit Obligations

Depending on the legal, economic and fiscal circumstances in each country, different retirement benefit systems are provided for the employees of the Group. As a rule, these systems are based on length of service and salary of the employees. Pension obligations in the Group relate to both defined benefit and defined contribution plans. Defined benefit plans are funded and unfunded. Most Group companies sponsor defined benefit pension schemes which are funded by payments to separate trustee-administered funds. The obligations of German companies are unfunded. The latest actuarial valuations under IAS 19 were carried out as at December 31, 2014, for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 84% (2013: 85%) of the Group's defined benefit obligations and 86% (2013: 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, 2014, is 106% (2013: 103%, 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 2014 is TCHF 3'545 (2013: TCHF 3'954).

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 2015, are TCHF 2'630. 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 (2013: 0.3%).

The scheme shows based on latest information a USD 4.8 billion deficit (2013: USD 4.9 billion deficit). Therefore the scheme is in a "workout plan" – a federal requirement for funds less than 65% funded. The work-out plan requires the fund to get above 65% funding within 10 years and it requires an actuarial certified plan. This work-out plan has triggered a reset of pension contributions for employers at the next renegotiation of the union contract.

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

Post-employment amounts in the financial statements:

in CHF 1000.–	2014	2013
Balance sheet obligations for:		
Defined pension benefits	78 569	63 492
LIABILITY IN THE BALANCE SHEET	78 569	63 492
Income statement charge included in operating profit for:		
Defined pension benefits	4 378	4 861
INCOME STATEMENT CHARGE	4 378	4 861
Remeasurements for:		
Defined pension benefits losses / (gains)	17 277	(2 260)
OTHER COMPREHENSIVE INCOME	17 277	(2 260)

Amounts recognized in the balance sheet:

in CHF 1000.–	2014	2013
Switzerland		
Present value of funded obligations	101 790	90 959
(Fair value of plan assets)	(90 044)	(88 014)
Deficit of funded obligations	11 764	2 945
Impact of minimum funding requirement/asset ceiling	1 880	2 507
LIABILITY IN THE BALANCE SHEET	13 626	5 452
Germany		
Present value of unfunded obligations	48 844	45 106
LIABILITY IN THE BALANCE SHEET	48 844	45 106
Other		
Present value of funded obligations	17 372	13 109
(Fair value of plan assets)	(14 068)	(12 107)
Deficit of funded obligations	3 304	1 002
Present value of unfunded obligations	11 622	11 010
Total deficit of defined benefit pension plans	14 926	12 012
Impact of minimum funding requirement/asset ceiling	1 173	922
LIABILITY IN THE BALANCE SHEET	16 099	12 934
Total		
Present value of funded obligations	119 162	104 068
(Fair value of plan assets)	(104 112)	(100 121)
Deficit of funded obligations	15 050	3 947
Present value of unfunded obligations	60 466	56 116
Total deficit of defined benefit pension plans	75 516	60 063
Impact of minimum funding requirement/asset ceiling	3 053	3 429
LIABILITY IN THE BALANCE SHEET	78 569	63 492

Movement in the net defined benefit obligation over the year:

in CHF 1000.–	Present value of obligation	Fair value of plan assets	Total	Impact of minimum funding requirement/ asset ceiling	Total
AT JANUARY 1, 2013	163 832	(95 226)	68 606	566	69 172
Current service cost	2 579	–	2 579	–	2 579
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)
Foreign exchange differences	375	256	631	(1)	632
AT DECEMBER 31, 2013/JANUARY 1, 2014	160 184	(100 121)	60 063	3 429	63 492
Current service cost	2 331	–	2 331	–	2 331
Interest expense/(income)	4 441	(2 394)	2 047	–	2 046
	6 772	**(2 394)**	**4 378**	**–**	**4 378**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	–	(4 833)	(4 833)	-	(4 833)
(Gain)/loss from change in demographic assumptions	503	–	503	–	503
(Gain)/loss from change in financial assumptions	20 781	–	20 781	–	20 781
Experience (gains)/losses	382	–	382	–	382
Change in asset ceiling, excluding amounts included in interest expense	871	–	871	(427)	444
	22 537	**(4 833)**	**17 704**	**(427)**	**17 277**
Contributions:					
Employers	–	(2 352)	(2 352)	–	(2 352)
Plan participants	1 206	(1 206)	–	–	–
Payments from plans:					
Benefit payments	(11 245)	7 874	(3 371)	–	(3 371)
Foreign exchange differences	174	(1 079)	(905)	50	(855)
AT DECEMBER 31, 2014	179 628	(104 111)	75 517	3 052	78 569

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.

Significant actuarial assumptions:

in %	SWITZERLAND 2014	SWITZERLAND 2013	GERMANY 2014	GERMANY 2013	OTHER*) 2014	OTHER*) 2013
Discount rate	1.00	2.20	2.50	3.50	3.16	3.89
Salary growth rate	1.00	1.00	3.00	3.00	0.03	0.03
Pension growth rate	0.00	0.00	2.00	2.00	1.10	1.24

*) weighted average

Assumptions regarding future mortality:
Average life expectancy in years for a pensioner retiring at age 65:

in years	SWITZERLAND 2014	SWITZERLAND 2013	GERMANY 2014	GERMANY 2013	OTHER*) 2014	OTHER*) 2013
Retiring at the end of the reporting period:						
Male	21	21	19	19	21	21
Female	24	24	23	23	23	24
Retiring 20 years after the end of the reporting period:						
Male	23	23	19	22	22	22
Female	25	25	24	26	24	24

*) weighted average

Sensitivity of the defined benefit obligation:

2014

in CHF 1000.–	Change in assumption	Impact of defined benefit obligation: Increase in assumption			Decrease in assumption		
Discount rate	0.50%	Decrease by	10 569	5.9%	Increase by	11 684	6.5%
Salary growth rate	0.50%	Increase by	1 016	0.8%	Decrease by	1 016	0.6%
Pension growth rate	0.25%	Increase by	3 812	2.1%	Decrease by	3 654	2.0%
		Increase by 1 year in assumption			Decrease by 1 year in assumption		
Life expectancy		Increase by	6 332	3.5%	Decrease by	5 695	3.2%

2013

in CHF 1000.–	Change in assumption	Impact of defined benefit obligation: 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.

Composition of plan assets:

Plan assets are comprised as follows:

in CHF 1000.–	2014	in %	2013	in %
Equity instruments	28 464	27.3	28 432	28.4
Bonds	56 500	54.3	52 687	52.6
Property	15 418	14.8	15 387	15.4
Cash and cash equivalents	3 729	3.6	3 406	3.4
Other	–	–	209	0.2
TOTAL	104 111	100.0	100 121	100.0

The assets of the Swiss pension funds which represent 86% (2013: 88%) of the Group's plan assets are comprised of:

- 23% (2013: 23%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 56% (2013: 55%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 17% (2013: 18%) 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% (2013: 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

Expected contributions to post-employment benefit plans for the year ending December 31, 2015 are TCHF 2'407.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

SWITZERLAND		GERMANY		OTHER*)	
2014	2013	2014	2013	2014	2013
11 years	10 years	13 years	12 years	17 years	18 years

*) weighted average

20. Provisions

Non-current provisions

in CHF 1000.–	Litigation	Employee related	Other	Total
Balance at January 1, 2014	4 045	4 454	1 423	9 922
Additional provisions	2 300	1 536	–	3 836
Utilized	–	(1 372)	(343)	(1 715)
Unused amounts reversed/reclassifications	–	(122)	(107)	(229)
Foreign exchange differences	4	(70)	(413)	(479)
BALANCE AT DECEMBER 31, 2014	**6 349**	**4 426**	**560**	**11 335**

Current provisions

in CHF 1000.–	Turnover expenses	Employee related	Other	Total
Balance at January 1, 2014	8 792	112	5 723	14 627
Additional provisions	6 846	492	953	8 291
Utilized	(3 037)	(111)	(4 627)	(7 775)
Unused amounts reversed/reclassifications	(1 915)	–	883	(1 032)
Foreign exchange differences	(171)	(4)	30	(145)
BALANCE AT DECEMBER 31, 2014	**10 515**	**489**	**2 962**	**13 966**

Certain prior year comparatives have been reclassified to conform the current year's presentation.

Litigation

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

Employee related

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

Turnover expenses

The amounts represent a provision for customer incentives.

Other provisions

Other provisions are set up for obligations which do not fall into one of the before mentioned group of provisions including non income taxes, litigation, advisory services and onerous contracts.

21. Other Non-current Liabilities

in CHF 1000.–	Note	2014	2013
Deferred government grant income		11 981	14 024
License liability		3 488	4 176
Withholding taxes		2 511	1 991
Other liabilities	24	900	1 600
TOTAL OTHER NON-CURRENT LIABILITIES		18 880	21 791

Certain prior year comparatives have been reclassified to conform the current year's presentation.

22. Trade and Other Payables

in CHF 1000.–	Note	2014	2013
Trade payables	24	141 133	148 439
Amounts due to related and associated companies	24, 25	1 616	7 880
Social security		4 269	9 827
Government grants		3 473	3 119
VAT and other taxes		4 694	5 628
Accrued expense	24	89 817	88 868
Other payables	24	10 493	5 083
TOTAL TRADE AND OTHER PAYABLES		255 495	268 844

Certain prior year comparatives have been reclassified to conform the current year's presentation.

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

23. Business Combinations, Acquisition of Non-controlling Interests and Disposals

Acquisition of Non-controlling interests

On March 7, 2014, the Group acquired additional 50% of the voting shares of Hero Turkey, increasing its ownership to 100%.

The difference between the cash consideration incl. fees of TCHF 9'879 paid and the carrying amount of the non-controlling interests of TCHF 2'024 has been recognized in retained earnings.

24. Financial Instruments

Fair values

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

		Carrying amount		Fair value	
in CHF 1000.–	Note	2014	2013	2014	2013
Financial assets at fair value through OCI					
Non-current					
Available-for-sale investments		–	166 708	–	166 708
Financial assets at fair value through profit or loss – held for trading					
Current					
Financial assets at fair value		1 743	2 341	1 743	2 341
Loans and receivables					
Non-current					
Non-current receivables	12	294	–	**)	**)
Current					
Trade and other receivables	15	182 893	187 367	**)	**)
Cash and cash equivalents	16	190 752	177 918	**)	**)
Financial liabilities at fair value through profit or loss – held for trading					
Non-current					
Derivative financial liability		12 609	13 511	12 609	13 511
Current					
Derivative financial liability		1 869	1 188	1 869	1 188
Other financial liabilities					
Non-current					
Borrowings	18	69 998	133 297	69 703	133 153
Debentures	18	129 419	129 318	129 763	124 616
Other liabilities	21	900	1 600	*)	*)
Current					
Trade and other payables	22	243 059	250 270	**)	**)
Borrowings	18	116 792	78 019	**)	**)

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, 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, 2014	Assets	Liabilities
Non-current		
Interest-Rate Swap	–	12 609
TOTAL NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**–**	**12 609**
Current		
Forward foreign exchange contracts	1 743	1 869
TOTAL CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**1 743**	**1 869**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS AT DECEMBER 31, 2014	1 743	14 478

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	1 189
TOTAL CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**2 341**	**1 189**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS AT DECEMBER 31, 2013	2 341	14 700

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 2014, a loss of CHF 7.2 million (2013: loss of CHF 16.3 million) has been recognized in the financial result.

Available-for-sale Investments

On March 31, 2014, Hero sold all of its remaining shareholding in Huishan Dairy Holdings Co. Ltd. The disposal of the shares resulted in cash proceeds of CHF 129.8 million (2013: CHF 72.5 million) and a book gain of CHF 63.5 million (2013: CHF 41.9 million) which is included in the financial result. This amount includes CHF 99.1 million (2013: CHF 5 million) which were reclassified from OCI to the income statement.

Debentures

The Group issued CHF 130 million 1.25% 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 96 million (2013: CHF 79.6 million) and commitments to buy for a notional amount of CHF 596 million (2013: CHF 546.4 million).

IN CHF 1000.–	2014	2013
Contracts with positive fair values		
Forward foreign exchange contracts	96 663	79 609
Contracts with negative fair values		
Forward foreign exchange contracts	(597 507)	(546 438)

Fair Value Hierarchy

As at December 31, 2014, 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, 2014, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

Assets measured at fair value

at December 31, 2014 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Forward foreign exchange contracts	–	1 743	–	1 743

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

Liabilities measured at fair value

at December 31, 2014 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Interest-Rate Swap	–	–	12 609	12 609
Forward foreign exchange contracts	–	1 869	–	1 869

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

Liabilities for which are fair values disclosed

at December 31, 2014 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Borrowings	–	69 703	–	69 703
Debentures	–	129 763	–	129 763

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

25. Related and Associated Party Transactions

in CHF 1000.–	Note	2014	2013
Sales of Goods			
to associated companies		–	49 073
Purchases			
from associated companies		–	16 263
Other expense			
Administrative expenses to associated companies		–	(859)
Interest expense to AOH Nahrungsmittel Group		(229)	(119)
Receivables			
Trade receivables from associated companies		–	12 034
Payables			
Trade payables to AOH Nahrungsmittel Group	22	26	27
Trade payables to associated companies	22	–	4 630
Other short-term liabilities to AOH Nahrungsmittel Group	22	1 590	2 625
Other short-term liabilities to associated companies	22	–	598
Short-term loan liabilities to AOH Nahrungsmittel Group	18	43 297	13 476
Other long-term liabilities to associated companies		–	219
Redemption of hybrid capital shareholder		(120 000)	–
Distribution on hybrid capital shareholder		(7 222)	(6 295)
Key management compensation			
Salaries and other short-term employee benefits		(5 131)	(6 924)
Post-employment benefits		(415)	(568)
Long term incentive plan		(880)	–

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.

26. Contingent Liabilities

in CHF 1000.–	2014	2013
Contingent liabilities in favor of third parties	5 188	5 188

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 million, which would be payable in the event that contaminated material must be removed from the site.

27. Commitments

in CHF 1000.–	2014	2013
Commitments for the acquisition of tangible fixed assets	1 845	10 634
Commitments for raw materials	75 043	69 198
TOTAL CAPITAL COMMITMENTS	76 888	79 832

Commitments for operating lease are as follows:

in CHF 1000.–	2014	2013
Amount due within one year	8 980	9 366
Between one and five years	15 627	19 588
After five years	678	706
TOTAL OPERATING LEASE COMMITMENTS	25 285	29 660
TOTAL OPERATING LEASE EXPENSE RECOGNIZED IN THE INCOME STATEMENT	(10 855)	(7 699)

28. Events after the Balance Sheet Date

On January 15, 2015, the Swiss National Bank announced that it was discontinuing the minimum exchange rate of 1.20 the Swiss franc per Euro. This resulted in a significant appreciation of the Swiss franc, which is the presentation currency of the Group against all major currencies. In the case of Group companies with a different functional currency, the translation of those currencies into the Swiss franc is expected to have a negative translation impact on the consolidated financial statements and to increase the cumulative exchange rate differences recognized in equity. The discontinuation of the minimum exchange rate for the Swiss franc against the Euro had no impact on the financial statements for the reporting year.

29. Principal Group Companies

Country	Name of company	Location	Share capital in thousands local currency		Equity interest in %	Conso-lidation method *)	Activity **)
China	Autumn Harvest Ltd.	Hong Kong	HKD	1	100.0	F	S
	Hero (Shanghai) Trading Co.Ltd.	Shanghai	CNY	1254	100.0	F	S
	Spring Harvest Ltd. (in liq.)	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	237'414	100.0	F	S
	Schönauer IAV AG	Bad Schwartau	EUR	404	100.0	F	H
	Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau	EUR	57'500	100.0	F	P; S; R
Italy	Hero Italia SpA	Verona	EUR	3'616	100.0	F	S
Netherlands	Hero Kindervoeding B.V.	Breda	EUR	18	100.0	F	S
	Hero Nederland B.V.	Breda	EUR	14'520	100.0	F	P; S
	Organix Nederland B.V.	Breda	EUR	18	100.0	F	S
	Koninklijke Maatschappij de Betuwe B.V.	Breda	EUR	1'010	100.0	F	H
Norway	Semper AS	Lysaker	NOK	933	100.0	F	S
Portugal	Hero Portugal Lda	Amadora	EUR	4'607	100.0	F	S
Russia	Hero Rus LLC	Moscow	RUB	10	100.0	F	S
Slovakia	Hero Slovakia s.r.o.	Nitra	EUR	7	100.0	F	S
Spain	Hero 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	63'632	100.0	F	P; S
Ukraine	Hero UA LLC	Kiev	UAH	52	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
	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 financial statements of Hero AG, which comprise the income statement, statement of comprehensive income, balance sheet, changes in equity, cash flow statement and notes (pages 12 to 69), for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with IFRS and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation 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 of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the pur pose 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 2014 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.

André Schaub	Philipp Baumann
Licensed audit expert (Auditor in charge)	Licensed audit expert

Zurich, 12 March 2015

Index to the Statutory Financial Statements of Hero AG

Income Statement

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

	2014	2013
NET SALES	135 383	131 923
Material	(78 414)	(76 231)
Personnel	(30 498)	(31 320)
Depreciation	(10 884)	(32 288)
Production and distribution	(7 446)	(9 186)
Advertising and promotion	(13 737)	(11 380)
Sales and general administration	(13 300)	(13 658)
Total operating expenses	**(154 279)**	**(174 063)**
OPERATING LOSS	(18 896)	(42 140)
Financial income	60 025	64 739
Financial expense	(87 054)	(107 099)
Financial result	**(27 029)**	**(42 360)**
Participation income	31 092	31 190
Gains on fixed assets disposed	6 317	7 099
Other income	38 419	39 172
Total other income	**75 828**	**77 461**
Other expense	(3 026)	(6 202)
Total other expenses	**(3 026)**	**(6 202)**
PROFIT / (LOSS) BEFORE TAXES	26 877	(13 241)
Taxes	(4 796)	(4 297)
NET INCOME / (LOSS)	22 081	(17 538)

Balance Sheet

as at December 31, before appropriation of profit

Hero AG

in CHF 1000.–

Assets	2014	2013
Cash	4	2
Banks	113 973	88 233
Securities	10 085	–
Liquid funds	**124 062**	**88 235**
Trade receivables	12 858	14 578
Receivables from subsidiaries	48 081	240 267
Other short-term receivables	5 349	7 101
Prepaid expenses	11	71
Receivables	**66 299**	**262 017**
Raw material and supplies	7 766	8 542
Work-in-progress and finished goods	1 436	1 558
Inventories	**9 202**	**10 100**
CURRENT ASSETS	**199 563**	**360 352**
Land	4 749	4 749
Buildings	26 384	27 309
Plant and machinery	8 540	10 878
Other equipment and vehicles	156	477
Tangible fixed assets	**39 829**	**43 413**
Financial investments	91	91
Long-term loans to subsidiaries	630 949	411 306
Investments in subsidiaries	429 462	415 387
Intangible assets	46 944	52 758
Financial and intangible assets	**1 107 446**	**879 542**
NON-CURRENT ASSETS	**1 147 275**	**922 955**
TOTAL ASSETS	1 346 838	1 283 307

in CHF 1000.–

Liabilities and shareholders' equity	2014	2013
Banks	69 568	35 532
Trade payables	11 773	10 755
Payables to subsidiaries	335 727	213 482
Payables to associated companies	144	–
Other short-term liabilities	2 838	2 216
Other short-term liabilities to associates	31 638	2 625
Accruals	10 646	12 218
Short-term provisions	7 887	8 374
Current liabilities	**470 221**	**285 202**
Long-term bank liabilities	69 784	133 298
Other long-term liabilities	288	498
Long-term provisions	26 429	26 376
Debentures	549 420	579 318
Debentures to associates	–	120 000
Medium and long-term liabilities	**645 921**	**859 490**
TOTAL LIABILITIES	**1 116 142**	**1 144 692**
Share capital	61 516	51 516
Share premium (capital contribution reserve)	60 000	–
Legal reserve	25 758	25 758
Retained earnings	83 422	61 341
SHAREHOLDERS' EQUITY	**230 696**	**138 615**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1 346 838	1 283 307

Notes to the Statutory Accounts

1.
Guarantees amounting to CHF 9.4 million (2013: CHF 134.6 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 72.7 million (2013: CHF 73.2 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. 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. In 2014, Hero AG bought additional CHF 30 million over the market (2013: CHF 50 million). The nominal value of this bond by the end of 2014, is new CHF 420 million.

7.
The notes issued in 2011, and 2012, of CHF 120 million 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. These notes were fully settled and repaid in 2014.

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

9.
On December 4, 2014, an ordinary capital increase of CHF 70 million was completed. 1'000'000 registered shares of the company with a nominal value of CHF 10 each were issued.

10.
As of December 31, 2014, Schwartau International GmbH, Bad Schwartau, Deutschland, holds 100% (2013: 100%) of the share capital of Hero AG ranking for dividends.

11.
Net release of excess reserves:
During 2014, excess reserves amounting to CHF 0.5 million (2013: 0.0 million) have been released.

12.
Overview over the primary affiliated companies in the property of Hero AG as at December 31, 2014:

Company	Domicile	Share capital	Ownership
Hero Beteiligungen AG	Lenzburg, Switzerland	CHF 30’432’500.0	100.0%
Hero Foods Canada INC	Etobicoke, Canada	CAD 100.0	100.0%
Hero GmbH & Co KG	Bielefeld, Germany	EUR 237’413’756.4	100.0%
Hero Rus LLC	Moscow, Russia	RUB 10’000.0	100.0%
Hero (Shanghai) Trading Co. Ltd	Shanghai, China	CNY 1’253’835.0	100.0%
Hero UA LLC	Kiev, Ukraine	UAH 52’000.0	100.0%
Hero Verwaltungs GmbH	Bielefeld, Germany	EUR 25’564.6	100.0%
Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau, Germany	CHF 57’500’000.0	5.1%
Sluicing AG	Lenzburg, Switzerland	CHF 100’000.0	100.0%

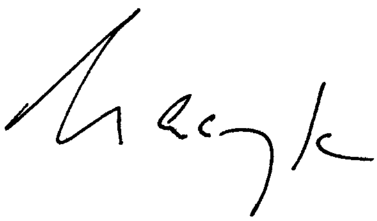
13.
The company has implemented a risk management system. Management carries out an annual risk assessment to identify material risks including their probability of occurrence and impact on the group. The board of directors takes appropriate measures to avoid, mitigate or transfer these risks. Risks which are not mitigated are closely monitored by the group. The latest risk assessment by the board of directors was held in September 2014. 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.–	2014
Amount carried forward from last year	61 341
Net profit for the current year	22 081
TOTAL AVAILABLE FOR DISTRIBUTION	83 422

DIVIDEND	
CHF 0.– on 5’151’600 registered shares of CHF 10.– par value	0
TOTAL DIVIDEND PAYMENT	**0**
BALANCE CARRIED FORWARD	83 422

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 financial statements of Hero AG, which comprise the balance sheet, income statement and notes (pages 72 to 76), for the year ended 31 December 2014.

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 2014 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.

André Schaub Licensed audit expert (Auditor in charge)	Philipp Baumann Licensed audit expert

Zurich, 12 March 2015

Contact

HERO AG
Karl Roth-Strasse 8
CH-5600 Lenzburg
Phone: +41 (0)62 885 51 11
Fax: +41 (0)62 885 54 30
www.hero-group.ch
investor@hero.ch

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