ANNUAL REPORT 2018

Hero

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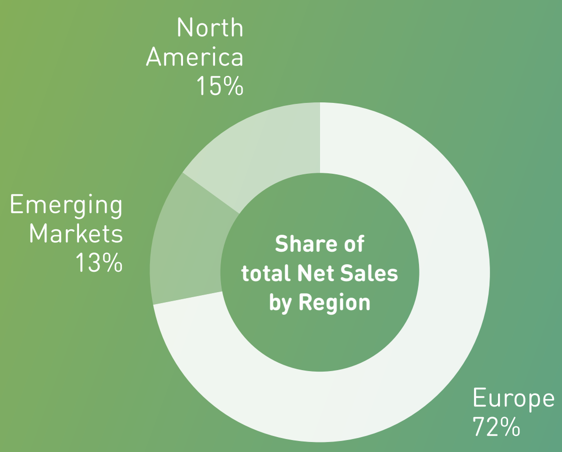
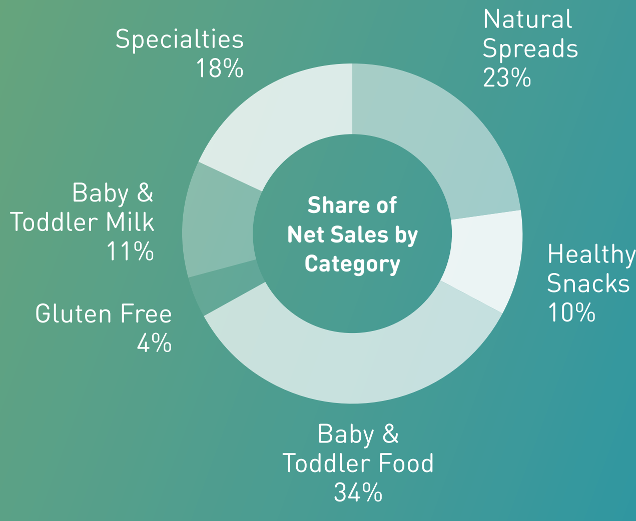
KEY FIGURES

in CHF million	2018	Restated 2017 *
Net sales	**1 158.3**	**1 147.5**
Organic growth in %**	0.2	4.7
Operating Profit (EBIT)	**91.1**	**83.9**
in % of net sales	7.9	7.3
Net income from continuing operations	**60.6**	**50.5**
in % of net sales	5.2	4.4
Net income	**62.9**	**20.9**
in % of net sales	5.4	1.8
Total Equity	**726.1**	**696.6**
Equity ratio in %	53.5	47.5
EBITDA	**125.4**	**117.6**
Net Debt	**104.1**	**252.9**
Net debt / EBITDA	0.8	2.2
Full-time employees	**4 070**	**4 133**

* Signature Brands is presented as discontinued operations in 2018 and 2017. Prior year figures in the income statement were therefore restated accordingly.
** Adjusted for currency and acquisition effects





JOINT CHAIRMAN / CEO MESSAGE

2018

In 2018, the Hero Group made big steps to move the company further towards its mission to delight consumers by conserving the goodness of nature. In October 2018, we divested our decoration business (Signature Brands) in the US. This will be reported as discontinued operations in this annual report. In November 2018, Hero announced a strategic partnership with the German organic baby and toddler food company goodforgrowth GmbH, whose portfolio includes the brand Freche Freunde. With this big step in portfolio transformation, we also strengthened our strategic category focus, increasing the Net Sales share of our five core categories from 74% in 2017 to 82% in 2018.

Dr Hasso Kaempfe, Chairman (left) and Rob Versloot, CEO

In continuing operations, our Net Sales reached CHF 1,158.3 million, 0.9% above prior year. Adjusted for currency translation effects, Organic Growth was 0.2%. While the US (+8.3%) and Emerging Markets (+7.6%) showed good Organic Growth momentum, we faced a decline in Europe (-2.8%), driven by a difficult market and competitive environment.

At the same time, we were able to make significant improvements in our other core financial KPIs, which further strengthens our financial backbone. Our operating profit of continuing operations increased from CHF 83.9 million to CHF 91.1 million. Net Income grew from CHF 20.9 million to CHF 62.9 million, and in continuing operations from CHF 50.5 million to CHF 60.6 million. Net Debt was further significantly reduced from CHF 253 million to CHF 104 million.

Outlook 2019

In 2019, we will continue to pursue our mission and profitable growth model. We aim to accelerate Organic Growth in 2019, driving a stronger footprint outside Europe, sales in online channels, and innovations in our core categories. Further, we will seek efficiency gains in the supply chain to free up funds for further investment into our brands.

Board of Directors / Executive Board

Dr Hasso Kaempfe, Chairman of the Hero Group Board of Directors, steps down from his role in March 2019. The decision to step down comes as Dr Kaempfe will reach the age limit of 70 as per the provisions of the incorporated status of the Hero Group. He will stay on the Board as a member until 2020 thereby ensuring a smooth transition to his successor, Giovanni Ciserani.

Mr Ciserani joined the Hero Board of Directors in March 2017. He is highly respected in the FMCG world and has only recently, in November 2018, stepped down from his role as Group President, Global Fabric & Home Care, and Global Baby & Feminine Care with Procter & Gamble, a company where he spent nearly his entire career.

In addition, we are pleased to report that in November 2018, Margaret Versteden was proposed as a new member of the Board. This appointment is subject to approval during the company's General Assembly 2019. Ms Versteden is Chief Commercial Officer at bol.com, the leading online retail platform for the Benelux region, and is responsible for the commercial activities, website innovation, and data analytics. She brings to the Board a wealth of experience in strategic consulting, eCommerce and digitalization.

Our organization

The year under review saw some fundamental changes to our organization as part of our Power of One transformation (see page 11). The creation of one Group Supply Chain from July 2018 will drive efficiencies, new capabilities, scale, and an opportunity to simplify our network.

Newly created IT Competence Centers will strengthen our IT infrastructure, information security, and operating systems. It was also announced that we will split Innovation & Product Development from Quality to drive focus and better support growth.

Our people

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

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

And finally, we have nothing but appreciation to the 200 million consumers who have put their faith and loyalty in our brands and products. They are the reason we do what we do.

Sincerely

Dr Hasso Kaempfe
Chairman Board of Directors

Rob Versloot
Chief Executive Officer

DELIGHT CONSUMERS BY CONSERVING THE GOODNESS OF NATURE

OUR MISSION AND VISION

The world today is different from the one that existed 10 years ago, and nothing like what it was in 1886 when Hero was founded. Since the first day, our company has been on a journey, and while the wording may have changed, the mission has always been **to delight consumers by conserving the goodness of nature**. It's what we do and what we are good at.

Bringing nature into people's homes in convenient packaging is our core business. We want to ensure that the food we offer is the best in terms of quality, using the best natural ingredients while minimizing processing.

We take this very seriously, so much so that we conducted a study, together with the ETH Zürich and the University of Murcia, to bring clarity to what consumers understand by the term 'naturalness' in food.

In this light, we continuously ask ourselves the question: how can we delight consumers and create preference for our products and brands? We believe in the following principles:

- Having superior natural products that communicate goodness, nature, and homemade
- Using sustainable and responsible sourcing
- Minimizing the use of artificial additives
- Focusing on nutrition and healthy snacking
- Building consumer and shopper understanding
- Innovating our processes, products and packaging

The Power of One

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

At the end of 2017, we launched our Power of One initiative that seeks to bring all our talent closer together to work in a more integrated manner, focusing on their areas of expertise.

This initiative was implemented in 2018 and work will continue in 2019 and beyond as we continue to future-proof our company.

Our United Local Heroes spirit reflects that our Group is more than the sum of its parts – it is one integrated and focused organization.

We are **UNITED** because we all work together towards a common goal. We work collaboratively to preserve the consistency of and leverage synergies from our multi-country brands to drive success; it is **LOCAL** because the people who know our customers and shoppers best are the ones in the field, working most closely to them, and they are better placed to focus on building our brands and superior local execution; finally, it's also **HEROES** as we aspire to go that extra mile to make sure our customers in our markets are happy and deliver on our profitable growth ambitions.

OUR STRATEGY

Focus on core categories

At Hero, we aim to drive organic growth of our core categories, namely Baby & Toddler Food, Natural Spreads, Healthy Snacks, Gluten Free and Baby & Toddler Milk supported by our business in Specialties. We do so by increasingly aligning the portfolios of our core categories to our mission 'to delight consumers by conserving the goodness of nature', and by focusing our central and country organizations on these businesses.
Next to this, our business development agenda is targeted at increasing the weight of our core categories in our total Group sales.

Profitable growth

Our Hero profitable growth model guides the implementation of our strategy. We aim to increase the profitability of our Group by increasingly unlocking synergies between our operating companies as outlined in our Power of One initiative.

Operating model

Our goal as an organization is to achieve profitable growth: a virtuous cycle where performance improvement creates financial returns that can be invested in brand building and innovation, driving economies of scale / scope that lead to ever-improving performance and accelerated growth.

We strive to find the advantages of being part of a Group – scale, synergies and specialist skills – while retaining the advantages of being highly local, quick on the ground, and close to the consumer/shopper.

To make this type of organization work, we rely on leadership at all levels and a strong link to our Hero values to underpin our way of working.

The theme is clear: the center provides unified overarching direction and added value to countries. Countries drive focused execution and deliver results, given that they are the ones who ultimately bring growth and profit. They also implement central initiatives as a means to help drive growth and margin improvement for the whole company. We are more integrated and focused than ever before because we believe the sum of all our parts is larger than the individual pieces.

CONSERVING THE GOODNESS OF NATURE
OUR STORY SO FAR

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

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

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

In essence, little has changed since two gentlemen, Gustav Henckell and Carl Roth, founded Hero in 1886. They enchanted consumers by conserving all the goodness they found in nature,

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

and that is what we still do today. In the 130 years between then and now, Hero has acquired a considerable global reputation. Using both timeless care and state-of-the-art technology, we distribute nature's goodness to hundreds of millions of consumers in scores of countries, spread over five continents.

Our customers may be 82 years old, or 82 months, or 82 days. In each case, our food provides the nutrients needed for them to lead a healthy life, all conveniently packaged and conserved.
Our family-owned company includes dozens of brands. We represent a significant force in natural spreads, healthy snacks, and baby/infant foods. With brands synonymous with quality, such as Hero, Hero Baby, Organix, Beech-Nut, Semper, Vitrac, Corny, and Schwartau, we are accustomed to prominent market positions in many local markets. They are our local heroes.

Some call us a food manufacturer – we disagree. For us, it is Mother Nature who makes food – all we do is conserve the goodness for our consumers. We are her treasurer and are in her debt. This is why we are striving to help nature through our *bee careful* initiative, which seeks to protect bee populations that are vital to fruit diversity.

Ever since 1886, we have been one of Mother Nature's most enthusiastic admirers with one aspiration; to delight consumers by conserving the goodness of nature.

CORPORATE VALUES

Embracing change

In November 2017, the Hero Group launched one of its most ambitious projects ever. Called the Power of One, we want to bring sharper focus and tighter integration among all the different components of the Hero Group. This is being done to ensure we can continue delighting consumers by conserving the goodness of nature well into the future. It also means a great deal of **Change**, which is one of our values. In today's fast-moving world, change has become the only constant. At Hero, we don't fear change, we embrace it.

The Power of One
Integrated. Focused.

Flavio Giove
Digital Manager
Hero Group

"At Hero, as in the digital world, change is what drives progress and growth. I feel lucky to work in a company so open to change, that invests not only in the growth of the organization, but in that of its people as well. Of course, change comes at a cost, the first being leaving the comfort zone we are used to. Thankfully, I'm surrounded by colleagues who are not afraid to take a leap and chase new opportunities."

Olivier Furter
Director
Manufacturing
Hero Group

"Change is one of our company values. In 2018, this took on a new meaning, alongside the external changes we always had to face. The Power of One initiative was launched. This internal change led to uncertainty and it was challenging for the organization and many Hero employees. We still have a great deal of work to do, but much was achieved. I am firmly convinced that the new focused and integrated approach, which brought about a lot of change, will help us in the future to handle the external challenges even better. I am a firm believer in Kaizen – to change the good for the better."

Vanessa Krabiell
Talent Manager HR
Schwartau

Maarten Griep
Sales Manager
Hero Benelux

"Change is not only one of the five values at the Hero Group, we are living change constantly, especially now. With our Power of One initiative to get all local heroes more integrated and focused, we are going through busy times. Change is always tough at the beginning; you face new challenges with more international responsibility and you are taken out of your comfort zone. But at the end, our change will be great because we will be one stronger company with one team on a mission to delight consumers by conserving the goodness of nature."

"Change is one of our core values and I always see change as an opportunity. In an ever-changing environment like Hero, there is never a dull moment. With many categories in even more channels, we achieve successes every day even though we always face new challenges. This is what gives me and my great team the energy to perform and seize the moment. In this fast-moving market, we are always ready to contribute to profitable growth. If we look ahead, change is the only constant factor."

Values

We are a diverse group of people coming from different backgrounds, but we are all bound by the values we share at Hero. Apart from **Change**, our core values are **Entrepreneurship**, **Speed**, **Empowerment**, and **Family**.

These values have helped us to grow and adapt throughout the years, remaining competitive without losing the spirit of our existence. They have given us the opportunity to take timely decisions while keeping us close to our consumers, and allowed us to assume collective responsibility for our choices. Importantly, our values have created a family spanning the entire globe, one with differences of opinion, with trust, collaboration, joy, and sometimes tears. We all, however, work towards one common goal, our mission to delight consumers by conserving the goodness of nature.

AN INITIATIVE TO PROTECT BEE HEALTH AND FRUIT DIVERSITY

BEE CAREFUL: A HERO GROUP INITIATIVE

The world of bees is as fascinating as it is threatened. Every year, higher than average losses in bee colonies are being reported around the world. And while the situation may not be as critical as a decade ago, the situation is still extremely serious.

The Hero Group launched the *bee careful* initiative in an effort to better understand and address the bee colony collapse disorder problem. Bees pollinate about 80% of the world's plants – fruit in particular. Without bees, not only would orchard yields and fruit quality be considerably lower, but some fruit species would practically disappear. Bees are essential for us all, and in particular for the Hero Group as a major fruit user. The main aims behind *bee careful* are:

- To assist in targeted research
- The dissemination of knowledge in schools and other institutions
- To provide support to beekeepers and prospective beekeepers

"This is not just another sustainability program, but rather a small step we are taking to contribute to the survival of the bee, which works tirelessly to carry out the important task assigned to it. In recognition of its work, we should do our utmost to ensure its survival, and by doing so, ensure our own survival," said Rob Versloot, CEO Hero Group.

bee careful®

Our efforts are backed by renowned bee expert Professor Jürgen Tautz from the University of Würzburg and his Honey Bee Online Studies (HOBOS) research and teaching platform.

Country initiatives

The Group has pledged a substantial budget for local *bee careful* initiatives. These include:

- Creating bee-friendly communities
- Research projects aimed at saving the Egyptian bee *Apis lamarckii*
- Assessing the impact of pollination by bees on yield and nutritional value of peach and apple trees
- Establishment and maintenance of HOBOS stations
- Promotions for people to build bee homes
- Promoting beekeeping among students
- Education for and support to beekeepers
- Promoting bee-friendly agricultural projects
- Creation of country websites aimed at promoting the initiative and bees' health

Without bees, not only would orchard yields and fruit quality be considerably lower, but some fruit species would practically disappear.

OUR CATEGORIES

At the Hero Group, we are all about conserving the goodness of nature. Our products are divided into five core categories and Specialties.

Baby & Toddler Food, the largest category of the Group, provides our younger customers with nutritious food. The category is complemented by our **Baby & Toddler Milk** category where we offer a range of milk formulas for babies and toddlers.

Natural Spreads has now been extended to include a wider variety of products. The trend towards snacking has seen our **Healthy Snacks** category go from strength to strength, both in terms of bars and pouches.

Our newest category is **Gluten Free** – in 2017, we increased our focus on this growing niche area. Its popularity among people who live with coeliac disease or are gluten intolerant, and also others who choose to eat gluten free products, is increasing. This is why we promoted Gluten Free to a category in its own right in 2018.

We also have a **Specialties** section, which in the year under review included areas such fruit toppings, gastronomy and co-packing. For 2019, the Specialties category will only incorporate specific local offerings.

Signature Brands sold products that fell under our Specialties category. Since the company was divested in October 2018, the share of sales of the five core categories of the Hero Group increased while that of Specialties dropped significantly.

Natural Spreads

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

Some of our category highlights in 2018 were the implementation in our Southern Europe Cluster of Grand Jam, a simplification and modernization project with common jam jars for our brands, and the first Spanish limited-edition jam for Christmas, as well as the establishment of distinctive assets for our Schwartau brand in Germany via activation and communication.

In our plants, we produce millions of jam jars every year. We work closely with local farmers with whom we enjoy long-term relationships, benefiting from their expertise in growing the best quality fruit for our jams.

Today, millions of consumers all over the world start their day with our products. Hero jams are available in more than 120 countries worldwide, and our brands hold leading market positions in Europe, MEA (Middle East & Africa), and South America.

The Natural Spreads category, a mainstay of the Hero Group, made up 23% of our Net Sales, up from 20% the previous year. The category reported sales of CHF 260.1 million with a flat organic growth compared to 2017.

Healthy Snacks

The Healthy Snacks category continued to grow in the last year. It made up 10% of the total Group sales, up from 9% the previous year. Organically, the category grew by 1.2% in 2018 and reported sales of CHF 115.8 million.

Our wide range of cereal products – including cereal bars, nut bars, fruit bars, sandwich bars with creamy fillings, and pouches – provide consumers with great flavors and energy throughout the day. The first Hero cereal bar was produced in 1984. Since then, we have become the market leader in continental Europe.

We are constantly looking for ways to improve our bars, develop new ranges, and offer our consumers innovative and delicious products.

In 2018, our Oatpower/Haferkraft platform grew via roll-outs into new markets as well as very successful, occasion-based communication in the German out of home media. The Czech Republic strengthened its in-market position via sandwich format protein bars. Germany increased sales and market share with relevant summer and winter promotions and Haferkraft activation. For 2019 and beyond, a pipeline of new product developments, promotions and communication is in preparation.

Baby & Toddler Food (BTF)

We are on a mission to delight babies and toddlers with the goodness of natural and safe food. Babies are our inspiration. Having a baby is challenging enough without having to worry about making the wrong choices in foods. The Hero BTF category provides great-tasting, nutritional, safe food for babies and toddlers from four months upwards. Our portfolio covers cereals, meals, and fruits and snacks of the highest quality and adapted to babies' requirements. As well as regular BTF, we have a strong competence in organic BTF. We manufacture and sell our food under various brands across North America, Europe and MEA (Middle East & Africa). Investments in packaging, technology and ingredients ensure we maintain our leading position in key markets. Of the lead Group categories, BTF is the largest with a total of 34% of our sales for 2018 compared to 31% in 2017. While commanding one-third of Group sales for 2018, the category organic growth fell 0.4% in 2018 compared to the previous year with a revenue of CHF 392.0 million.

The year under review was challenging for the BTF category due to a declining trend and intensified competition. However, we registered growth with our local brands in the US as well as in Turkey, and started an expansion program of the UK-based brand Organix into other key markets, which will provide an important growth platform for the future.

Baby & Toddler Milk (BTM)

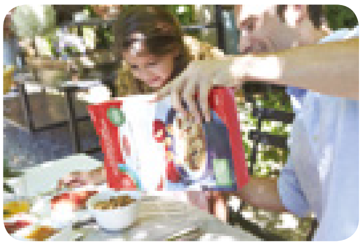
'Delighting moms (and dads) & babies by conserving the goodness of nature' is at the core of the Hero BTM mission and inspiration. We believe breast milk is ideal to ensure our babies have the best start in life. For those times when breastfeeding is not possible, Hero has developed a range of infant milk formulas.

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

As moms want to give all the goodness they have to their babies, so do we. Therefore, we have developed a unique formula with milk fat and MFGM (Milk Fat Globule Membrane) that mimics mothers' breast milk. Products with our formula have been launched in different countries since 2014.

In 2018, we saw significant BTM growth especially in the MEA (Middle East & Africa) region, strengthening our current position and further expanding.

The BTM category made up 11% of the Hero Group's total sales for 2018, up from 10% a year earlier. The category reported a negative organic growth of -1.5% with sales of CHF 130.3 million.



Gluten Free

Gluten Free has been an important product group within the Hero Group for many years. As a result, Gluten Free is reported as a separate category, starting January 2018.

Our gluten-free brands Juvela (UK/Ireland) and Semper (Nordics, Netherlands) offer great tasting gluten-free alternatives for people who are diagnosed with coeliac disease, and consumers who are gluten-intolerant or gluten-sensitive.

Enjoying tasty foods is one of life's pleasures. We aim to bring this statement to life for our consumers via our offerings of gluten-free products and online services to consumers. Our products include a large variety of breads, breakfast cereals, pastas, cookies, biscuits, snacks, and flour mixes for all types of cooking and baking. We believe that everyone should have the right to choose from many different flavors and tastes, for all occasions.

Sales in 2018 for the Gluten Free category stood at CHF 48.8 million, making up 4% of the total Group for 2018.

Specialties

The Hero Group product portfolio includes specialized products for niche markets. This section includes products such as gastronomy, fruit toppings, and co-packing.

In October 2018, Hero divested its company Signature Brands as it did not fit in with the Group's mission to delight consumers by conserving the goodness of nature. Hence, the total sales in this category made up 18%, down from 26% the previous year. When comparing adjusted sales figures, the category increased organically by 3.9% in the year under review.

REGIONAL FOOTPRINT

Europe remains the largest sales area for the Hero Group, accounting for 72% of the total. This increased from 65% in 2017 – the significant increase was the result of the divestment of the Group's US company Signature Brands. Sales in this region dropped organically by 2.8% to CHF 829.9 million in 2018.

The sale of Signature Brands saw the share of business in the US drop from 23% in 2017 to 15% in 2018. The region still maintains its position as the second largest for the Hero Group. US sales for the Group were up 8.3% in 2018, reaching CHF 176.5 million.

Emerging Markets, which include Egypt, Russia, Turkey, Brazil, and China, made up the remainder of sales, coming in at 13%, up from 12% in 2017. Sales for this region grew by 7.6% to CHF 151.9 million.

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

CORPORATE GOVERNANCE

Introduction

The Hero Group is committed to modern corporate governance principles. Professional processes and responsible management are upheld and followed by the Group's management teams.

Hero's corporate governance regulations are oriented towards the guidelines outlined in the Swiss Code of Best Practices, in addition to the provisions set out by Swiss law. Unless otherwise indicated, the following information on corporate governance relate to conditions on the balance sheet date as at December 31, 2018.

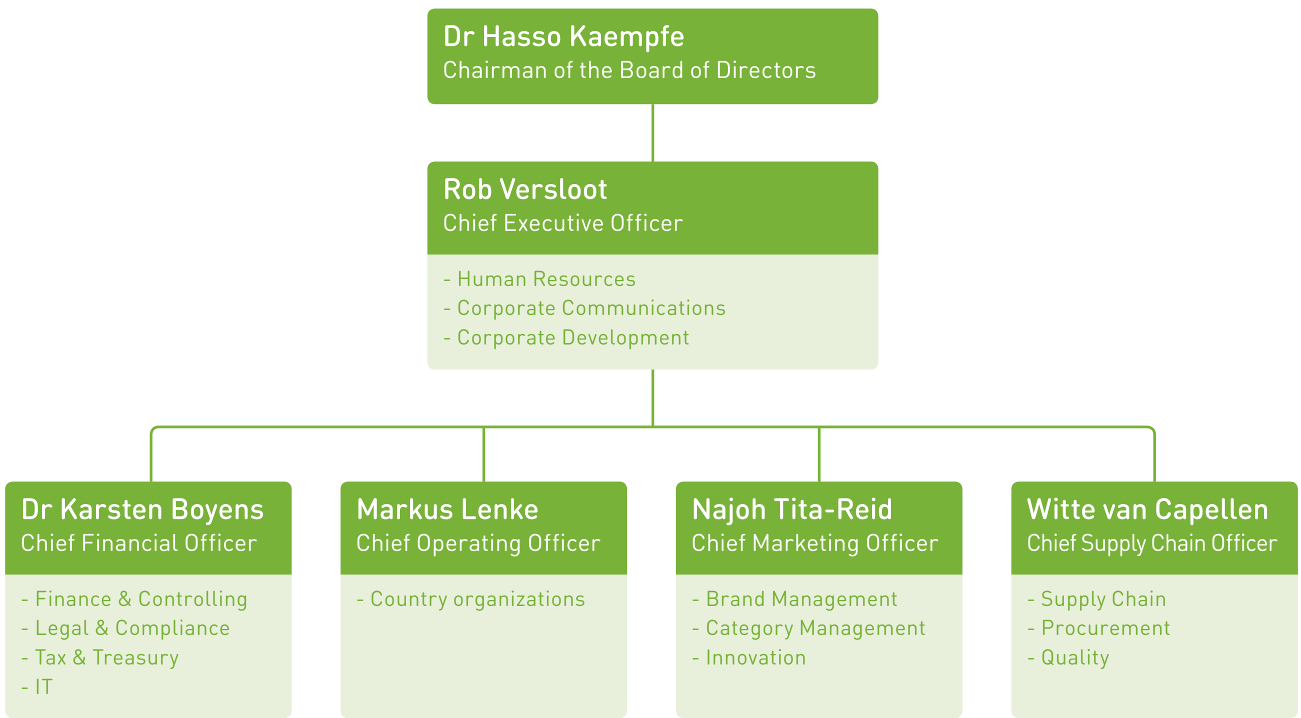
Group structure

The chart below shows the organization of Hero Group as of December 31, 2018.

Shareholders and capital structure

Shareholders

Schwartau International GmbH, Bad Schwartau, Germany holds 99.0% of the share capital of Hero AG*. The Dr Arend Oetker family, Germany, is the ultimate shareholder of Schwartau International GmbH, Bad Schwartau. A total of 0.7% of the share capital is held by Executive Board



The significant companies belonging to the Hero Group are listed in note 27 the consolidated financial statement.
* Hero AG is the legal entity for the Hero Group. Both names are used interchangeably in this section

members in relation with the long-term incentive plan and the remaining 0.3% of the shares are held as treasury shares by the company.

Share capital

The share capital of Hero AG consists of 6,213,272 fully-paid registered shares with a par value of CHF 10.00 each. Each share carries the right to one vote. No preferential rights exist.

Contingent capital

As of December 31, 2018, the share capital may be increased through the issuance of a maximum of 938,328 fully paid registered shares with a par value of CHF 10.00 each. The contingent share capital is available for the exercise of any rights in connection with convertible and other bonds as well as in connection with option rights of the Executive Board members related to the long-term incentive plan (refer to section management compensation).

As of December 31, 2018, there were no convertible or other bonds with the right to acquire shares of Hero AG.

Hybrid capital

On October 28, 2016, the Hero Group issued CHF 200 million Perpetual Callable Subordinated Bonds on the Swiss Capital Market. The listed bonds do not have a maturity date and Hero AG has no obligation to redeem the underlying nominal amount at any future date.

The bonds bear a coupon of 2.125% for which there is no obligation to pay for Hero AG unless Hero AG distributes a dividend to their shareholders or re-purchases share capital. In case Hero AG does not redeem the bonds by October 27, 2023, the coupon will increase by an additional mark-up of 250 basis points.

The bonds are subordinated obligations to all of Hero's present and future unsubordinated debts.

Board of Directors

left to right:
Dr Hasso Kaempfe Chairman | **Dr Hagen Duenbostel** | **Dr Arend Oetker** Honorary Chairman
Leopold Oetker | **Herbert J. Scheidt** Vice-Chairman | **Giovanni Ciserani**

The Hero Group Board of Directors and Executive Board are separate decision-making bodies with distinct functions and responsibilities.
All members of the Hero Board of Directors are non-executive members who were not previously a member of the Hero Group management or the management team of one of the subsidiaries.

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

The current Board of Directors consists of Dr Hasso Kaempfe (Chairman), Herbert J. Scheidt (Vice-Chairman), Giovanni Ciserani, Dr Hagen Duenbostel, and Leopold Oetker. Dr Arend Oetker holds the post of Honorary Chairman.

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

Internal organization

The Board of Directors convenes its own meetings at least four times a year. A minimum of one board meeting is held in a country / office outside Switzerland. The Board of Directors has delegated individual tasks to two sub-committees; the Finance & Audit Committee and the Human Resources Committee, which analyze specific issues in more depth on behalf of the Board.

The Board of Directors elects the members of these two sub-committees from the directors sitting on the board. At each Board of Directors meeting, the chairmen of the sub-committees inform the members about the issues dealt with by the sub-committees and any corresponding resolutions.

The main responsibilities of the Finance & Audit Committee include the monitoring and the assessment of the company's financial situation, the integrity of financial statements, risk management, internal controls in the area of financial reporting, and the effectiveness and independence of the external audit firm. It also observes the compliance with norms and regulations and assesses capital market transactions, including

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

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

the financing of mergers and acquisitions. The Finance & Audit Committee meets at least two times a year. In the year under review, the Finance & Audit Committee met five times.

The Human Resources Committee mainly reviews and proposes the compensation system and remuneration for the Executive Board, vice presidents and general management of the subsidiaries. It proposes the composition and changes of Executive Board to the Board of Directors and reviews the organization structure and personal development programs. A total of seven meetings were held during 2018.

Responsibilities between the Board of Directors and Group Management

The Board of Directors is responsible for the overall direction of the company including the supervision and control over the executive management in accordance with Art. 716a of the Swiss Code of Obligations. The Board of Directors defines the strategic goals, the means to achieve these goals and the persons dealing with the operating management of the company.
It has delegated all operative management functions to the Executive Board with the exception of those tasks assigned to other bodies as prescribed by law and the articles of incorporation.
The Board of Directors has detailed the responsibilities and authorities of the Executive Board in the company's organizational regulations.
For further description of the Executive Board members responsibility, refer to page 42.

Information and control instruments relating to the Executive Board

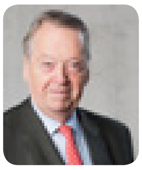
The Hero Board of Directors is informed about current business developments, the financial situation, and key business events by members of the Executive Board at every meeting. In addition, every member of the Board of Directors may request additional information about business matters and developments from the Chairman or the members of the Executive Board at any time.

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

Changes to the Board of Directors after the balance sheet date

Reaching the age limit, Dr Hasso Kaempfe, Chairman of the Board, will hand over the chair of the board in March 2019. He will stay on as a member of the board until the company's general meeting in 2020. His designated successor as Chairman of the Board is Gianni Ciserani, who joined the Hero board in March 2017.

In addition, the Hero Board of Directors has proposed to nominate Margaret Versteden as new board member. Margaret Versteden is the Chief Commercial Officer of a leading online retail platform for the Benelux region and brings along a wealth of experience in strategic consulting, eCommerce, and digitalization. Her appointment as board member has still to be approved by the company's Ordinary General Meeting in March 2019.



Dr Arend Oetker

Owner & Honorary Chairman

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

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

He is Chairman of the German Council for Foreign Relations e.V. (DGAP), Honorary Member of the Presidential Board of the Federation of German Industries e.V. (BDI) and Member of the Presidential Board of the Confederation of German Employers' Associations (BDA).

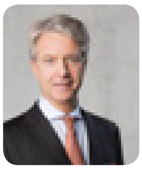
Dr Hasso Kaempfe

Chairman

Dr Hasso Kaempfe has been a Member of the Hero Group Board of Directors since the beginning of 2012 and took on the role of Chairman of the Board of Directors, succeeding Dr Arend Oetker, in January 2013. Dr Kaempfe also holds the post of Chairman of the Human Resources Committee.

A lawyer by profession, he was the long-standing Executive Chairman of Mast-Jägermeister AG in Wolfenbüttel and before that a Board Member at Tchibo GmbH. His current mandates include the Vice-Chairmanship of the Supervisory Boards of Falke KGaA, Schmallenberg, Schwartauer Werke GmbH & Co. KGaA, Pieroth Wein AG, Burg Layen, and Member of the Advisory Boards of Heinrich Schulze GmbH, Braunschweig, MCF Corporate Finance GmbH, Oyster Bay Gmbh, both Hamburg, and the Institute of Brand Logic, Innsbruck (Consulting).

He is also Vice-Chairman of the Board of the German Brands Association (Markenverband), Berlin, and the industrial advisor of EQT Partners AB, Stockholm.



Herbert J. Scheidt

Vice-Chairman

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

He has been Chairman of the Vontobel Board of Directors since 2011, before which he served as the bank's CEO. Prior to that, he worked for Deutsche Bank AG in various roles for two decades from 1982, culminating with his appointment as CEO of Deutsche Bank (Schweiz) AG in 2001.

Scheidt holds an MA in Economics from the University of Sussex (UK) and an MBA from the University of New York. In addition to the Hero Group, Scheidt is also Chairman of the Board of Directors of the Swiss Bankers' Association (Basel), Vice-Chairman of the Board of Directors of Economiesuisse (Zürich), Member of the Board of Directors of the SIX Group (Zürich), and Member of the Board of European Banking Federation (Brussels).

Giovanni Ciserani

Verona-born Giovanni Ciserani worked his way up the ranks at P&G to become one of the company's top executives. Educated at the prestigious Bocconi University in Milan, Italy, Ciserani has spent his entire career at P&G, where he worked for more than 30 years. He retired from P&G at the end of 2018. His last position was as Sector Group President Global Fabric and Home Care, Global Baby and Feminine Care, P&G. He also serves on the Board of Angelini Holding.

He joined the Hero Group Board of Directors in 2017.

Dr Hagen Duenbostel

Dr Hagen Duenbostel is a Member of both the Hero Finance and Audit Committee and the Human Resources Committee.

He is currently CEO (2015) and Executive Board Member of KWS SAAT SE, a provider of agricultural seed, based in Einbeck, Germany. He has been with the company since 1998 in various capacities and became CFO of KWS in 2003. He began his professional career in auditing at PricewaterhouseCoopers AG in 1995.

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

In addition to his board position with Hero, Dr Duenbostel was on the Supervisory Board of Sievert AG, the Food and Agribusiness Council, Osnabrück, and the Eastern European Economic Relations Committee, Berlin, as Chairman of the Food and Agribusiness.

Leopold Oetker

Shareholder

Leopold Oetker successfully completed his studies in Culture Studies and History in Berlin and Copenhagen. Oetker undertook a two-year international business development traineeship at the Hero Group's former partner Yildiz Holding and worked at the Istanbul Foundation for Culture and Arts. He is involved in charitable work, helping underprivileged children in his hometown Berlin.

He joined the Hero Board of Directors in 2016.

Executive Board

Markus Lenke COO | **Dr Karsten Boyens** CFO | **Rob Versloot** CEO | **Najoh Tita-Reid** CMO | **Witte van Cappellen** CSCO

The Executive Board is ultimately responsible for the operational management of the business. The Executive Board's responsibilities encompass the execution and achievement of the Group's strategies, the direction of 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 answers to the Board of Directors for the results of the Group.

Rob Versloot
CEO

Rob Versloot joined the company in September 2008 as Regional Vice President. In July 2011, he became Executive Vice President and Member of the Executive Board. The Board of Directors appointed him Group CEO in September 2012. Before joining Hero, Versloot worked for Royal Numico / Danone. He held various commercial and marketing leadership roles at the company in The Netherlands, Brazil, Indonesia and Russia. Versloot holds a Master's in Business Administration & Management from the University of Groningen in The Netherlands.

Dr Karsten Boyens
CFO

Dr Karsten Boyens joined the Hero Group as Chief Financial Officer (CFO) in April 2016.
He brings with him a wealth of experience in the financial field and consulting, previously working for the Beiersdorf Group and McKinsey & Company. His responsibilities are Finance & Controlling, Tax & Treasury, Legal & Compliance as well as IT. Dr Boyens holds a Master's degree in Business Administration from the WHU – Otto Beisheim School of Management in Koblenz and a PhD from the Christian Albrechts University of Kiel (Germany).

Markus Lenke
COO

Markus Lenke joined our German subsidiary Schwartauer Werke in December 1993. He has held different commercial and general manager positions within the company and was appointed Regional Vice President in July 2010. He has been a member of the Executive Board since 2011.
During his long career with the Hero Group, Lenke held various positions in sales and marketing functions, among others. He was also General Manager for both Schwartauer Werke and Semper in the Nordics.
Lenke holds a Master's in Business Administration from the University of Hamburg, Germany.

Najoh Tita-Reid
CMO

Najoh Tita-Reid joined the Hero Group in August 2017 after a long and successful career with P&G and Bayer. She brings with her hands-on knowledge of the key Hero geographies and a strong track record in country, regional, and global marketing roles. Her responsibilities include the Hero Group core categories (Baby & Toddler Food and Milk, Natural Spreads, Healthy Snacks, and Gluten Free), branding, innovation, and marketing communication. Tita-Reid holds a Master's in Business Administration from the Duke University, Fuqua School of Business, US.

Witte van Cappellen
CSCO

Witte van Cappellen joined the Hero Group in 2000 as Director Operations before taking over as General Manager Hero Netherlands (subsequently Hero Benelux). In 2009, he took over as head of Semper AB and six years later was appointed as Cluster General Manager Northern Europe, which includes the Hero business for the Nordics and Organix in the UK. Witte took over the role of CMO before moving to his current position, where he is responsible for the Hero Group Supply Chain and Procurement functions. His previous career path saw him take on a number of senior roles in supply chain and operations functions for Royal Numico in the Benelux region, Poland, and the UK.

Van Cappellen obtained his Master's in Business Administration from the NIMBAS Graduate School of Management in Utrecht, The Netherlands.

Executive Board Name	Nationality	Current function
Rob Versloot	Dutch	Chief Executive Officer
Dr Karsten Boyens	German	Chief Financial Officer
Markus Lenke	German	Chief Operating Officer
Najoh Tita-Reid	American	Chief Marketing Officer
Witte van Cappellen	Dutch	Chief Supply Chain Officer

Board and management compensation

Principles and elements of compensation

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

The Board of Directors determines the principles of the remuneration system and annual compensation for the Board of Directors and Executive Board at the recommendation of the Human Resources Committee. This process is carried out annually. The Human Resources Committee deliberates and reviews the annual compensation in light of market practices of companies of similar size and industry.

Compensation of the Board of Directors

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

Compensation of the Executive Board

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

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

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

In addition, there is a variable component linked to the long-term achievement of strategic KPI's. Besides these remuneration components, the

Executive Board members may participate in the long-term success of the company by investing up to 50% of their short-term cash bonus payment in shares of Hero AG (long-term incentive plan). For newly-employed Executive Board members, there is a two-year waiting period [refer to Accounting policies of the consolidated financial statements for an explanation of the provisions of this long-term incentive plan].

Shareholders' participation rights

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

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

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

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

Change of control measures

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

Auditors

The consolidated financial statements and the stand-alone financial statement of Hero AG are audited by Ernst & Young. According to the Articles of Associations, the external auditor is elected for a period of one year at the Ordinary General Meeting of the Shareholders. Ernst & Young was elected as auditor of Hero AG for the first time in 2006. The auditor in charge is André Schaub, who has held this function since the 2014 financial year. According to the provisions of the Swiss Code of Obligations, he may execute this mandate for a maximum of seven years.

The Finance & Audit Committee reviews the scope of the audit, the audit plans and discusses the audit results and reports with the auditor in charge annually. In general, the auditors participate in four Finance & Audit Committee meetings per year to report, both verbally and in writing, on audit planning, execution, and recommendations.

The agreed fees with Ernst & Young AG for the statutory audit of the consolidated financial statements for the year ending December 31, 2018 amounts to CHF 985,000. In 2018, Ernst & Young AG charged a total of CHF 240,000 for additional services. The additional services mainly include tax and IT advice.

Information policy

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

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

In addition, Hero organizes an investors conference every year. At this conference, the Hero Group informs interested parties about the results of the year, gives a strategy update, and an outlook for the new year.

Media releases about events relevant to the financial investors are published in accordance with guidelines relating to the ad-hoc publicity of the SIX Swiss Exchange. Further, Hero provides additional information about important Group events via its corporate website.


Hero

FINANCE REVIEW

Summary

In 2018, Hero divested Signature Brands, the non-core specialties business in the US, and further concentrated on improving the operating results of its core business. The results of the divested business in the US are separated in the financial statements of 2018 and 2017 under discontinued operations. This allows a proper comparison of the results from continuing operations over the years.

Net Sales from continuing operations reached CHF 1,158.3 million, an increase of 0.9% over 2017. Adjusted for currency effects, Net Sales growth was 0.2%. While North America (+ 8.3%) and Emerging Markets (7.6%) showed good Organic Growth momentum in 2018, Net Sales in Europe remained below prior year (-2.8%).

Hero made significant improvements in core financial KPIs in 2018.

- Operating Profit from continuing operations grew from CHF 83.9 million in 2017 to CHF 91.1 million in 2018.
- The Group's Net Income increased from CHF 20.9 million in 2017 to CHF 62.9 million.
- Driven by the sale of Signature Brands, Net Debt was significantly reduced from CHF 253 million to CHF 104 million. The resulting Net Debt / EBITDA of 0.8 provides a solid basis for further investments to grow the company in its core areas.

Net Sales – Regions

After the sale of the specialty business in the US, the share of Net Sales in **Europe** increases to 71.6% (PY including discontinued operations 65.0%). In 2018, Hero faced a difficult market environment (e.g. in Spain) as well as regulatory changes (e.g. in the UK) in Europe and initiated selective portfolio measures (e.g. in the Netherlands). This resulted in an organic decline of Net Sales by 2.8% in Europe.

Hero's business in **North America** represented 15.2% (PY including discontinued operations 23.2%) of total Net Sales in 2018. The share of the region declined significantly compared to the prior year due to the sale of Signature Brands. The remaining core business of our US subsidiary Beech-Nut, which focuses on healthy and organic baby food, developed very well and posted an Organic Growth of 8.3% over prior year.

Hero's **Emerging Markets** registered another healthy increase in Net Sales of 7.6% (currency adjusted) in 2018. The strongest growth contributors were Egypt and Turkey, both growing double digits. Even under difficult market conditions, Net Sales in Brazil grew more than 7% whereas we faced challenges in some export markets.

Net Sales – Categories

Baby & Toddler Food (BTF) represents Hero's biggest category, making up 33.8% (PY including discontinued operations 30.9%) of total Net Sales. Adjusted for currency effects, the category declined by 0.4%. The decline in Net Sales is caused by the difficult BTF market environment in Spain. This decline in Spain was compensated by good growth in the US, Turkey and Egypt.

Organic Net Sales in the **Natural Spreads** category were flat compared to prior year. Hero sells jams in most of its European markets, in Egypt, and Brazil. With the launch of new product ranges, jam Net Sales in Brazil grew 11.7%.
On the other hand, Hero faced difficulties in its main jam market Germany, where Net Sales were down by 3.0% in local currency. In 2018, Natural Spreads contributed 22.5% (PY including discontinued operations 20.0%) to Hero's Net Sales.

Organic Net Sales in the **Healthy Snacks** category increased by 1.2%. This growth was driven by a very strong development in the Netherlands, where Net Sales grew with a high double-digit number. In 2018, Healthy Snacks represented 10.0% (PY including discontinued operations 8.7%) of total Net Sales of Hero Group.

in CHF million	Net sales 2018	Net sales 2017*	△ 2018 vs 2017 in %	Acquisition effect	Currency effect	Organic Growth
Europe	829.9	832.4	-0.3%	-	2.5%	-2.8%
North America	176.5	164.1	7.6%	-	-0.7%	8.3%
Emerging Markets	151.9	151.0	0.6%	-	-7.0%	7.6%
HERO GROUP	**1 158.3**	**1 147.5**	**0.9%**	**-**	**0.7%**	**0.2%**

* adjusted for the effect of discontinued operations

Net Sales in the **Baby & Toddler Milk (BTM)** category declined 1.5% compared with PY. The development across countries is mixed. Several markets - namely the Nordics, Spain, Egypt, and Turkey - posted solid Net Sales growth in 2018, while we faced a volatile demand in China. BTM represented 11.2% of Hero's sales in 2018.

In 2018, Hero named **Gluten Free** as a separate category (previously reported under Specialties). The year under review was still impacted by the changes in the UK prescription market, which caused a Net Sales decline of 6.8% in the category. In 2018, Hero started to work on new product concepts to accelerate Net Sales in this category in 2019 and beyond. Still a small category, Gluten Free's share on total Net Sales in 2018 was 4.2%.

Hero's organic Net Sales in **Specialties** were up by 3.9% over prior year. Fruit toppings in Germany, the gastronomy business in Switzerland as well as the co-packing business in the US were the main drivers for the growth in this area. After the sale of our decoration and popcorn business in the US, Specialties make up 18.2% of total Net Sales of the Hero Group (vs. 26% in 2017 including the discontinued operations).

Operating result

The Hero Group **Operating Profit** from continuing operations reached CHF 91.1 million, a considerable increase of 8.5% over prior year (CHF 83.9 million). The improvement of the operating result over prior year was mainly achieved by continued improvement of gross margin, strong profit improvement in the US as well as other

in CHF million	Net sales 2018	Net sales 2017*	△ 2018 vs 2017 in %	Acquisition effect	Currency effect	Organic Growth
Baby & Toddler Food	392.0	395.5	-0.9%	-	-0.5%	-0.4%
Natural Spreads	260.1	256.5	1.4%	-	1.4%	0.0%
Healthy Snacks	115.8	111.4	3.9%	-	2.7%	1.2%
Gluten Free	48.8	51.9	-6.0%	-	0.8%	-6.8%
Baby & Toddler Milk	130.3	131.7	-1.1%	-	0.4%	-1.5%
Specialties	211.3	200.5	5.4%	-	1.5%	3.9%
HERO GROUP	**1 158.3**	**1 147.5**	**0.9%**	**-**	**0.7%**	**0.2%**

* adjusted for the effect of discontinued operations

income from insurance proceeds and the release of provisions. The Operating Profit Margin reached 7.9%, up from 7.3% in 2017.

In 2018, the **Gross Profit Margin** improved further, from 33.2% in 2017 to 33.7% in the year under review. As in prior year, Hero continues its efforts to execute its plan for sustainable profitable growth. The acceleration of the Gross Margin is driven by a number of initiatives, such as product portfolio optimization, supply chain, and procurement efficiencies as well as commercial efforts.

The additional gross profit is invested in **Advertising & Promotion** and the marketing and sales organisation to help the business grow. **Advertising & Promotion (A&P)** expenses were up by CHF 4.6 million, increasing to 9.9% of Net Sales (PY 9.6% of Net Sales).

Operating expenses in marketing & sales, research & development, and administrative expenses increased from CHF 183.5 in 2017 to CHF 188.2 million in 2018. Additional investments are focused on strengthening sales force, building capabilities in sales, marketing and innovation, as well as enabling tools and information technology.

Other operating income of the year (CHF 7.5 million) includes proceeds from an insurance settlement in the US and the release of provisions from legal claims. Other operating expenses totalled CHF 4.2 million (PY CHF 6.3 million) and related to costs for organizational changes and losses on disposal of fixed assets.

Financial result and taxes

The **net Finance Expense** for the year amounts to CHF 9.3 million. Whereas in 2017 a positive foreign exchange result helped to reduce financial expenses, in 2018 the Group had foreign exchange losses of CHF 3.1 million related to hedging activities. On the other hand, interest expenses were further reduced to CHF 5.8 million compared to CHF 6.9 million in 2017. Lower debt levels as well as the continuing favorable interest environment helped to improve the interest result over prior year.

In 2018, **Income Tax Expense** amounted to CHF 21.1 million representing an overall tax rate of

25.9% compared to a tax rate of 34.9% in prior year. The reduction in income tax expenses is a result of lower enacted tax rates and improved profitability in the US.

Net Income

The Group's Net Income increases significantly to CHF 62.9 million in 2018 from CHF 20.9 million in 2017. As last year's Net Income was significantly impacted by the US tax reform, the development of Net Income for the year from continuing operations provides a more comparable picture. **Net Income from continuing operations** reached CHF 60.6 million, a 20.0% increase over prior year. **Net income for the year from discontinued operations** relates to the specialties business in the US, which was sold at the end of October 2018.

The net income from these discontinued operations amounts to CHF 2.2 million and is made up by an operational profit of CHF 4.7 million from the first 10 months of the year, a disposal gain of CHF 13.2 million and a tax expense in relation to the sale of CHF 15.7 million. The prior year numbers for this business (net loss of CHF 29.6 million) were affected by the tax reform in the US.

Cash Flow

The **Cash Flow** from operating activities before changes in net working capital was CHF 130.3 million, down by CHF 9.8 million mainly as the prior year includes the full year of operating cash flows of the US business, which was sold in 2018. The Cash Flow from investing activities of CHF 128.7 million includes the proceeds from the sale of Signature Brands in the US as well as investments in property, plant and equipment, totaling CHF 43.3 million (PY CHF 41.6 million). Major investments in 2018 were made into the production of baby and toddler milk in Sweden, the baby and toddler pouch packaging in the US, as well as jam production lines in Germany.

Net Debt and Equity

With the sale of Signature Brands, Hero significantly reduced its **Net Debt** to CHF 104 million as of December 31, 2018 (PY CHF 252.9 million). Consequently, the Net Debt / EBITDA ratio was further reduced to a very solid level of 0.8 (PY 2.0). The current financing structure provides a good basis to grow the company's core activities, either by investing to fuel the Organic Growth of the company or through potential acquisitions. Hero's **equity ratio** increased to 53.5% (CHF

726.1 million) compared to 47.5% (CHF 696.6 million) in the prior year.

Risks

Hero follows an Enterprise Risk Management approach in which the Group systematically captures strategic, operational, financial, and compliance risks from all entities.

Regulatory changes in the baby and toddler milk business in China continue to be a risk for the Group.

In Emerging Markets, political and economic instability remains a major risk. In the UK, the withdrawal of the United Kingdom from the European Union (Brexit) has the potential to cause sourcing risks including additional tariffs.

Hero operates and invests in several markets around the globe, which causes currency risks. Currency fluctuations remain a risk for the company, e.g. in Emerging Markets or the UK related to Brexit. However, the Group's currency transaction risks are limited since the local entities' costs and revenues are predominantly in the same currency.

Further risks for the Group include product safety, raw material prices, cybersecurity issues, and potential under coverage of pension funds.

The results of the risk assessment are reported to the Board of Directors and appropriate measures are taken to mitigate or transfer these risks.

Outlook

The economic outlook for the markets in which Hero operates are still positive even though at a lower level than in 2018. Growth prospects in developed markets, especially in Europe, remain moderate. In addition, the economic development in several countries where Hero operates appears vulnerable in light of Brexit, ongoing trade disputes, and a general tendency to more protectionism. Despite these issues, Hero is confident that it can accelerate its growth at a sustainable profitable level in 2019.

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERO GROUP

Content

CONSOLIDATED INCOME STATEMENT

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

	Note	2018	2017 restated*
Continuing operations			
Net Sales		**1 158 262**	**1 147 453**
Cost of sales		(701 940)	(703 353)
Distribution expense		(66 025)	(62 788)
Gross profit		**390 297**	**381 312**
Advertising and promotion		(114 241)	(109 638)
Marketing and sales		(95 115)	(88 318)
Research and development		(12 495)	(12 804)
Administrative expense		(80 636)	(82 392)
Other income	1	7 482	2 039
Other expense	1	(4 228)	(6 283)
Operating profit		**91 064**	**83 916**
Finance income	2	1 809	8 112
Finance expense	2	(11 096)	(14 431)
Income before tax		**81 777**	**77 597**
Income tax expense	5	(21 150)	(27 053)
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**60 627**	**50 544**
Discontinued operations			
PROFIT / (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	25	**2 244**	**(29 620)**
INCOME FOR THE YEAR		**62 871**	**20 924**
Attributable to:			
Equity holders of the parent		62 101	19 969
Non-controlling interests		770	955
INCOME FOR THE YEAR		**62 871**	**20 924**

* Restated: see section "Basis for preparation - restatement of prior year"

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.–

	2018	2017
INCOME FOR THE YEAR	**62 871**	**20 924**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(18 597)	23 892
Income tax effects	(67)	253
	(18 664)	24 145
Net gain on cash flow hedge	345	511
Income tax effects	(122)	(77)
	223	434
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(18 441)**	**24 579**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land	-	(1 161)
Income tax effects	(91)	291
	(91)	(870)
Remeasurement (losses) / gains on defined benefit plans	(469)	12 105
Income tax effects	207	(3 078)
	(262)	9 027
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**(353)**	**8 157**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(18 794)**	**32 736**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**44 077**	**53 660**
Total comprehensive income attributable to:		
Equity holders of the parent	44 924	53 414
Non-controlling interests	(847)	246
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**44 077**	**53 660**

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	2018	2017
Non-current assets			
Property, plant and equipment	7	369 966	389 420
Intangible assets	8	440 952	574 563
Investments in associated companies		148	150
Non-current receivables	10	34 724	7 476
Deferred tax assets	11	9 896	30 832
TOTAL NON-CURRENT ASSETS		**855 686**	**1 002 441**
Current assets			
Inventories	12	161 396	169 761
Financial assets at fair value	21	809	2 612
Income tax receivables		4 386	8 824
Trade receivables, prepayments and other receivables	13	145 156	177 713
Cash and cash equivalents	14	190 803	105 489
TOTAL CURRENT ASSETS		**502 550**	**464 399**
TOTAL ASSETS		**1 358 236**	**1 466 840**

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

in CHF 1000.–

Equity and liabilities	Note	2018	2017
Shareholders' equity			
Share capital	15	62 133	62 133
Share premium		63 632	63 632
Hybrid capital	15	198 779	198 779
Treasury shares		(4 249)	(4 249)
Other reserves	15	(225 783)	(191 999)
Retained earnings		622 136	557 725
Equity attributable to the equity holders of the parent		**716 648**	**686 021**
Non-controlling interests		**9 448**	**10 569**
TOTAL EQUITY		**726 096**	**696 590**
Non-current liabilities			
Borrowings	16, 21	1 347	27 222
Debentures	16, 21	264 838	264 731
Deferred tax liabilities	11	24 805	35 157
Net employee defined benefit liabilities	17	71 170	74 384
Provisions	18	16 305	20 795
Other liabilities	19	1 357	3 024
Total non-current liabilities		**379 822**	**425 313**
Current liabilities			
Trade and other payables	20	214 084	271 876
Income tax payables		5 658	3 733
Derivative financial liabilities	21	387	321
Borrowings	16, 21	28 716	66 433
Provisions	18	3 473	2 574
Total current liabilities		**252 318**	**344 937**
TOTAL LIABILITIES		**632 140**	**770 250**
TOTAL EQUITY AND LIABILITIES		**1 358 236**	**1 466 840**

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

CHANGES IN EQUITY

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

	Attributable to equity holders of the company						Non-controlling interests	Total equity
	Share capital (note 15)	Share premium (note 15)	Hybrid capital (note 15)	Treasury shares (note 15)	Other reserves (note 15)	Retained earnings		
BALANCE AT JANUARY 1, 2017	**62 047**	**62 993**	**198 779**	**(3 524)**	**(225 444)**	**577 385**	**10 323**	**682 559**
Income for the year	–	–	–	–	–	19 969	955	20 924
Other comprehensive income	–	–	–	–	33 445	–	(709)	32 736
Total comprehensive income	**–**	**–**	**–**	**–**	**33 445**	**19 969**	**246**	**53 660**
Capital increase and exercise of options *	86	639	–	(725)	–	–	–	–
Distribution on hybrid capital third parties	–	–	–	–	–	(4 258)	–	(4 258)
Dividend payments to the parent	–	–	–	–	–	(35 371)	–	(35 371)
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**62 133**	**63 632**	**198 779**	**(4 249)**	**(191 999)**	**557 725**	**10 569**	**696 590**
Income for the year	–	–	–	–	–	62 101	770	62 871
Other comprehensive income	–	–	–	–	(17 177)	–	(1 617)	(18 794)
Total comprehensive income	**–**	**–**	**–**	**–**	**(17 177)**	**62 101**	**(847)**	**44 077**
Discontinued operations reclassification	–	–	–	–	(16 607)	16 607	–	–
Distribution on hybrid capital third parties	–	–	–	–	–	(4 270)	–	(4 270)
Dividend payments to the parent	–	–	–	–	–	(10 027)	-	(10 027)
Dividend payments to non-controlling interests	–	–	–	–	–	-	(274)	(274)
BALANCE AT DECEMBER 31,2018	**62 133**	**63 632**	**198 779**	**(4 249)**	**(225 783)**	**622 136**	**9 448**	**726 096**

* In connection with long-term incentive plan. These shares are accounted as treasury shares rather than a sale of shares to plan participants.

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	2018	2017
Cash flows from operating activities			
Income for the year		62 871	20 924
Adjustments for:			
Tax expense	5, 25	39 996	76 942
Depreciation	7	32 182	32 342
Amortization	8	5 514	7 273
Pre-tax gain on disposal of Signature Brands	25	(16 372)	–
Fair value result, net		2 195	(7 278)
Interest income	2	(1 562)	(801)
Interest expense	2	5 797	6 881
Net loss in foreign exchange		(361)	3 771
Cash flows before changes in net working capital		**130 260**	**140 054**
Inventories		(26 657)	8 961
Trade and other receivables		(1 503)	(731)
Trade and other payables		(26 359)	338
Accruals and provisions		(20 827)	9 957
Changes in net working capital		**(75 346)**	**18 525**
Interest paid		(6 068)	(6 645)
Income tax paid		(15 953)	(16 792)
NET CASH FROM OPERATING ACTIVITIES		**32 893**	**135 142**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(43 295)	(41 635)
Purchase of intangible assets	8	(3 221)	(5 124)
Payment interest rate swap and other		(68)	(83)
Loans repayments received / (made)		461	(488)
Disposal of subsidiaries, net of cash disposed	25	173 027	-
Disposal of intangible assets		-	87
Proceeds from sale of property, plant and equipment		589	319
Interest received		1 157	802
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**128 650**	**(46 122)**

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

	Note	2018	2017
Cash flows from financing activities			
Distribution on hybrid capital third parties		(4 270)	(4 258)
Proceeds from loans to related parties		-	14 443
Proceeds from bank loans		5 861	3 461
Repayment of bank loans		(68 221)	(65 259)
Repayment of non-current financial liabilities		(425)	(1 039)
Capital increase		-	236
Payment of dividends to shareholders	6	(10 027)	(35 371)
Payment of dividends to non-controlling interests		(274)	-
NET CASH USED IN FINANCING ACTIVITIES		**(77 356)**	**(87 787)**
INCREASE IN CASH AND CASH EQUIVALENTS		**84 187**	**1 233**
Movement in cash and cash equivalents			
At start of year		105 489	99 039
Increase in cash and cash equivalents		84 187	1 233
Effects of exchange rate changes on cash and cash equivalents		1 127	5 217
AT END OF YEAR	**14**	**190 803**	**105 489**

Non-cash transactions

In 2018, Hero received a seller note of CHF 30.6 million as part of the disposal consideration for Signature Brands.

In 2017 no significant non-cash transactions took place.

Line items in the consolidated cash flow statement include cash flows related to both continuing and discontinued operations. The cash flow information of discontinued operations is disclosed in note 25.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General

Hero AG (Hero) is a limited liability company headquartered in Lenzburg, Switzerland. Schwartau International GmbH, Bad Schwartau, Germany, a subsidiary of AOH Nahrungsmittel GmbH & Co. KG, Germany, holds 99.0% of the share capital of Hero, 0.7% are held by executive board members in relation with the long term incentive plan and 0.3% are held by Hero. The Group's primary activities are the production and selling of consumer food products in the product areas of natural spreads, healthy snacks, baby and toddler food, baby and toddler milk, gluten-free products and specialties which are sold in Europe, North America and Emerging Markets. At the end of 2018 the Group had 4 070 full time employees (2017: 4 133). 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 14, 2019, and are subject to approval by the annual general meeting of shareholders to be held on March 28, 2019.

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, 2018, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historic cost convention, unless otherwise stated (i.e. revaluation of land, certain financial assets and liabilities at fair value). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's Accounting Principles.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Accounting Principles: Critical Accounting Estimates, Assumptions and Judgements.

Changes in accounting policies and disclosures

The Group applies IFRS 9 and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- IFRS 9 – Financial Instruments effective as of 1 January 2018:

IFRS 9 brings together all three aspects of the Accounting for Financial Instruments project: classification and measurement, impairment and hedge accounting.

Hero has performed a detailed impact analysis concluding that IFRS 9 does not have a material impact on the consolidated financial statements and no first adoption adjustment in equity was required as of 1 January 2018. The consequential amendments to IFRS 7, have, however, resulted in additional disclosures which are mainly included in notes 13 and 21. Comparative Information for 2017 has not been restated.

- IFRS 15 - Revenue from Contracts with Customers effective as of 1 January 2018:
IFRS 15 supersedes IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method. The adoption of the new requirements of IFRS 15 did not have any impact on retained earnings as of January 1, 2018. The adoption of IFRS 15 resulted in the reclassification of certain considerations paid to customers from promotions to deduction of net sales. However, Hero concluded that the adoption of IFRS 15 had no material impact in 2017 and 2018, respectively. The change did not have an impact on the balance sheet, OCI and cash flow statement.

Status of adoption of significant new or amended IFRS standards or interpretations

The following new IFRS standards will, based on a Hero analysis, be of relevance to the Group. There are no plans to adopt any standard or amendment prior to the mandatory effective date.

- IFRS 16 Leases (effective January 1, 2019) substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet of approximately CHF 19 million. It is expected that the depreciation of the right of use assets and interest expense approximate the lease payments. The standard replaces IAS 17 Leases. The Group will adopt the new standard in 2019 applying the modified retroactive approach with no restatement of 2018 figures.
There are no other IFRS standards or interpretations which are not yet effective which would be expected to have a material impact on the Group.

Restatement of prior year

The Group disposed of its 100% membership interest in Signature Brands LLC as per October 25, 2018. Signature Brands was a cash generating unit included in the operating segment North America and met the criteria of IFRS 5 of a discontinued operation. The current year and prior year results of Signature Brands are presented as discontinued operations, see note 25. Prior year figures in the income statement were restated accordingly. The table below shows the adjustments to the 2017 income statement. The balance sheet 2017 did not change.

for the year ended December 31
Hero Group

in CHF 1000.–

	2017 reported	reclassi-fications	2017 restated
Continuing operations			
Net Sales	**1 280 977**	**(133 524)**	**1 147 453**
Cost of sales	(785 425)	82 072	(703 353)
Distribution expense	(71 453)	8 665	(62 788)
Gross profit	**424 099**	**(42 787)**	**381 312**
Advertising and promotion	(112 200)	2 562	(109 638)
Marketing and sales	(97 029)	8 711	(88 318)
Research and development	(12 804)	-	(12 804)
Administrative expense	(92 476)	10 084	(82 392)
Other income	2 039	-	2 039
Other expense	(6 283)	-	(6 283)
Operating profit	**105 346**	**(21 430)**	**83 916**
Finance income	8 112	-	8 112
Finance expense	(15 592)	1 161	(14 431)
Income before tax	**97 866**	**(20 269)**	**77 597**
Income tax expense	(76 942)	49 889	(27 053)
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**20 924**	**29 620**	**50 544**
Discontinued operations			
INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	**-**	**(29 620)**	**(29 620)**
INCOME FOR THE YEAR	**20 924**	**-**	**20 924**
Attributable to:			
Equity holders of the parent	19 969	-	19 969
Non-controlling interests	955	-	955
INCOME FOR THE YEAR	**20 924**	**-**	**20 924**

Consolidation

Consolidation Method

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

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

Business Combinations

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

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

Any contingent consideration to be transferred by the acquirer 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.

Investments, where Hero has significant influence (generally accompanying a shareholding of between 20% and 50% of the voting rights) but neither control nor joint control, are accounted for using the equity method and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

A list of investments, the investment percentage and the applicable consolidation method can be found in note 27.

Eliminations in the Course of Consolidation

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

Related Parties

Include AOH Nahrungsmittel Group companies (Germany), members of the Board of Directors and Executive Board.

Changes in the Scope of Consolidation

The Group disposed its 100% membership interest in Signature Brands LLC as per October 25, 2018. Refer to note 25 for the financial effects of this transaction.

Foreign Currency Translation

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

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

Foreign Exchange Rate Table

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

	2018	2017
AVERAGE EXCHANGE RATES		
EUR/CHF	1.1545	1.1110
USD/CHF	0.9779	0.9847
GBP/CHF	1.3050	1.2679
SEK/CHF	0.1126	0.1152
CLOSING EXCHANGE RATES		
EUR/CHF	1.1269	1.1678
USD/CHF	0.9855	0.9764
GBP/CHF	1.2546	1.3157
SEK/CHF	0.1100	0.1186

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation differences arising from Group company loans which have the characteristics of a long-term investment are recorded in other comprehensive income.

In the event of a sale of a foreign company all translation differences accumulated since the purchase of the said company are released and included in the calculation of disposal gain or loss and fully disclosed as such.

Open monetary balances denominated in foreign currencies and recorded in the accounts of Group companies at the balance sheet date are revalued using the prevailing exchange rate as at the balance sheet date. The differences resulting from these revaluations are recorded in the income statement for the period.

Accounting Policies

Revenue Recognition

Revenue from contracts with customers

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

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

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

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

Segment Reporting

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

Research and Development Costs

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

Deferred Taxes

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

Unused tax credits and unused tax losses which may be carried forward to future accounting periods are capitalized as deferred tax assets in so far as it is probable that future taxable income will be generated in the same tax entity and same taxation authority and the said losses may be applied against such profits.

The carrying amount of deferred income taxes is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

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

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

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

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

Current Income Tax

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

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

Government Grants and Other Subsidies

Government grants are recognized only when the Group complies with the applicable conditions and if there is reasonable assurance that the grants will be received. Government grants are deferred and recognized in the income statement over the period necessary to match them with the related costs which they are intended to compensate on a systematic basis, or the carrying amount of the asset to which the grant relates is reduced by the grant. The grant is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Inventories

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

Property, Plant and Equipment

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

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

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

Land is recognized at fair value, based on periodic valuations by external independent valuers. Increases in the carrying amount arising on revaluation of land are credited to other comprehensive income in the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income in other reserves; all other decreases are charged to the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Leases

Leases where the Group has substantially retained all the risks and rewards of ownership are classified as finance leases.

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 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 5 years),
- Customer relationships (up to 10 years),
- Distribution Network (up to 5 years),
- Other intangibles (3 to 5 years).

Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually or when there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

Provisions

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

Pension Obligations

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

The pension plans in Switzerland have been set up according to the Swiss method of defined contributions but do not fulfill all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit plans in the consolidated financial statements.

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

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

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

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

Past-service costs are recognized immediately as an expense in the income statement.

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

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

Financial Instruments

General

The Group classifies financial assets in the following categories: financial assets at fair value through profit or loss or subsequently measured at amortised cost. The classification depends on contractual cash flow characteristics and the Group's business model for managing them. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

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

Financial assets at fair value through profit or loss

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

Financial assets at amortised cost

Financial assets with fixed or determinable payments that are held to collect contractual cash flows and give rise on specified dates to cash flows representing solely payments of principal and interest. They arise when the Group provides goods or services to customers with no intention of trading the associated receivable or when the Group lends funds to other parties. Trade receivables are initially measured at the transaction price that is expected to be received and subsequently measured at amortised cost. Financial assets at amortised cost comprise cash and cash equivalents, trade receivables and certain other receivables.

The allowance for bad debts is based on the expected credit loss model required by IFRS 9. According to IFRS 9, it is no longer necessary for a loss event to occur before an impairment loss is recognized. Hero incorporates forward-looking information into its historical customer default rates, grouping receivables by customer sector and credit rating and taking into account the existence of collateral, if any. For trade receivables, Hero applies the simplified approach and recognises lifetime expected credit losses.
Until 31 December 2017 the group applied an incurred loss model.

Borrowings (Financial liabilities at amortised cost)

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

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

Interest income

Interest income is recognized using the effective interest method.

Dividend income

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

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting including the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

Cash flow hedges are accounted for, as described below:

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

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions. The ineffective portion relating to foreign currency contracts is recognised in profit or loss.

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

If the hedged transaction subsequently results in the recognition of a non-financial item, the amount is removed from the cash flow hedge reserve and included in the initial cost of the non-financial asset or liability. For other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss in the same periods during which the hedged cash flows affect profit or loss.

Fair Value Estimation

The fair value of publicly traded derivatives and trading securities measured at fair value is based on quoted market prices at the balance sheet date. The fair value of 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 carrying amounts of short-term financial assets and liabilities are generally 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.

Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in credit risk, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and usually seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts 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 uses foreign currency-denominated cash and cash equivalents, borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 18 months.

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales mainly in SEK, EUR and GBP and forecast purchases mainly in EUR, GBP, USD. These forecast transactions are highly probable, and they comprise about 50-75% of the Group's total expected export sales and of its total expected purchases in foreign currencies.

While the Group also enters into other foreign exchange forward contracts with the intention of reducing the foreign exchange risk of financing transactions, these are not designated in hedge relationships and are measured at fair value through profit or loss.

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognised in the statement of profit or loss. Notional amounts are as provided in note 21.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The Group tries to reduce the currency exposure through borrowings in the corresponding currencies where possible and economically prudent.

The Group uses a risk computation similar to Value-at-Risk (VAR). It includes financial instruments (mainly currency forwards) as well as balance sheet positions and future operating cash flows (non-discounted) in foreign currency. The estimates are made assuming normal market conditions, using a 99% confidence interval. The correlations between currency pairs and the volatilities are observed over a 360 day period.

The estimated potential intra-day loss in the VAR model amounts to TCHF 944.5 as per December 31, 2018 (2017: confidence interval 99%; TCHF 406.7).

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.

	increase/ (decrease) in USD/EUR/ GBP/SEK rate	Effect on profit before tax in CHF 1000.–	Effect on equity in in CHF 1000.–
2018	5%	1 413	3 922
	(5%)	(1 413)	(3 922)
2017	5%	2 166	125
	(5%)	(2 166)	(125)

Interest Rate Risk

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

The Group's long-term borrowings are with fixed maturity and interest rates. The Group is only exposed to interest risk in case of refinancing of matured borrowings.

Credit Risk

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative and cash transactions are limited to highly creditworthy financial institutions. Other credit risk exposures are minimized by dealing only with a limited range of counterparties. The Group also makes loans to related parties. Where material the Group seeks adequate pledges or guarantees. The maximum credit risk represents the net carrying value of the loans and receivables.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents [note 14]) on the basis of expected cash flows.

Liquidity Risk Table

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

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

in CHF 1000.– at December 31, 2017	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	(2 612)	(2 612)	-	-	-	-	(2 612)
Forward contracts – cash outflow	322	322	-	-	-	-	322
Forward contracts – net	(2 290)	(2 290)	-	-	-	-	(2 290)
Borrowings	93 655	70 192	25 480	-	-	735	96 407
Debentures	264 731	3 002	3 002	133 002	1 363	136 363	276 732
Trade and other payables	259 394	259 394	-	-	-	-	259 394

Critical Accounting Estimates, Assumptions and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Goodwill

The Group tests annually in December whether goodwill has suffered any impairment, in accordance with the valuation principles stated in Accounting Policies, Intangible Assets. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

These calculations use cash flow projections based on financial budgets approved by management and forecasts covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rates stated below. The growth rates generally correspond to the inflation rates plus general real gross domestic product (GDP) growth of the corresponding country. They are individually assessed and in case where management expects a significant deviation from general economic conditions they might be adjusted.

Management determined budgeted growth rates based on past performance and its expectations for the market development. Where general industry forecasts do not reflect the growth expecations of management for specific businesses, the growth rates used depart from forecasts included in such industry reports in order to better reflect the specific growth potentials expected by management. These assumptions have been used for the analysis of each CGU. The discount rates used are pre-tax and reflect specific risks relating to the relevant country.

The growth rate used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test. For all CGU's no reasonable possible change in any key assumptions would lead to an impairment.
In 2018, no goodwill was impaired.

Brands with indefinite life

The Group tests annually whether brands with indefinite life are impaired. These calculations require the use of estimates.

The discount rates used are pre-tax and reflect specific risks relating to the relevant country. The growth rates used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test.
In 2018, no impairment was identified.

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

December 31, 2018 CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2018-2023	Profit margin change between years 2018 and 2023	Impairment
		in CHF million	in %	in %	in %	in %	
Schwartauer Werke	166.3	20.6	2.6	6.6	1.5 - 2.8	-	no
Semper/Eastern Europe Infant Business	81.9	48.7	2.0	6.9	2.3 - 4.4	(0.1)	no
Benelux Infant	19.4	-	2.1	6.8	(4.5) - 5.7	4.5	no
Organix	24.7	21.0	2.0	7.7	1.4 - 7.6	1.9	no
Vitrac	2.7	-	7.0	20.8	7.0 - 18.1	0.9	no
Beech-Nut	-	17.6	2.2	14.7	1.2 - 19.5	-	no
Hero Brasil (former Kiviks)	4.6	3.8	4.0	15.3	4.0 - 17.4	2.3	no
Other	3.7	11.5	-	-	-	-	no
TOTAL	**303.3**	**123.2**					

December 31, 2017 CGU	Goodwill	Indef. life Brand	Perpetual growth	Wacc pre-tax	Growth rates p.a. years 2018-2023	Profit margin change between years 2018 and 2023	Impairment
		in CHF million	in %	in %	in %	in %	
Schwartauer Werke	172.4	21.3	2.5	7.2	2.3 - 2.5	(0.6)	no
Semper/Eastern Europe Infant Business	88.5	49.6	2.0	7.5	2.1 - 8.0	0.8	no
Signature Brands	71.3	32.8	2.3	10.3	(3.2) - 2.3	(1.7)	no
Benelux Infant	19.4	-	1.6	7.6	(7.7) - 1.6	2.1	no
Organix	25.9	22.0	2.0	8.1	2.0 - 3.0	1.0	no
Vitrac	2.7	-	7.1	23.7	7.1 - 17.7	(1.1)	no
Beech-Nut	-	17.4	2.3	10.3	2.2 - 10.4	–	no
Hero Brasil (former Kiviks)	5.4	4.4	4.0	18.1	4.0 - 20.2	2.1	no
Other	3.7	11.7	–	–	–	–	no
TOTAL	**389.3**	**159.2**					

Income taxes

As described in note 5, the Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognized tax loss carryforwards

The Group has recognized deferred tax assets in relation to the recoverability of tax loss carryforwards (note 11). The recoverability of such assets is based on the ability of the entity to which the losses relate to generate future taxable profits. These calculations require the use of estimates. Management re-evaluates the recoverability at each balance sheet date.

Provisions

The Group has provisions for various cases based on estimates (note 18). Such estimates are based on the Group's experience, taking also into account economic conditions. Management believes that the total provisions for these items is adequate, based upon currently available information. As these provisions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions recognized in the balance sheet in future periods and consequently the expenses recognized in the income statement in future periods.

Pension benefits

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations (note 17). An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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 2018 and 2017 the Group complied with this requirement. See also comments in note 16 on "Covenants".

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new capital. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. No changes were made in the objectives, policies or processes during the years ended December 31, 2018, and December 31, 2017.

This gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings/debentures" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2018, and December 31, 2017, were as follows:

in CHF 1000.-	2018	2017
Total borrowings / debentures	294 901	358 386
Less: cash and cash equivalents	(190 803)	(105 489)
Net debt	104 098	252 898
Equity attributable to the equity holders of the parent	716 649	686 021
Gearing ratio	15%	37%

1. DETAILS ON OTHER INCOME / EXPENSE

in CHF 1000.–	Note	2018	2017*
Reversal accruals and provision		3 534	108
Insurance recovery		2 449	-
Stock refunds		342	326
Government grants	4	402	409
Compensation for damages		106	454
Gain on disposal of assets		13	34
Other		636	708
TOTAL OTHER INCOME		**7 482**	**2 039**
Cost for organizational changes and restructuring		(1 653)	(2 337)
Compensation and destruction of channel inventory		-	(2 325)
Accruals and provisions		-	(693)
Loss on disposal of assets		(1 013)	(256)
Other		(1 562)	(672)
TOTAL OTHER EXPENSE		**(4 228)**	**(6 283)**

* Restated: see section "Basis for preparation - restatement of prior year"

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

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

In 2017 the main cost were related to organizational changes in the US business and Spain.

Compensation and destruction of channel inventory in 2017 mainly include one-off costs in relation to the destruction of baby & toddler milk channel inventory for our business in China.

2. FINANCE INCOME/EXPENSE

in CHF 1000.–	2018	2017*
Interest income	1 562	801
Gains from financial instruments at fair value through profit and loss	83	7 278
Other financial income	164	33
TOTAL FINANCE INCOME	**1 809**	**8 112**
Interest expense	(5 797)	(6 881)
Net foreign exchange losses	(808)	(3 601)
Losses from financial instruments at fair value through profit and loss	(2 278)	-
Other financial expense	(2 213)	(3 949)
TOTAL FINANCE EXPENSE	**(11 096)**	**(14 431)**

* Restated: see section "Basis for preparation - restatement of prior year"

3. ADDITIONAL INFORMATION ON THE NATURE OF EXPENSE

in CHF 1000.–	Note	2018	2017*
Wages and salaries		(182 702)	(171 936)
Social security costs		(39 336)	(38 168)
Pension costs – defined contribution plans		(4 852)	(3 867)
Pension costs – defined benefit plans	17	(3 444)	(3 381)
TOTAL PERSONNEL EXPENSE		**(230 334)**	**(217 352)**

* Restated: see section "Basis for preparation - restatement of prior year"

The Group employed 4'070 full time employees in 2018 (2017: 4'133).

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

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

Year ended December 31, 2017*		Property, plant and equipment	Intangible assets
	Note	Depreciation	Amortization
Cost of sales		(25 526)	(198)
Distribution expense		(601)	-
Marketing and sales		(230)	(2 369)
Research and development		(667)	(412)
Administrative expense		(2 243)	(1 103)
Other expense		(306)	-
TOTAL CONTINUING OPERATIONS		**(29 573)**	**(4 082)**
Discontinued operations		(2 769)	(3 191)
TOTAL	7,8	**(32 342)**	**(7 273)**

* Restated: see section "Basis for preparation - restatement of prior year"

4. GOVERNMENT GRANTS DEDUCTED FROM EXPENSE

in CHF 1000.–	2018	2017*
Government grants for Beech-Nut infant food plant	2 406	2 007
Export subsidies in Egypt	671	733
Government grants for Schwartauer Werke jam factory	347	334
Government grants for factory equipment in Spain	133	135
Government grants for research projects in Spain	14	177
Spanish education grant	83	65
Other	164	186
TOTAL GOVERNMENT GRANTS	**3 818**	**3 637**

Government grants are deducted from the following type of expense:

in CHF 1000.–	Note	2018	2017*
Government grants deducted from cost of sales		3 273	3 156
Government grants included in other income	1	402	409
Government grants deducted from administrative expense		111	72
Government grants included in financial expenses		32	-
TOTAL GOVERNMENT GRANTS		**3 818**	**3 637**

* Restated: see section "Basis for preparation - restatement of prior year"

5. INCOME TAX

in CHF 1000.–	2018	2017*
Current income tax expense	(17 270)	(16 649)
Current income tax expense relating to prior periods	(597)	(300)
Deferred tax expense	(3 283)	(10 104)
TOTAL INCOME TAX EXPENSE	**(21 150)**	**(27 053)**

Analysis of tax rate

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

in CHF 1000.–	2018	2017*
Income before taxes	**81 777**	**77 567**
Tax expense based on expected Group tax rate of the year	(19 722)	(17 149)
	24.1%	22.1%
Impact of expense not entitled for deduction for tax purposes	(3 524)	(10 592)
Impact of non taxable income and exclusively tax deductible expense	1 688	3 172
Impact of tax expense related to profits of other periods and other items	(549)	(198)
Utilization of previously unrecognized tax losses	132	-
Reassessment of recognized tax losses of prior periods **	219	(3 203)
Impact of deferred taxes on hybrid coupon	804	804
Impact of difference between statutory and deferred tax rate	(284)	266
Impact of tax law changes ***	86	(153)
EFFECTIVE GROUP TAX EXPENSE	**(21 150)**	**(27 053)**

* Restated: see section "Basis for preparation - restatement of prior year"
** Mainly relates to US and Swiss tax loss carry forwards which were reassessed in 2018 and 2017.
*** The US tax law enacted in 2017 led to a reduction of the US tax rates and a reassessment of certain tax loss carryforward components.

6. DIVIDEND

At the Annual General Meeting in 2019 no dividend in respect of 2018 is to be proposed (dividend in respect of 2017 which was paid out in 2018: CHF 10.1 million). Any dividends payable for treasury shares held in connection with the long-term incentive plan are treated as personnel expense.

7. PROPERTY, PLANT AND EQUIPMENT

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Cost or valuation					
BALANCE AT JANUARY 1, 2017	**32 247**	**261 086**	**381 367**	**34 145**	**708 845**
Additions	232	4 945	32 657	3 801	41 635
Decrease/disposals of assets	-	(147)	(2 159)	(1 311)	(3 617)
Revaluation	(1 161)	-	-	-	(1 161)
Reclassifications	-	2	(7)	(1 123)	(1 128)
Foreign exchange differences	387	(588)	9 493	1 414	10 706
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**31 705**	**265 298**	**421 351**	**36 926**	**755 280**
Additions	-	3 979	34 771	4 545	43 295
Decrease/disposals of assets	-	(122)	(3 331)	(367)	(3 820)
Discontinued operations	(2 499)	(19 129)	(27 881)	(3 192)	(52 701)
Foreign exchange differences	(2 138)	(4 030)	(10 566)	(1 038)	(17 772)
BALANCE AT DECEMBER 31, 2018	**27 068**	**245 996**	**414 344**	**36 874**	**724 282**
Accumulated depreciation					
BALANCE AT JANUARY 1, 2017	**7**	**67 026**	**237 458**	**22 627**	**327 118**
Additions	3	8 069	21 575	2 695	32 342
Decrease/disposals of assets	-	(147)	(1 877)	(1 274)	(3 298)
Reclassifications	-	-	(1)	(645)	(646)
Foreign exchange differences	-	1 781	7 698	865	10 344
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**10**	**76 729**	**264 853**	**24 268**	**365 860**
Additions	3	7 968	21 087	3 124	32 182
Decrease/disposals of assets	-	(122)	(2 774)	(335)	(3 231)
Discontinued operations	-	(7 431)	(21 769)	(2 078)	(31 278)
Foreign exchange differences	(1)	(1 604)	(7 002)	(610)	(9 217)
BALANCE AT DECEMBER 31, 2018	**12**	**75 540**	**254 395**	**24 369**	**354 316**
Carrying amount					
At January 1, 2018	31 695	188 569	156 498	12 658	**389 420**
At December 31, 2018	27 056	170 456	159 949	12 505	**369 966**

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Spain and Turkey (2017: Spain and Turkey). If land were stated on the historical cost basis, the amounts would be as follows:

in CHF 1000.–	2018	2017
Land at historical cost	19 609	24 067
Land at historical depreciation	(12)	(10)
NET BOOK AMOUNT	**19 597**	**24 057**

Fair value of the land was determined by using market comparable method. This means that valuations performed by the appraiser are based on market transactions, adjusted for difference in the nature, location or condition of the specific land. The last external valuation for Spain was carried out in December 2017 by Gesvalt and for Turkey in September 2015 by TSKB. Both companies are accredited independent valuers. As significant unobservable valuation input the price per square meter in Spain was in a range between EUR 57 to EUR 165 and in Turkey between TRY 560 to TRY 880 depending on the land condition. In the fair value measurement hierarchy of the Group land is classified as level 3 instrument using significant unobservable inputs.

8. INTANGIBLE ASSETS

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT JANUARY 1, 2017	**412 126**	**220 594**	**95 689**	**69 988**	**798 397**
Additions	-	-	-	5 124	5 124
Decrease/disposals of assets	-	-	-	(544)	(544)
Reclassifications	-	11	-	1 072	1 083
Foreign exchange differences	16 444	3 094	(2 327)	(515)	16 696
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**428 570**	**223 699**	**93 362**	**75 125**	**820 756**
Additions	-	-	-	3 221	3 221
Decrease/disposals of assets	-	-	-	(20)	(20)
Discontinued operations	(71 394)	(40 439)	(45 327)	(27 469)	(184 629)
Foreign exchange differences	(14 677)	(5 587)	(1 038)	(982)	(22 284)
BALANCE AT DECEMBER 31, 2018	**342 499**	**177 673**	**46 997**	**49 875**	**617 044**
Accumulated amortization					
BALANCE AT JANUARY 1, 2017	**39 690**	**59 438**	**80 534**	**61 855**	**241 517**
Additions	-	973	1 580	4 720	7 273
Decrease/disposals of assets	-	-	-	(456)	(456)
Reclassifications	-	(29)	766	(135)	602
Foreign exchange differences	(414)	(133)	(1 678)	(518)	(2 743)
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**39 276**	**60 249**	**81 202**	**65 466**	**246 193**
Additions	-	974	1 228	3 312	5 514
Decrease/disposals of assets	-	-	-	(20)	(20)
Discontinued operations	-	(7 554)	(39 316)	(27 370)	(74 240)
Foreign exchange differences	(89)	(77)	(463)	(726)	(1 355)
BALANCE AT DECEMBER 31, 2018	**39 187**	**53 592**	**42 651**	**40 662**	**176 092**
Carrying amount					
At January 1, 2018	389 294	163 450	12 160	9 659	**574 563**
At December 31, 2018	303 312	124 081	4 346	9 213	**440 952**

Other intangibles

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

Recognised development costs

In 2018, no development costs were capitalized (2017: TCHF 0).

Impairment tests for goodwill

Goodwill and intangible assets with indefinite useful lives are allocated to the respective cash-generating units (CGUs), which for Goodwill primarily represents the legal entity. The recoverable amount of a CGU is determined based on value-in-use calculations. Refer to accounting policies for information about impairment testing and corresponding estimates.

Impairment of Goodwill and Brands

In 2018 as well as in 2017, the recoverable amounts exceeded the carrying amounts for all CGU's.

9. SEGMENT REPORTING

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

The segment Europe produces and sells mainly consumer food products such as natural spreads, healthy snacks, baby and toddler food, gluten free, baby and toddler milk and specialties.

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

The segment Emerging Markets mainly includes Egypt, Russia, Turkey, Brazil and China and produces and sells mainly consumer food products such as natural spreds, healthy snacks, baby and toddler food and baby and toddler milk.

In 2018, Signature Brands was classified and presented as a discontinued operation and is therefore no longer inlcuded in the segment North America and category specialties.

Unallocated amounts relate to Headquarter costs/transactions in relation to the finance, executive management and market organization at Headquarter level.

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

Average net working capital is composed of income tax receivables, trade and other receivables, prepayments and inventories less trade and other payables, short-term income tax payables and short-term provisions.

Non-current assets comprise property, plant and equipment and intangible assets.

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2018 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	829 880	176 514	151 868	-	1 158 262
Operating profit	104 211	456	23 716	(37 319)	91 064
Depreciation and amortization	(20 123)	(11 243)	(3 016)	-	(34 382)
Avg. net working capital - continuing operations	41 318	23 507	24 779	(652)	88 952
CAPEX (tangible) - continuing operations	35 092	4 859	2 477	-	42 428

INFORMATION ABOUT MAJOR COUNTRIES

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

INFORMATION ABOUT CATEGORIES

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

INFORMATION ABOUT OPERATING SEGMENTS

for the year ended December 31, 2017*** in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales	832 317	164 112	151 024	-	1 147 453
Operating profit	111 111	(11 435)	23 266	(39 026)	83 916
Depreciation and amortization	(20 335)	(10 162)	(3 158)	-	(33 655)
Avg. net working capital - continuing operations	40 461	27 162	24 518	1 078	93 219
CAPEX (tangible) - continuing operations	27 501	10 102	1 982	-	39 585

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land*	Germany	Spain	USA	Other	Total
Net sales	78 842	243 892	159 357	164 113	501 249	1 147 453
Non-current assets**	75 205	125 832	51 306	250 045	461 595	963 983

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Natural Spreads	Healthy Snacks	Baby and toddler food	Gluten free	Baby and toddly milk	Special-ties	Total
Net sales	256 490	111 420	395 487	51 920	131 658	200 478	1 147 453

* Country of domicile
** Relates to property, plant and equipment and intangible asset
*** Restated: see section "Basis for preparation - restatement of prior year"

10. NON-CURRENT RECEIVABLES

in CHF 1000.–	Note	2018	2017
Reimbursement rights of Schwartauer Werke	17	2 501	2 766
Loans to third parties	21	-	172
Long term incentive plan loan receivable	22	1 330	1 855
Seller promissary note	21	30 551	-
Prepaid customer incentives		-	2 389
Other non-current receivables		342	294
TOTAL NON-CURRENT RECEIVABLES		**34 724**	**7 476**

11. DEVELOPMENT OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF 1000.–	Deferred tax assets 2018	Deferred tax liabilities 2018	Deferred tax assets 2017	Deferred tax liabilities 2017
Assets				
Property, plant and equipment	1 344	(32 602)	1 696	(32 539)
Intangible assets	3 185	(13 434)	2 184	(23 097)
Financial assets	84	(645)	111	(1 207)
Trade receivables, prepayments and other receivables	1 126	-	1 518	(3)
Inventories	671	(558)	1 421	(627)
Liabilities				
Net employee defined benefit liabilities	10 626	-	10 651	-
Accruals and provisions	5 401	(9 301)	4 733	(10 566)
Trade and other payables	373	(15)	638	(7)
Financial liabilities	5	(9)	20	(33)
Capitalized unused tax losses and tax credits *)	18 840	-	40 782	-
TOTAL DEFERRED TAXES	**41 655**	**(56 564)**	**63 754**	**(68 079)**
DEFERRED TAXES, NET	**-**	**(14 909)**	**-**	**(4 325)**

* Change compared to 2017 is mainly due to the use and further impairment of tax assets on tax loss carryforwards.

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2018	2017
Deferred tax assets	9 896	30 832
Deferred tax liabilities	(24 805)	(35 157)
DEFERRED TAX (LIABILITIES) / ASSETS, NET	**(14 909)**	**(4 325)**

Unrecognized deferred tax assets for unused tax losses

in CHF 1000.–	2018	2017
Unrecognized deferred tax assets expire in:		
reporting year +1	-	284
reporting year +2	6 481	-
reporting year +3	681	7 197
reporting year +4	-	111
reporting year +5 and beyond	30 301	43 211
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS FOR UNUSED TAX LOSSES	**37 463**	**50 803**

Net deferred tax assets / (liabilities)

in CHF 1000.–	Note	2018	2017
Balance at January 1		(4 325)	61 481
Deferred tax expense continuing operations	5	(3 283)	(10 103)
Change in scope of consolidation	25	6 743	0
Deferred tax expense discontinued operations	25	(15 707)	(49 890)
Deferred taxes directly recognized in OCI	15	(73)	(2 611)
Foreign exchange differences		1 736	(3 202)
BALANCE AT DECEMBER 31		**(14 909)**	**(4 325)**

At December 31, 2018, there was no recognized deferred tax liability (2017: 0) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to CHF 42.7 million (2017: CHF 64.2 million).

12. INVENTORIES

in CHF 1000.–	2018	2017
Raw materials and supplies	53 597	56 795
Work-in-progress	9 734	12 034
Finished goods	98 065	100 932
TOTAL INVENTORIES	**161 396**	**169 761**
Write down of inventories	(1 838)	(8 903)
Inventory expensed in cost of sales	(701 940)	(785 425)

13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

in CHF 1000.–	Note	2018	2017
Trade receivables from customers		122 772	160 277
Less: Allowance for bad and doubtful trade receivables		(2 246)	(3 488)
TRADE RECEIVABLES NET	**21**	**120 526**	**156 789**
Prepayments		7 653	6 350
VAT		10 298	7 978
Other receivables		6 679	6 596
TOTAL RECEIVABLES AND PREPAYMENTS		**145 156**	**177 713**

Allowance for bad and doubtful trade receivables

in CHF 1000.–	2018	2017
Balance at January 1	(3 488)	(3 062)
Charge for the year	(47)	(444)
Amounts used / written off	361	105
Unused amounts reversed	452	65
Discontinued operations	367	-
Exchange rate differences	109	(152)
BALANCE AT DECEMBER 31	**(2 246)**	**(3 488)**

Maturity of trade receivables

Year ended December 31, 2018* in CHF 1000.–	Total carrying amount	Of which are not overdue	Overdue < 30 days	Overdue 30-60 days	Overdue 60-90 days	Overdue 90-120 days	Overdue > 120 days
Trade receivables, gross	122 772	111 665	7 001	845	739	415	2 107
Allowance	(2 246)	(623)	(89)	(23)	(108)	(106)	(1 297)
TRADE RECEIVABLES, NET	**120 526**	**111 042**	**6 912**	**822**	**631**	**309**	**810**

* Measured using expected credit loss model

Year ended December 31, 2017** in CHF 1000.–	Total carrying amount	Of which are not overdue	Overdue < 30 days	Overdue 30-60 days	Overdue 60-90 days	Overdue 90-120 days	Overdue > 120 days
Trade receivables, gross	160 277	144 120	9 333	2 760	1 453	833	1 778
Allowance	(3 488)	(1 004)	(116)	(197)	(240)	(308)	(1 623)
TRADE RECEIVABLES, NET	**156 789**	**143 116**	**9 217**	**2 563**	**1 213**	**525**	**155**

** Measured using incurred loss model

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

14. CASH AND CASH EQUIVALENTS

in CHF 1000.–	Note	2018	2017
Cash at banks		190 571	105 386
Cash equivalents		232	103
TOTAL CASH AND CASH EQUIVALENTS	**21**	**190 803**	**105 489**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 11.4 million (2017: CHF 10.3 million) held by some subsidiaries which are not freely transferable to the holding company because those deposits are used to secure bank facilities and guarantees or blocked by exchange control regulations. Cash equivalents contain cheques.

The weighted average effective interest rate on cash and cash equivalents in 2018 was 0.96% (2017: 0.44%).

15. SHARES, HYBRID CAPITAL AND OTHER RESERVES

Number of shares

	2018	2017
Total shares issued January 1	6 213 272	6 204 694
Capital increase	-	8 578
Total shares issued at December 31	**6 213 272**	**6 213 272**
Less: Treasury shares	(61 672)	(61 672)
TOTAL SHARES OUTSTANDING AT DECEMBER 31	**6 151 600**	**6 151 600**

Common stock represents all of the registered and authorized shares with a par value of CHF 10 per share. All issued shares are fully paid.

Treasury shares are held in connection with the long term incentive plan. Treasury shares held by key management are not available for distribution.

Hybrid capital

in CHF 1000.–	2018	2017
Hybrid capital third parties	198 779	198 779
TOTAL HYBRID CAPITAL AT DECEMBER 31	**198 779**	**198 779**

Hybrid Capital Third Parties

On October 28, 2016 Hero issued CHF 200 million Perpetual Callable Subordinated Bonds. The bonds bear interest on their principal amount at a fixed rate of 2.125% p.a. from the payment date up to October 27, 2023, and thereafter in respect of each successive five-year period at a fixed rate per annum as determined by the Principal Paying Agent in accordance with condition 2.2 of the Terms of the Bonds. The terms and conditions of the bonds are such, that in accordance with IAS 32, the bonds qualify for treatment as equity in the financial statements of the Group. Payments of the coupons relating to the bonds are recorded as distribution on hybrid capital third parties.

Other reserves

in CHF 1000.–	Re-valuation reserve	Legal reserves	Cash flow hedge reserve	Pensions reserve	Equity loans tax impact	Foreign currency trans-lation reserve	Total
BALANCE AT JANUARY 1, 2017	**24 821**	**25 758**	**(247)**	**(38 775)**	**(2 842)**	**(234 159)**	**(225 444)**
Hedge accounting	–	–	511	–	–	–	511
Remeasurements	–	–	–	12 105	–	–	12 105
Revaluation of land	(1 161)	–	–	–	–	–	(1 161)
Tax effects	291	–	(77)	(3 078)	253	–	(2 611)
Foreign exchange differences	–	–	–	–	–	24 601	24 601
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**23 951**	**25 758**	**187**	**(29 748)**	**(2 589)**	**(209 558)**	**(191 999)**
Hedge accounting	–	–	345	–	–	–	345
Remeasurements	–	–	–	(469)	–	–	(469)
Discontinued operations	(16 607)	–	–	–	–	–	(16 607)
Tax effects	(91)	–	(122)	207	(67)	–	(73)
Foreign exchange differences	–	–	–	–	–	(16 980)	(16 980)
BALANCE AT DECEMBER 31, 2018	**7 253**	**25 758**	**410**	**(30 010)**	**(2 656)**	**(226 538)**	**(225 783)**

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.

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

Legal reserves

Legal reserves are not available for distribution.

Cash flow hedge reserve

The effective portion of the gain or loss on hedging instruments is recognized in other comprehensive income and is transferred to profit and loss when the forecast transaction occurs.

Pensions reserve

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and on translation of equity loans.

16. BORROWINGS

in CHF 1000.–	Note	2018	2017
Current			
Bank borrowings and overdrafts		28 421	66 144
Loan liabilities third parties		295	289
TOTAL CURRENT BORROWINGS	**21**	**28 716**	**66 433**
Non-current			
Bank borrowings	21	773	26 494
Loan liabilities third parties	21	574	728
Debentures	21	264 838	264 731
TOTAL NON-CURRENT BORROWINGS		**266 185**	**291 953**

Covenants

Hero is engaged in different kinds of financings and most of them are related to certain covenants. The main covenants are Net Debt / EBITDA and interest coverage. As per December 31, 2018 and 2017 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2018 was 2.80% (2017: 2.42%). The interest rates for the majority of current bank overdrafts and loan liabilities were between 1.00% and 1.92% (2017: 0.60% and 2.33%). Non-current borrowings had a weighted average fixed interest rate of 3.70% (2017: 2.12%).

Debentures

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

Debentures of CHF 135 million issued in 2016 mature on October 28, 2026 and carry interest of 1.0%.

Reconciliation of borrowings/liabilities arising from financing activities	Non-current borrowings	Current borrowings
Balance at January 1, 2017	**292 736**	**135 352**
Repayment of bank loans	(3 356)	(61 798)
Proceeds from bank loans	3 356	-
Repayment of non-current financial liabilities	(1 039)	-
Amortization of bond discounts	105	-
Foreign currency translation effects	151	(7 121)
Balance at December 31, 2017 / January 1, 2018	**291 953**	**66 433**
Repayment of bank loans	(6 299)	(61 922)
Proceeds from bank loans	5 754	-
Reclass of bank borrowings	(25 000)	25 000
Repayment of non-current financial liabilities	(425)	-
Amortization of bond discounts	107	-
Foreign currency translation effects	95	(795)
Balance at December 31, 2018	**266 185**	**28 716**

17. DEFINED BENEFIT OBLIGATIONS

Depending on the legal, economic and fiscal circumstances in each country, different retirement benefit systems are provided for the employees of the Group. As a rule, these systems are based on length of service and salary of the employees. Pension obligations in the Group relate to both defined benefit and defined contribution plans. Defined benefit plans are funded and unfunded. Most Group companies sponsor defined benefit pension schemes which are funded by payments to separate trustee-administered funds. The obligations of German companies are unfunded. The latest actuarial valuations under IAS 19 were carried out as at December 31, 2018, for all significant pension plans.
The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 86% (2017: 85%) of the Group's defined benefit obligations and 89% (2017: 87%) 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, 2018, is 104% (2017: 108%, final). In addition, a report is prepared annually in accordance with IFRS requirements.

The Board of Trustees is responsible for the investment of the assets. It defines the investment strategy whenever necessary – especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the foundation's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target asset structure (investment policy). The Board of Trustees delegates the implementation of the investment policy – in accordance with the investment strategy as well as various principles and objectives – to an external Investment Trust. The 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.

The Swiss pension plans are treated as defined benefit plans under IAS 19 because both the actuarial risks and the investment risks are borne not only by the insured but also by the company.

Pension plan Schwartauer Werke, Germany

Schwartauer Werke grants pension benefits to its employees in addition to the state plan. The plan is an unfunded plan and the risks associated to the plan are covered by pension liabilities of Schwartauer Werke, and reimbursement rights under an insurance policy. The rights to reimbursement are under an insurance policy that exactly matches the amount and timing of the benefits payable under the pension scheme. They are disclosed as an asset (see note 10). The book value of the reimbursement rights in 2018 is TCHF 2'501 (2017: TCHF 2'766).

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 2019 are TCHF 2'237.

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 (2017: 0.3%).

The scheme shows based on latest information a USD 5.7 billion deficit (2017: USD 5.6 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.–	2018	2017
Balance sheet obligations for:		
Defined pension benefits	71 170	74 384
LIABILITY IN THE BALANCE SHEET	**71 170**	**74 384**
Income statement charge included in operating profit for:		
Defined pension benefits	3 444	3 381
INCOME STATEMENT CHARGE	**3 444**	**3 381**
Remeasurements for:		
Defined pension benefits	469	(12 105)
OTHER COMPREHENSIVE INCOME	**469**	**(12 105)**

Amounts recognized in the balance sheet:

in CHF 1000.–	2018	2017
Switzerland		
Present value of funded obligations	98 558	100 239
(Fair value of plan assets)	(88 015)	(90 217)
Deficit of funded obligations	10 543	10 022
Impact of asset ceiling	2 012	1 776
LIABILITY IN THE BALANCE SHEET	**12 555**	**11 798**
Germany		
Present value of unfunded obligations	45 799	48 978
LIABILITY IN THE BALANCE SHEET	**45 799**	**48 978**
Other		
Present value of funded obligations	14 020	15 256
(Fair value of plan assets)	(10 868)	(13 700)
Deficit of funded obligations	3 152	1 556
Present value of unfunded obligations	10 236	10 763
Total deficit of defined benefit pension plans	13 388	12 319
Impact of asset ceiling / minimum funding requirement	(572)	1 291
LIABILITY IN THE BALANCE SHEET	**12 816**	**13 610**
Total		
Present value of funded obligations	112 578	115 494
(Fair value of plan assets)	(98 883)	(103 917)
Deficit of funded obligations	13 695	11 577
Present value of unfunded obligations	56 035	59 740
Total deficit of defined benefit pension plans	69 730	71 317
Impact of asset ceiling / minimum funding requirement	1 440	3 067
LIABILITY IN THE BALANCE SHEET	**71 170**	**74 384**

Movement in the net defined benefit obligation over the year:

in CHF 1000.–	Present value of obligation	Fair value of plan assets	Total	Impact of minimum funding requirement/ asset ceiling	Total
BALANCE AT JANUARY 1, 2017	**180 716**	**(100 786)**	**79 930**	**3 526**	**83 456**
Current service cost	2 460	-	2 460	-	2 460
Interest expense/(income)	1 751	(830)	921	-	921
	4 211	**(830)**	**3 381**	**-**	**3 381**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	(5 026)	(5 026)	-	(5 026)
Gain from change in demographic assumptions	(349)	-	(349)	-	(349)
Gain from change in financial assumptions	(3 531)	-	(3 531)	-	(3 531)
Experience gain	(2 442)	-	(2 442)	-	(2 442)
Change in asset ceiling, excluding amounts included in interest expense	(515)	279	(236)	(521)	(757)
	(6 837)	**(4 747)**	**(11 584)**	**(521)**	**(12 105)**
Contributions:					
Employers	-	(2 095)	(2 095)	-	(2 095)
Plan participants	1 164	(1 164)	-	-	-
Payments from plans:					
Benefit payments	(8 826)	5 691	(3 135)	-	(3 135)
Foreign exchange differences	4 808	14	4 822	60	4 882
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**175 236**	**(103 917)**	**71 319**	**3 065**	**74 384**
Current service cost	2 367	-	2 367	-	2 367
Interest expense/(income)	1 900	(832)	1 068	9	1 077
	4 267	**(832)**	**3 435**	**9**	**3 444**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	3 465	3 465	-	3 465
Loss from change in demographic assumptions	706	-	706	-	706
Gain from change in financial assumptions	(3 128)	-	(3 128)	-	(3 128)
Experience loss	1 074	-	1 074	-	1 074
Change in asset ceiling, excluding amounts included in interest expense	-	-	-	(1 648)	(1 648)
	(1 348)	**3 465**	**2 117**	**(1 648)**	**469**
Contributions:					
Employers	-	(1 986)	(1 986)	-	(1 986)
Plan participants	1 349	(1 349)	-	-	-
Payments from plans:					
Benefit payments	(8 612)	5 568	(3 044)	-	(3 044)
Foreign exchange differences	(2 278)	168	(2 110)	13	(2 097)
AT DECEMBER 31, 2018	**168 614**	**(98 883)**	**69 731**	**1 439**	**71 170**

One plan 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:

	Switzerland		Germany		Other*	
in %	2018	2017	2018	2017	2018	2017
Discount rate	0.70	0.50	1.70	1.70	2.58	2.50
Salary growth rate	1.00	1.00	3.00	3.00	0.04	0.03
Pension growth rate	0.00	0.00	2.00	2.00	1.52	1.39

* weighted average

Assumptions regarding future mortality:

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

	Switzerland		Germany		Other*	
in years	2018	2017	2018	2017	2018	2017
Retiring at the end of the reporting period:						
Male	22	22	20	19	21	21
Female	25	24	24	24	24	24
Retiring 20 years after the end of the reporting period:						
Male	24	24	23	22	23	23
Female	26	26	26	26	25	25

* weighted average

Sensitivity of the defined benefit obligation:

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

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

Sensitivity of the defined benefit obligation:

2017		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(10 358)	(6.0%)	11 648	6.6%
Salary growth rate	0.50%	969	0.6%	(969)	(0.6%)
Pension growth rate	0.25%	4 002	2.3%	(1 659)*	(0.9%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		7 205	4.1%	(6 384)	(3.6%)%

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.–	2018	in %	2017	in %
Equity instruments	23 484	23.7	25 735	24.8
Bonds	45 785	46.3	57 004	54.9
Property	22 993	23.3	18 956	18.2
Cash and cash equivalents	2 592	2.6	2 222	2.1
Other	4 029	4.1	-	-
TOTAL	**98 883**	**100.0**	**103 917**	**100.0**

The assets of the Swiss pension funds which represent 89% (2017: 87%) of the Group's plan assets are comprised of:

- 22% (2017: 24%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 49% (2017: 54%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 26% (2017: 21%) Property with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (level 2 fair value classification).
- 3% (2017: 2%) Cash and cash equivalents (level 1 fair value classification).

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

Asset volatility

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

Changes in bond yields

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

Inflation risk

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

Life expectancy

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

Expected contributions

Expected contributions to post-employment benefit plans for the year ending December 31, 2019 are TCHF 3'213.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

Weighted average duration:

	Switzerland		Germany		Other*	
	2018	2017	2018	2017	2018	2017
in years	10	10	14	14	13	14

* weighted average

18. PROVISIONS

in CHF 1000.–	Litigation	Employee related	Other	Total
BALANCE AT DECEMBER 31, 2017/ JANUARY 1, 2018	**7 113**	**13 194**	**3 062**	**23 369**
Additional provisions	631	3 851	1 666	6 148
Utilized	-	(3 853)	(767)	(4 620)
Unused amounts reversed	(4 801)	(192)	68	(4 925)
Foreign exchange differences	-	(104)	(90)	(194)
BALANCE AT DECEMBER 31, 2018	**2 943**	**12 896**	**3 939**	**19 778**

Analysis of total provisions

Current provisions	32	-	3 441	**3 473**
Non-current provisions	2 911	12 896	498	**16 305**

Litigation

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

Employee related

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

Other provisions

Other provisions are set up for obligations which do not fall into one of the before mentioned group of provisions including non income taxes (2018: CHF 1.1 million; 2017: CHF 1.2 million) .

19. OTHER NON-CURRENT LIABILITIES

in CHF 1000.–	2018	2017
Deferred government grant income	-	1 437
Withholding taxes	709	703
Other liabilities	648	884
TOTAL OTHER NON-CURRENT LIABILITIES	**1 357**	**3 024**

20. TRADE AND OTHER PAYABLES

in CHF 1000.–	Note	2018	2017
Trade payables	21	105 978	141 225
Accrued expense	21	91 739	112 734
Social security		3 483	4 083
Government grants		1 184	3 428
VAT and other taxes		6 680	4 975
Other payables	21	5 020	5 431
TOTAL TRADE AND OTHER PAYABLES		**214 084**	**271 876**

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

21. FINANCIAL INSTRUMENTS

Fair values

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

		Carrying amount		Fair value	
in CHF 1000.–	Note	2018	2017	2018	2017
Financial assets - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		809	259	809	259
Financial assets at fair value through profit or loss					
Current					
Foreign exchange contracts not designated as hedges		-	2 353	-	2 353
Financial assets measured at amortized cost**					
Non-current					
Seller promissory note		30 551	-	***	*
Non-current receivables	10	-	172	*	*
Current					
Trade receivables	13	120 526	156 789	*	*
Cash and cash equivalents	14	190 803	105 489	*	*
Total (non-current and current)		**341 880**	**262 450**	-	-
Financial liabilities - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		312	74	312	74
Financial liabilities at fair value through profit or loss					
Current					
Foreign exchange contracts not designated as hedges		75	247	75	247
Other financial liabilities measured at amortized cost					
Non-current					
Borrowings	16	1 347	27 222	1 346	27 226
Debentures	16	264 838	264 731	264 653	264 527
Current					
Trade and other payables	20	202 737	259 390	*	*
Borrowings	16	28 716	66 433	*	*
Total (non-current and current)		**497 638**	**617 776**	-	-

* The fair values approximate the carrying amounts, largely due to the short-term maturities of these instruments.
** This category was "loans and receivables" in 2017.
*** Since the transaction date there were no significant changes in the interest rates, therefore the carrying amount approximates the fair value.

Fair value

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

Debentures

The Group issued CHF 135.0 million bonds on October 28, 2016. The bonds bear 1.00% interest p.a. The maturity date is October 28, 2026. The bonds are traded at the SIX Swiss Exchange. The bonds constitute direct, unconditional and unsubordinated obligations for Hero.

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

Seller promissary note

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the reporting period ending December 31, 2018, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements. The Group held no level 3 financial instruments in 2018 and 2017.

As at December 31, 2018, the Group held the following financial instruments measured at fair value:

at December 31, 2018	Assets measured at fair value	Liabilities measured at fair value
in CHF 1000.–	Level 2	Level 2
Forward foreign exchange contracts in cash flow hedges	809	312
Forward foreign exchange contracts not designated as hedges	-	75
at December 31, 2017		
in CHF 1000.–	Level 2	Level 2
Forward foreign exchange contracts in cash flow hedges	259	74
Forward foreign exchange contracts not designated as hedges	2 353	247

Liabilities for which are fair values disclosed	2018	2018	2017	2017
in CHF 1000.–	Level 1	Level 2	Level 1	Level 2
Borrowings	-	1 347	-	27 222
Debentures	264 838	-	264 731	-

Hedging activities and deriviatives

Financial instruments risk management policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.
The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

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

Foreign currency risk

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

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

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

The Group hedges its exposure to fluctuations on the translation into euros of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency swaps and forwards.

At December 31, 2018 and 2017, the Group hedged 50% of its net exposure of its expected foreign currency sales and purchases. Those hedged sales and purchases were highly probable at the reporting date. This foreign currency risk is hedged by using foreign currency forward contracts.

Derivatives not designated as hedging instruments

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

Derivatives designated as hedging instruments

Cash flow hedge

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales and forecast purchases. The forecast transactions are highly probable to occur in the future. The cash flow hedges of the expected future sales and purchases in 2018 were assessed to be highly effective.

Hedge of net investments in foreign operations

IIncluded in foreign exchange derivatives at December 31, 2018 was a forward contract of USD 65.0 million which has been designated as a hedge of the net investments in Hero USA Inc. This derivative was used to hedge the Group's exposure to the USD foreign exchange risk on this investment. Gains or losses from changes in the fair value of the derivative are transferred to OCI to offset any gains or losses on translation of the net investments.

There is an economic relationship between the hedged item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the derivative. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investment in the foreign subsidiary becomes lower than the notional amount of the derivative.

The Group is holding the following forward foreign exchange contracts:

in CHF 1000.–	2018	2017
Contracts with positive fair values		
Notional amount of forward foreign exchange contracts	84 678	76 583
Contracts with negative fair values		
Notional amount of forward foreign exchange contracts	(69 280)	(207 396)

The group entered into forward foreign exchange contracts during financial year 2018 locking in several foreign exchange rates. The maturity of the open derivative positions is less than 12 months.

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

in CHF 1000.–	Total hedging gain / (loss) recognized in OCI	Ineffectiveness recognised in profit or loss	Cost of hedging recognised in OCI	Amount reclassified from OCI to profit or loss
Year ended December 31, 2018				
Highly probable forecast transaction	(13)	-	-	169
Net investment in foreign operations	358	-	-	-
Total	**345**	**-**	**-**	**169**
Year ended December 31, 2017				
Highly probable forecast transaction	511	-	-	(342)
Total	**511**	**-**	**-**	**(342)**

22. RELATED AND ASSOCIATED PARTY TRANSACTIONS

in CHF 1000.–	Note	2018	2017
Income			
Interest income from AOH Nahrungsmittel Group		-	6
Key management personnel			
Salaries and other short-term employee benefits		(5 920)	(3988)
Post-employment benefits		(490)	(303)
Long term incentive plan expense		(1 266)	(732)
Long term incentive plan dividend payment		(101)	(305)
Long term incentive plan provision		6 215	7 339
Long term incentive plan loan receivable	10	1 330	1 855

Key management personnel

The key management personnel are defined as the Executive Board.

Transactions with associated companies are conducted on commercial terms and conditions and at market prices.

23. CONTINGENT LIABILITIES

in CHF 1000.–	2018	2017
Contingent liabilities in favor of third parties	790	4 758

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

24. COMMITMENTS

in CHF 1000.–	2018	2017
Commitments for the acquisition of tangible fixed assets	4 232	10 021
Commitments for raw materials	85 020	77 063
TOTAL COMMITMENTS	**89 252**	**87 084**

Commitments for operating lease are as follows:

in CHF 1000.–	2018	2017
Amount due within one year	6 250	5 392
Between one and five years	11 400	7 429
After five years	3 694	920
TOTAL OPERATING LEASE COMMITMENTS	**21 344**	**13 741**
TOTAL OPERATING LEASE EXPENSE RECOGNIZED IN THE INCOME STATEMENT	**(6 713)**	**(7 079)**

25. DISCONTINUED OPERATIONS

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

The results of the disposal and operating result of Signature Brands for the year are presented below:

Details of disposal consideration at fair values

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

Details of discontinued operations result

in CHF 1000.-	2018*	2017
Net sales	78 936	133 524
Expenses	(74 190)	(112 093)
Operating income	4 746	21 431
Finance costs	(28)	(1 161)
Profit before tax from discontinued operations	4 718	20 270
Pre-tax gain on disposal	16 372	-
Tax on disposal	(3 139)	-
Deferred tax expense **	(15 707)	(49 890)
PROFIT / (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	**2 244**	**(29 620)**

* January to October

Attributable to equity holders of the parent	**2 244**	**(29 620)**

Net cash flows

in CHF 1000.-	2018	2017
Operating	(12 328)	13 658
Investing	172 180	(3 583)
NET CASH INFLOW	**159 852**	**10 075**

** Deferred tax expense in 2018 relates mainly to the reassessment of certain tax loss carryforwards. Deferred tax expense in 2017 was mainly caused by the new US tax law which led to a reduction of US tax rates and a reassessment of certain tax loss carryforwards components.

26. EVENTS AFTER THE BALANCE SHEET DATE

On January 3, 2019, the Hero Group entered into a strategic partnership with the German organic baby and toddler food company goodforgrowth GmbH (the company) by acquiring the majority of the share capital. Goodforgrowth GmbH operates with different brands like Freche Freunde and Rebelicious which are predominantly sold in the German market. Goodforgrowth generated an annual turnover of around EUR 30 million in 2018 and is not expected to be material for the Group's overall result. The company is headquartered in Berlin, Germany and employs around 80 people.

The Hero Group acquired goodforgrowth GmbH to strengthen its product portfolio in the area of organic and natural foods and to enter the German baby and toddler food market.

The financial effects of this transaction have not been recognised at December 31, 2018. The operating results and the balance sheet of the company will be consolidated from January 3, 2019. The initial accounting for the business combination is incomplete at the time the Board of Directors authorized these consolidated financial statements for issue.

On March 14, 2019 the Board of Directors resolved to pay the annual coupon of 2.125% on the hybrid capital third parties of nominal CHF 200.0 million which is CHF 4.25 million.

There have been no other significant events between December 31, 2017, and the date of authorization of the consolidated financial statements that would require any adjustment or disclosure.

27. PRINCIPAL GROUP COMPANIES

Country	Name of company	Location	Share capital in thousands local currency		Equity interest in %	Consolidation method *	Activity**
Brazil	Hero Brasil S.A.	Itatiba	BRL	32 000	50.0	F	P; S
China	Autumn Harvest Ltd.	Hong Kong	HKD	1	100.0	F	S
	Hero (Shanghai) Trading Co.Ltd.	Shanghai	CNY	1 254	100.0	F	S
Czech Republic	Hero Czech s.r.o.	Prague	CZK	200	100.0	F	S
Denmark	Semper Danmark ApS	Frederiksberg	DKK	50	100.0	F	S
Egypt	Hero Nutritional Food Industries SAE (Vitrac)	Cairo	EGP	93 288	100.0	F	P; S
	Hero Middle East and Africa Trading LLC	Cairo	EGP	50	100.0	F	S
Finland	Oy Semper Ab	Espoo	EUR	3	100.0	F	S
Germany ***	Hero GmbH & Co. KG	Bielefeld	EUR	237 414	100.0	F	S
	Schönauer IAV AG	Bad Schwartau	EUR	404	100.0	F	H
	Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau	EUR	57 500	100.0	F	P; S; R
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 España SA	Alcantarilla	EUR	22 538	100.0	F	P; S; R
Sweden	Semper AB	Sundbyberg	SEK	45 000	100.0	F	P; S
Switzerland	Hero AG	Lenzburg	CHF	62 132	100.0	F	H; P; S
	Hero Beteiligungen AG	Lenzburg	CHF	30 433	100.0	F	H
Turkey	Hero Gida San.ve Tic. AS	Istanbul	TRY	63 632	100.0	F	P; S
United Kingdom	Hero UK Ltd.	Liverpool	GBP	–	100.0	F	S
	Organix Brands Ltd.	Bournemouth	GBP	47	100.0	F	S
United States of America	Beech-Nut Nutrition Corporation	Amsterdam, NY	USD	1	100.0	F	P; S
	Hero USA Inc.	Amsterdam, NY	USD	15 000	100.0	F	H
	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).

**** Disposed as of October 25, 2018.

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To the General Meeting of
Hero AG, Lenzburg

Zurich, 14 March 2019

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hero AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 58 to 124) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Deferred tax balances and current income tax positions

Area of focus	Significant judgment is involved in determining deferred tax balances and current income tax positions. The assessment is complex, since the Group engages in many intercompany transactions and arrangements concerning multiple tax jurisdictions. The amounts involved are material. Due to the significance of the deferred tax balances and current income tax positions and the judgment involved in determining these, in particular as it relates to the United States, this matter was considered significant to our audit. Refer to notes 5 and 11 of the consolidated financial statements for the Group's disclosures on current and deferred taxes.
Our audit response	We assessed the Group's internal controls over its tax processes and key assumptions applied. We considered the Group's transfer pricing concept, changes thereto and the corresponding documentation. We assessed the Group's correspondence with tax authorities and inquired regarding ongoing tax audits and potential disputes. We considered developments in tax legislation and whether these were reflected in the Group's assumptions. We evaluated whether the key assumptions applied in the Group's assessment of recoverability of deferred tax assets is consistent with management's budgets and forecasts. We involved tax specialist to assist in examining the Group's tax methodologies and analyzing the underlying key assumptions. Our audit procedures did not lead to any reservations concerning the recognition and measurement of deferred tax balances and current income tax positions.

Goodwill and indefinite lived intangible assets

Area of focus	Goodwill and indefinite lived intangible assets represent 31% of the Group's total assets and 58% of the Group's total shareholders' equity as at 31 December 2018. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying value of goodwill and indefinite lived intangible assets is tested annually for impairment. The Group performed its annual impairment test of goodwill and indefinite lived intangible assets in the fourth quarter of 2018 and determined that there was no impairment. Key assumptions concerning the impairment test are disclosed in the consolidated financial statements (refer to note: Critical accounting estimates, assumptions and judgments). In determining the recoverable amount of cash generating units, the Group must apply judgment in estimating - amongst other factors - future revenues and margins, long-term growth and discount rates. Due to the significance of the carrying values for goodwill and indefinite lived intangible assets and the judgment involved

	in performing the impairment test, this matter was considered significant to our audit.
Our audit response	We assessed the Group's internal controls over its annual impairment test and key assumptions applied as well as the authorization of the impairment test by the Board of Directors. We evaluated management's interpretation of cash generating units. We involved valuation specialists to assist in examining the Group's valuation model and analyzing the underlying key assumptions, including future revenues and margins, long-term growth and discount rates. We assessed the historical accuracy of the Group's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to corroborating information, including industry reports and data from competitors. Our audit procedures did not lead to any reservations concerning the recognition and measurement of goodwill and indefinite lived intangible assets.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

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

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

Ernst & Young Ltd

André Schaub Licensed audit expert (Auditor in charge)	Mirco Scruzzi Licensed audit expert

CONTINUED PROFITABLE GROWTH PATH

STATUTORY FINANCIAL STATEMENTS OF HERO AG, LENZBURG

Content

INCOME STATEMENT

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

	Note	2018	2017
Net proceeds from sales of goods and services		172 587	180 598
Dividend income		24 017	27 302
Cost of materials		(68 396)	(79 609)
Employee expenses		(41 453)	(37 063)
Other operational costs		(39 578)	(37 306)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**47 177**	**53 922**
Depreciation and valuation adjustments		(3 052)	(9 480)
Earnings before interest and taxes (EBIT)		**44 125**	**44 442**
Financial income		4 661	13 813
Financial costs		(9 418)	(11 767)
Operating result before taxes		**39 368**	**46 488**
Non-operational income / (cost)	9	8 824	(438)
Earnings before taxes		**48 192**	**46 050**
Tax expense		(6 044)	(4 033)
ANNUAL PROFIT		**42 148**	**42 017**

BALANCE SHEET

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

Assets	Note	2018	2017
Cash and cash equivalents	1	37 079	45 369
Trade receivables	3	13 937	18 372
Other current receivables	3	311 494	179 864
Inventories	1	9 613	10 309
Accrued income and prepaid expenses		296	11
Current assets		**372 419**	**253 925**
Financial assets	3	99 833	335 445
Investments	2	408 519	408 519
Tangible fixed assets	1	35 333	35 826
Intangible assets		44 676	47 677
Non-current assets		**588 361**	**827 467**
TOTAL ASSETS		**960 780**	**1 081 392**

Liabilities	Note	2018	2017
Trade payables	3	11 016	11 360
Current interest-bearing liabilities	3	94 122	219 522
Other current liabilities	3	7 847	7 393
Deferred income and accrued expenses	1	18 032	18 494
Current provisions	1	1 868	817
Current liabilities		**132 885**	**257 586**
Non-current interest-bearing liabilities	1, 3	467 093	489 731
Non-current provisions	1	5 717	10 513
Non-current liabilities		**472 810**	**500 244**
TOTAL LIABILITIES		**605 695**	**757 830**
Share capital		62 133	62 133
Capital contribution reserve		63 632	63 632
Legal reserve		25 758	25 758
Profit carry forward		162 401	130 022
Net income for the year		42 148	42 017
Voluntary retained earnings		204 549	172 039
Treasury shares	5	(987)	-
TOTAL EQUITY		**355 085**	**323 562**
TOTAL LIABILITIES		**960 780**	**1 081 392**

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

Accounting principles

General

These financial statements have been prepared in accordance with the provisions on commercial accounting laid down in articles 957 – 963b Swiss Code of Obligations (CO).

Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Bad debt reserve

Bad debt allowances are based on internal guidelines that require individual value adjustments to be undertaken. Taking account of their age structure and based on historical experience, certain residual balances are subject to additional allowances of a suitable percentage.

Inventory

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

Tangible fixed assets

Tangible fixed assets are depreciated on a straight line method over the course of the useful economic life of the asset. Land is not depreciated. The general useful economic lives for various asset categories can be summarized as follows:

• Land	indefinite
• Buildings	20 to 50 years
• Fixture and fittings	10 to 15 years
• Plant and machinery	3 to 10 years
• Motor vehicles	4 to 10 years
• Furniture	5 to 10 years
• IT hardware	3 to 5 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

Software:

Software is amortized on a reducing-balance method over the course of the useful economic life of the asset.

Brands:

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

• Brands	up to 25 years straight-line method
• Software	1 to 5 years reducing-balance method
• Other intangible assets	5 to 25 years straight-line method

Investments

The carrying value of investments comprises costs less accumulated write-downs and are tested annually for impairment.

Long term incentive plan

Effective January 1, 2014, the Group issued a long term incentive plan for the executive board members. There is a two years weiting period for newly appoinnted executive board members before they may participate in the plan. Under the plan, the participants may be offered the opportunity to invest up to 50% of their bonus payment in shares. After a restriction period of three years, participants may sell the shares back to Hero AG at a price based on a formula defined in the plan. In conjunction with the plan, participants may be granted loans to fund the share issue. The shares are restricted and will ultimately revert to Hero AG. Any share re-purchase from the management is accounted for as treasury shares. Treasury shares are reported as a negative item in equity.

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

Non-current interest-bearing liabilities

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as prepaid expenses and amortized on a straight-line basis over the bond's maturity period. Premiums are recognized as accrued expenses and amortized on a straight-line basis over the loan's maturity period.

1. EXPLANATIONS TO POSITIONS IN THE BALANCE SHEET

in CHF 1000.–	2018	2017
Bank & cash	37 079	45 369
Cash and cash equivalents	**37 079**	**45 369**
Packaging material	955	1 150
Raw material	1 013	1 182
Finished goods	7 645	7 977
Inventories	**9 613**	**10 309**
Land	4 749	4 749
Buildings	21 393	22 071
Plant and machinery	8 912	8 752
Other equipment and vehicles	279	254
Tangible fixed assets	**35 333**	**35 826**
Interest	1 329	1 216
Promotions	973	282
Goods received no invoice received	736	927
Advertising	81	609
Personnel	7 429	7 114
Service	3 173	2 868
Others	4 311	5 478
Deferred income and accrued expenses	**18 032**	**18 494**
Non income tax	485	621
Others	1 383	196
Current provisions	**1 868**	**817**
Bank	-	25 000
Perpetual and subordinated bond	200 000	200 000
Straight bond	264 839	264 731
Group Companies	2 254	-
Non-current interest-bearing liabilities	**467 093**	**489 731**
Litigation	2 894	7 064
Others	2 823	3 449
Non-current provisions	**5 717**	**10 513**

2. INVESTMENTS

Company	Domicile	Ownership*	2018 Share capital in %	2018 Share of vote in %	2017 Share capital in %	2017 Share of vote in %
Autumn Harvest Ltd.	Hong Kong, China	I	100.0	100.0	100.0	100.0
Beech-Nut Nutrition Corporation	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero (Shanghai) Trading Co. Ltd.	Shanghai, China	D	100.0	100.0	100.0	100.0
Hero Beteiligungen AG	Lenzburg, Switzerland	D	100.0	100.0	100.0	100.0
Hero Brasil S.A.	Itatiba, Brazil	D	50.0	50.0	50.0	50.0
Hero Czech s.r.o.	Prague, Czech Republic	I	100.0	100.0	100.0	100.0
Hero Espagna SA	Alcantarilla, Spain	I	100.0	100.0	100.0	100.0
Hero Foods Canada INC	Etobicoke, Canada	D	100.0	100.0	100.0	100.0
Hero Gida San.ve Tic.AS	Istanbul, Turkey	I	100.0	100.0	100.0	100.0
Hero GmbH & Co KG	Bielefeld, Germany	D	100.0	100.0	100.0	100.0
Hero of America Inc.	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero USA Inc.	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero Italia SpA	Verona, Italy	I	100.0	100.0	100.0	100.0
Hero Kindervoeding B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Hero Middle East and Africa Trading LLC	Cairo, Egypt	I	100.0	100.0	100.0	100.0
Hero Nederland B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Hero Nutritional Food Industries SAE	Cairo, Egypt	I	100.0	100.0	100.0	100.0
Hero Portugal Lda	Amadora, Portugal	I	100.0	100.0	100.0	100.0
Hero Rus LLC	Moscow, Russia	D	100.0	100.0	100.0	100.0
Hero Slovakia s.r.o.	Nitra, Slovakia	I	100.0	100.0	100.0	100.0
Hero UK Ltd.	Liverpool, United Kingdom	I	100.0	100.0	100.0	100.0
Hero Verwaltungs GmbH	Bielefeld, Germany	D	100.0	100.0	100.0	100.0
Koninklijke Maatschappij de Betuwe B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Organix Brands Ltd.	Bournemouth, United Kingdom	I	100.0	100.0	100.0	100.0
Organix Nederland B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Oy Semper Ab	Espoo, Finland	I	100.0	100.0	100.0	100.0
Schönauer IAV AG	Bad Schwartau, Germany	I	100.0	100.0	100.0	100.0
Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau, Germany	I	100.0	100.0	100.0	100.0
Semper AB	Sundbyberg, Sweden	I	100.0	100.0	100.0	100.0
Semper AS	Lysaker, Norway	I	100.0	100.0	100.0	100.0
Semper Denmark Aps	Kopenhagen, Denmark	I	100.0	100.0	100.0	100.0
Signature Brands LLC**	Ocala, USA	I	100.0	100.0	100.0	100.0
Sluicing AG	Lenzburg, Switzerland	D	100.0	100.0	100.0	100.0

* Ownership: D = Hero AG owns this investment directly; I = The investment is indirectly held via a subsidiary in the direct ownership of Hero AG.
** Disposal as of October 25, 2018

3. RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

in CHF 1000.–	2018	2017
Group companies	2 755	6 115
Third	11 182	12 257
Trade receivables	**13 937**	**18 372**
Group companies	310 684	174 590
Third	810	5 274
Other current receivables	**311 494**	**179 864**
Participants and management bodies	1 331	1 855
Group companies - loans	98 502	333 590
Financial assets	**99 833**	**335 445**
Group companies	2 515	850
Third	8 501	10 510
Trade payables	**11 016**	**11 360**
Group companies	69 122	156 056
Third	25 000	63 466
Current interest-bearing liabilities	**94 122**	**219 522**
Group companies	2 234	3 872
Third	5 613	3 521
Other current liabilities	**7 847**	**7 393**
Group companies	2 254	-
Third	464 839	489 731
Non-current interest-bearing liabilities	**467 093**	**489 731**

4. EXCESS RESERVES

in CHF 1000.–	2018	2017
Release of excess reserves	-	184

5. TREASURY SHARES

Number of registered shares	2018	2017
Inventory as at January 1	**-**	**-**
Acquisitions from executive board members	27 738	-
Sales to executive board members	(12 186)	-
Inventory as at December 31	**15 552**	**-**

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

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

	2018 number	2018 Total value in TCHF	2017 number	2017 Total value in TCHF
Participation rights in the ownership of				
Management bodies	46 120	3 751	61 672	4 249
Option rights in the ownership of*				
Management bodies	9 912	394	11 205	350

* Provisionally determined

7. OTHER INFORMATION

in CHF 1000.–	2018	2017
Lease obligations not recorded in the balance sheet	384	483
Guarantees in the name of Hero AG in the favour of third parties	20 574	19 614
Contingent liabilities	4 300	4 300

8. NUMBER OF EMPLOYEES

	2018	2017
The average number of full time employees was	between 50 to 249	between 50 to 249

9. NON-OPERATIONAL INCOME / (COST)

The non-operational income 2018 of CHF 8.8 million relates to the recognition and release of provisions for legal cases and the sale of an intangible asset.

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On January 3, 2019, Hero AG entered into a strategic partnership with the German organic baby and toddler food company goodforgrowth GmbH (the company) by acquiring the majority of the share capital. Goodforgrowth GmbH operates with different brands like Freche Freunde and Rebelicious which are predominantly sold in the German market. Goodforgrowth generated an annual turnover of around EUR 30 million in 2018. The company is headquartered in Berlin, Germany and employs around 80 people.

11. BONDS

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

Type of bond	Senior bond
Nominal value	CHF 130 million
Valor number	21488315/ISIN CH0214883156
Interest rate	1.25 %
Maturity period	June 26, 2013 to June 26, 2020
Maturity date	June 26, 2020

Type of bond	Senior bond
Nominal value	CHF 135 million
Valor number	34172588/ISIN CH0341725882
Interest rate	1.00%
Maturity period	October 28, 2016 to October 28, 2026
Maturity date	October 28, 2026

PROPOSAL OF THE BOARD ON THE APPROPRIATION OF RETAINED EARNINGS

in CHF 1000.–	2018	2017
Profit of the year	42 148	42 017
Amount carried forward from last year	161 912	130 022
Gain from disposal of Treasury Shares	489	-
AVAILABLE FOR DISTRIBUTION	**204 549**	**172 039**
Total dividend payment 2018: CHF 0.00 on 6'213'272 registered shares of CHF 10.– par value	-	(10 127)
BALANCE CARRIED FORWARD	**204 549**	**161 912**

In the name of the Board of Directors:

Dr Hasso Kaempfe

Chairman Board of Directors

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To the General Meeting of
Hero AG, Lenzburg

Zurich, 14 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Hero AG (the Company), which comprise the balance sheet, income statement and notes (pages 134 to 142), for the year ended 31 December 2018.

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 2018 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each

matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Investments and related income statement accounts

Area of Focus	Primary functions of the Company include holding investments in its subsidiaries as well as financing and monitoring the group's activities. For statutory purposes, the Company is required to assess the valuation of its investments and determine potential impairments on an individual basis (refer to notes – accounting principles). Furthermore, the Company is required to evaluate the recoverability of its loans to subsidiaries. We consider investments and loans to subsidiaries significant to our audit as the amounts concerned are material and the assessments involve judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates.
Our audit response	We examined the Company's valuation model and analyzed the underlying key assumptions, including future revenues and margins, long-term growth and discount rates. We assessed the historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to corroborating information, including expected inflation rates and market growth. Our audit procedures did not lead to any reservations concerning the recognition and measurement of investments and related income statement accounts.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

André Schaub Licensed audit expert (Auditor in charge)	Mirco Scruzzi Licensed audit expert

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