Annual Report 2012

2012

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3-Year Key Figures

in CHF 1000.–		2012	2011	2010
Consolidated results				
Net sales		1 429 252	1 431 100	1 665 242
Change to previous year	in %	(0.1)	(14.1)	(6.7)
Net income (equity holders)		37 739	4 380*)	143 130
Change to previous year	in %	761.6	(96.9)	498.0
Cash flow from operations		124 789	(20 490)	68 988
Change to previous year	in %	709.0	(129.7)	72.0
Net debt		235 153	375 128	319 125
Change to previous year	in %	(37.3)	17.5	(8.3)
Consolidated balance sheet				
Non-current assets		1 362 471	1 344 792*)	1 393 263
Current assets		632 080	700 833	673 034
Current liabilities		580 275	601 927	538 293
Long-term liabilities		371 556	468 580*)	543 703
Total liabilities		951 830	1 070 507*)	1 081 996
Equity attributable to owners of the parent		1 038 270	952 357*)	954 563
Non-controlling interests		4 450	22 761	29 738
Balance sheet total		1 994 551	2 045 625*)	2 066 297
Miscellaneous data				
Capital expenditure (property, plant & equipment)		45 163	67 901	115 629
Consolidated depreciation		39 745	26 984	28 841
Headcount (Heads)	Number	4 366	4 144	3 952
Net sales per employee	in CHF	327 360	345 343	421 367

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

Organization

Companies

Hero Schweiz
Beech-Nut (USA)
Cap'Fruit (France, disposed February 29, 2012)
Hero Czech + Slovakia
Hero España
Hero Huishan (China, disposed August 30, 2012)
Hero Italia
Hero Nederland
Hero Polska + Hungary
Hero Portugal
Hero Russia + Ukraine
Hero Turkey
Hero UK
Organix (UK)
Schwartau (Germany)
Semper (Sweden)
Signature Brands (USA)
Vitrac (Egypt)

Group Management

Rob Versloot (CEO since September 4, 2012, before Executive Vice President)
Peter Amon (CEO from January 16, 2012 until September 4, 2012)
René Bänziger (Deputy CEO, interim CEO from January 1 to January 15, 2012)
Stephan Schopp (CFO since April 1, 2012)
Andrew Lawson (CFO until March 31, 2012)
Markus Lenke (Executive Vice President)
Hans Huistra (Executive Vice President since April 1, 2012)
Jim Schneider (Executive Vice President until February 12, 2013)

Board of Directors

Dr. Arend Oetker (Chairman until December 31, 2012, Honorary Chairman since January 1, 2013)
Dr. Hasso Kaempfe (Chairman since January 1, 2013, Board member since January 1, 2012)
Herbert J. Scheidt (Vice-Chairman)
Dr. Hagen Duenbostel (since January 1, 2012)
Michael Pieper

Auditors

Ernst & Young Ltd., Zurich

Chairman Message

As the new chairman of the Hero Group, I take great pleasure in presenting to you our Annual Report for 2012.

The year 2012 was a year of transition – both in terms of organizational changes as well as strategic focus. In the Board of Directors, Dr. Hagen Duenbostel and I joined as of January 1, 2012. Under the continued leadership of Dr. Arend Oetker, both as majority shareholder as well as Chairman, the Board developed clear roles and responsibilities and interacted frequently with the Executive Board on the definition of the strategic orientation of the Group. As part of this process, Peter Amon, who joined the Group from outside as new CEO in January 2012, elected to leave Hero in September 2012. The Board was able to identify an internal successor and appointed Rob Versloot as new CEO as of September 4, 2012. As of April 1, Stephan Schopp who had previously been CFO of Schwartauer Werke, joined the Executive Board as Chief Financial Officer (CFO) replacing Andrew Lawson who decided to leave the Group. In addition, Jim Schneider retired from the Executive Board as of February 12, 2013. With these changes, the Executive Board now consists of five competent managers who add in total more than 50 years of experience inside the wider Hero Group. Together with the Board of Directors, the Group's strategy has been developed and aligned to support the Group's ambition to profitably grow in those core markets and segments which remain unchanged.

After the successful transformation and as part of his long-term succession plan, Dr. Arend Oetker passed the responsibilities of the chairman's role to me as of January 1, 2013. Dr. Arend Oetker has taken this role since 1997. Under his leadership, the Group has undergone significant changes including a clear focus on its core categories, Infant Nutrition and Fruit, an internationalization through major investments in North America, China as well as other fast growing regions, and expansion of the production footprint of the Group around the globe. On behalf of both Boards, I wish to express our sincere thanks to Dr. Oetker for his professional guidance, strong leadership and passion to drive the business to sustainably innovate and grow. I take great pride in continuing this path to sharpen the Group's core competencies and expand as a family-owned company into the growth markets in our core segments. Dr. Arend Oetker will continue to contribute to our strategic discussion in his new role as Honorary Chairman to the Board of Directors.

Despite these organizational changes, I am happy to report that the Hero Group made considerable improvements versus an unsatisfactory financial performance in 2011. Despite challenging economic conditions in some European countries, the Group was able to deliver a modest organic growth of 1.7%. Each region, as well as all core categories, contributed to this positive trend with exceptional growth rates in Egypt, Russia, Netherlands and Sweden. Foreign exchange differences were beneficial for the first time in three years. With a growing Chinese demand for high quality, European infant milk formula, the approach to the Chinese market developed into an export model. As a consequence, the existing joint venture was exchanged for a shareholding in the holding company of the former joint venture partner. The remaining local organization was dissolved and an export structure out of the Netherlands was implemented. The share exchange as well as the completion of the divestment of Cap'Fruit contributed positively with CHF 29 million to the Group's performance. With a clear focus on cash management and a reduction in capital expenditure, the Group achieved an impressive improvement in free cash resulting for the first time in a reduction of total net debt.

Going into 2013, the Group is well positioned to continue its path of profitable growth in its core segments Infant and Jams and to further improve in our profitable niche segments. In Europe, we will continue to build on our strong positions in established markets and grow or maintain our positions. Eastern Europe and the Middle-East-Africa markets are important growth regions to further develop and profitably grow our existing business. In North America, initiatives are underway to further leverage the state-of-the-art production facility in infant food. Significant progress is expected from the newly established activities in China underlined by a strong demand from Chinese mothers for high quality infant food and an increasing political focus on this segment. These commercial initiatives are supported by a clear Group focus on realizing synergies from past investments and improving operational excellence throughout the organization. The Group has developed a clear strategic agenda which will result in strong and sustainable cash flows that support the Group going forward.

During the first year of my engagement with the Hero Group, I experienced a unique entrepreneurial, passionate culture executed by strong highly qualified local teams. I would like to take this opportunity to express my gratitude to the Executive Board as well as to all employees of the Group for their rigorous engagement and achievements in the past year despite the ongoing reorganization and strategic changes. With this high level of professionalism as well as the joint spirit of further developing the Hero Group combined with a very supportive long-term oriented shareholder, the Group is well positioned to achieve its ambitious mid-term targets and grow to new heights in the coming years.

Please review the information contained in the Annual Report on the development of Hero in 2012. The financial statements have been prepared in accordance with International Financial Reporting Standards.

On behalf of the Board of Directors

Dr. Hasso Kaempfe
Chairman

CEO Message

The year 2012 was characterized by significant changes in both organization and strategy and led to, amongst others, my appointment to the position of CEO in September. After joining the Group 4 years ago and having served on the Executive Board since 2011, I feel honored and motivated to take on this new responsibility and steer the Group – together with my colleagues in the Executive Board – towards improved performance in the coming years.

In this respect, I am happy to be able to announce that the overall 2012 results of the Hero Group showed significant improvements versus prior years.

The profitability of the Group increased significantly and EBIT improved from CHF 33.7 m in 2011 to CHF 90.0 m for the reporting period and net income improved to CHF 37.7 m. Nevertheless, we feel that there is still lots of potential for substantial improvement in the coming years.

Our focus on working capital management and reduced capital expenditures led to a very strong improvement in our free cash flow and helped to reduce our net debt substantially from CHF 385 m to CHF 235 m including a shareholder contribution from a hybrid instrument with a value of CHF 70 m. In combination with a solid improvement in profitability, the Group's net debt to EBITDA ratio improved from 3.3x to a level of 1.5x in 2012.

Excluding deconsolidation effects in Germany and France, the Group achieved an organic growth rate of 1.7% – in line with comparable market participants but below our own ambitious targets. Despite ongoing challenging market conditions in many European consumer markets, we were able to deliver growth rates in our core categories Infant (+1.0%) and Fruit (+2.3%). The Infant category accounts now for 42% of total sales with Jam contributing 21%. Our European markets contributed 2.1% with good performances in the Netherlands, Sweden, Italy and Germany. In Spain, despite extremely challenging circumstances, Hero was able to achieve a stable top line performance with improved profitability. The North American market was marginally positive with a negative contribution from our infant business but first signs for performance improvement at Beech-Nut were visible giving confidence for 2013. The Group posted moderate growth in its CEEMEA region with reasonable performances in Egypt (+9.4%) and Russia (+9.2%) offset by more modest growth in other markets in the region. Infant milk formula exports to China showed exceptional profitable growth, driven by a strong increase in Chinese demand for imported, premium, high quality and safe infant milk formulas. We will continue to nurture our export strategy and strengthen our distribution partnership as China is and will remain the number 1 growth market in infant nutrition. At the same time we decided to swap our shareholding in our local Chinese Joint Venture (Hero-Huishan) into a shareholding in the Huishan holding company. The transaction resulted in a non-cash gain of CHF 25.2 m and ended the required cash outflow to finalize the production facility and implementation of an own Chinese sales structure, formerly established in the Chinese joint venture. Going forward our commercial and strategic focus in China will be on exports of infant milk from our European markets.

To reflect the increasing destabilization of the Egyptian economic environment, the Group decided to cautiously reduce its mid-term expectations for Vitrac, resulting in an impairment charge on its goodwill of CHF 9.8 m. In addition, we decided to fully write down the former Beechnut production facilities in Canajoharie and Fort Plaine to reflect the risk for a potential sale of these assets and the ongoing maintenance costs for the unused sites.

With inauguration of a new jam factory in Germany in October, the Group completed its substantial investment program over the last years. With new facilities in Beech-Nut, Turkey, Egypt, Schwartau and Switzerland, as well as extensions in many other production facilities, the Group now enjoys a state-of-the-art supply chain which facilitates innovative and price competitive offerings across our markets and products. Consequently we do expect a reduced

cash outflow for CAPEX and lower maintenance costs. In line with the finalization of the expansion program, we put increased focus on integrating and optimizing our supply set-up. We have implemented key projects throughout the Group to ensure a lean infrastructure, a more efficient and conscious utilization of resources and to drive operational excellence throughout all levels of the organization. In addition, we have adjusted structural costs at both, local and headquarter levels. However, despite these changes we were able to substantially reduce the restructuring costs that heavily impacted the Group's performance during the past years.

Compared to the last periods, the Group has been less active in M&A. In February, we completed the sale of our French fruit puree business Cap'Fruit resulting in a book gain of CHF 3.8 m. In the U.S. we sold the remaining 50% shareholding in the joint venture Hero WhiteWave, previously used to market our chilled liquid fruit products under the Fruit-2-day brand in the U.S. which we seized in 2011.

To support the Group's strategic initiatives and to further drive a reduction in net debt, the shareholder has again elected to forgo a dividend payment for the financial year 2012. However, the Board of Directors approved the coupon and interest payments to all hybrid capital investors.

For 2013, we remain cautiously optimistic and expect to accelerate our organic growth to 3%. We believe that the economic environment in Europe, in particular in Spain, will remain very challenging. We expect moderate growth to come from the USA and strong growth from our emerging markets, in particular China. To further enhance profitability we have initiated a number of projects that will reduce our cost structure and improve our margin profile across all our segments. We will increase our efforts to establish LEAN and GREEN practices in all our supply points in order to gain sustainable margin improvements.

Innovation will become a more important element of our activities in 2013. In parallel, the Group will continue its efforts to further drive cash management and improve our working capital.

On behalf of the Hero Executive Board, I would like to express our gratitude for the continuous support of the Oetker family. In particular, our thanks and respect go out to Dr. Arend Oetker, who in his new role of Honorary Chairman will continue to steer and support us. In addition, the members of the Board of Directors, under the leadership of our new Chairman, Dr. Hasso Kaempfe, and by virtue of their experience and expertise, have also been a great source of advice and support for which we would like to thank them deeply.

After completing the changes in the Board of Directors and the Executive Board, we now have a strong and motivated team in place, eager to implement our new mission, vision and strategy aimed at achieving profitable growth in our core segments and markets. However, all initiatives and achievements are only possible thanks to the passionate and dedicated contribution of our employees in all countries and units. For this commitment, drive and support I would like to express my sincere thanks.

Rob Versloot

Chief Executive Officer

Consolidated Income Statement

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

Continuing operations	Note	2012	2011
NET SALES		**1 429 252**	**1 431 100**
Cost of sales		(916 537)	(905 893)
Gross profit		**512 715**	**525 207**
Distribution expense		(78 567)	(79 441)
Advertising and promotion		(137 897)	(143 336)
Marketing and sales		(89 642)	(85 507)
Research and development		(10 171)	(10 093)
Administrative expense		(109 195)	(90 485)*)
Sundry income		18 577	7 202
Amortization / Impairment	8, 9, 24	(35 217)	(55 484)
Other income / (expense)	1	19 230	(35 274)
Operating profit		**89 833**	**32 789**
Finance income	3	11 897	23 178
Finance expense	3	(58 592)	(73 825)
Share in result of associated companies	10	43	(18 573)
Income / (loss) before tax		**43 181**	**(36 431)**
Income tax (expense) / income	6	(10 876)	34 087*)
INCOME / (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**32 305**	**(2 344)**
Attributable to:			
Owners of the parent		37 739	4 380*)
Non-controlling interests		(5 434)	(6 724)
NET INCOME / (LOSS)		**32 305**	**(2 344)**

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

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

Comprehensive Income

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

	2012	2011
NET INCOME / (LOSS)	**32 305**	**(2 344)*)**
Other comprehensive income		
Exchange differences on translating foreign operations	7 296	(3 407)*)
Revaluation of land and buildings	(422)	–
Remeasurements	(6 817)	(8 104)*)
Available-for-sale investments	15 259	–
Income tax relating to components of other comprehensive income	(922)	1 888*)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**14 394**	**(9 623)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**46 699**	**(11 967)**
Total comprehensive income attributable to:		
Equity holders of the company	51 903	(4 991)*)
Non-controlling interests	(5 204)	(6 976)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**46 699**	**(11 967)**

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

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

Consolidated Balance Sheet

Hero Group
in CHF 1000.–

Assets	Note	31.12.2012	31.12.2011	01.01.2011*)
Non-current assets				
Property, plant and equipment	8	443 750	458 674	456 136
Intangible assets	9	686 706	715 114	790 491
Investments in associated companies and interests in joint ventures	10	96	4 733	10 604
Available-for-sale investments	26	115 742	–	–
Financial assets at fair value	26	–	16 657	34 893
Non-current receivables	12	7 699	19 075*)	11 652
Deferred tax assets	13	108 478	130 539*)	89 623*)
TOTAL NON-CURRENT ASSETS		**1 362 471**	**1 344 792**	**1 393 399**
Current assets				
Inventories	14	193 973	239 237	218 326
Financial assets at fair value	26	1 819	1 488	14 322
Income tax receivables		1 798	3 172	4 636
Trade receivables, prepayments and other receivables	15	207 067	218 292	205 849
Cash and cash equivalents	16	227 423	82 736	197 383
TOTAL CURRENT ASSETS		**632 080**	**544 925**	**640 516**
Assets held for sale	2	–	155 908	32 518
TOTAL ASSETS		**1 994 551**	**2 045 625**	**2 066 433**

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

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

Equity and liabilities	Note	31.12.2012	31.12.2011	01.01.2011*)
Shareholders' equity				
Share capital	17	51 516	51 516	51 516
Hybrid capital	17	611 315	542 142	492 142
Treasury shares		–	–	(19 418)
Other reserves	17	(56 722)	(70 886)*)	(61 516)*)
Retained earnings		432 161	429 585*)	488 165
Equity attributable to owners of the parent		**1 038 270**	**952 357**	**950 889**
Non-controlling interests		**4 450**	**22 761**	**29 738**
TOTAL EQUITY		**1 042 720**	**975 118**	**980 627**
Non-current liabilities				
Borrowings	18, 26	192 668	267 885	352 694
Derivative financial liabilities	26	5 091	–	–
Deferred tax liabilities	13	69 902	96 114	105 868
Provisions	20	76 549	70 866*)	76 391*)
Other liabilities	21, 26	27 346	33 715	12 560
Total non-current liabilities		**371 556**	**468 580**	**547 513**
Current liabilities				
Trade and other payables	22, 26	274 357	298 198	307 250
Income tax payables		625	614	2 655
Derivative financial liabilities	26	1 146	6 156	12 423
Borrowings	18, 26	269 908	189 979	163 814
Provisions	23	34 239	35 121	52 151
Total current liabilities		**580 275**	**530 068**	**538 293**
Liabilities directly associated with assets held for sale	2	–	71 859	–
TOTAL LIABILITIES		**951 830**	**1 070 507**	**1 085 806**
TOTAL EQUITY AND LIABILITIES		**1 994 551**	**2 045 625**	**2 066 433**

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

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

Changes in Equity

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

	Attributable to equity holders of the company					Non-controlling interests	Total equity
	Share capital (note 17)	Hybrid capital (note 17)	Treasury shares (note 17)	Other reserves (note 17)	Retained earnings		
BALANCE AT DECEMBER 31, 2010	**51 516**	**492 142**	**(19 418)**	**(57 842)**	**488 165**	**29 738**	**984 301**
Restatement	–	–	–	(3 674)	–	–	(3 674)
BALANCE AT JANUARY 1, 2011	**51 516**	**492 142**	**(19 418)**	**(61 516)*)**	**488 165**	**29 738**	**980 627**
Net income / (loss) for the period	–	–	–	–	4 380*)	(6 724)	(2 344)
Other comprehensive income	–	–	–	(9 370)*)	–	(253)	(9 623)
Total comprehensive income	–	–	–	(9 370)	4 380	(6 977)	(11 967)
Disposal of treasury shares, net	–	–	19 418	–	–	–	19 418
Raising of hybrid capital	–	50 000	–	–	–	–	50 000
Dividend payments	–	–	–	–	(30 460)	–	(30 460)
Coupon payments	–	–	–	–	(32 500)	–	(32 500)
BALANCE AT DECEMBER 31, 2011/ JANUARY 1, 2012	**51 516**	**542 142**	**–**	**(70 886)**	**429 585**	**22 761**	**975 118**
Net income / (loss) for the period	–	–	–	–	37 739	(5 434)	32 305
Other comprehensive income	–	–	–	14 164	–	230	14 394
Total comprehensive income	–	–	–	14 164	37 739	(5 204)	46 699
Raising of hybrid capital	–	70 000	–	–	–	–	70 000
Disposal of non-controlling interests	–	–	–	–	–	(13 107)	(13 107)
Dividend payments	–	–	–	–	(2 663)	–	(2 663)
Coupon payments	–	–	–	–	(32 500)	–	(32 500)
Tax effects	–	(827)	–	–	–	–	(827)
BALANCE AT DECEMBER 31, 2012	**51 516**	**611 315**	**–**	**(56 722)**	**432 161**	**4 450**	**1 042 720**

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

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	2012	2011
Cash flows from operating activities			
Cash generated from operations	24	162 009	32 419
Interest paid		(20 784)	(34 893)
Tax paid		(16 436)	(18 016)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES		**124 789**	**(20 490)**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	25	(1 811)	(3 272)
Capital contribution to joint-ventures	10	–	(5 998)
Purchase of property, plant and equipment	8	(45 163)	(67 901)
Purchase of intangible assets	9	(3 931)	(5 888)
Purchase of financial assets		(5 849)	–
Loans made		–	(14 055)
Disposal of subsidiaries and businesses, net of cash disposed	25	7 627	–
Disposal of intangible assets		266	69
Disposal of financial assets		–	4 618
Proceeds from sale of property, plant and equipment		3 114	1 378
Loan repayments received		245	6 256
Interest received		3 690	9 238
NET CASH USED IN INVESTING ACTIVITIES		**(41 812)**	**(75 555)**
Cash flows from financing activities			
Proceeds from hybrid Bond		33 573	–
Proceeds from borrowings		92 921	155 096
Repayment of borrowings		(44 992)	(113 389)
Finance lease principal payments		(72)	(219)
Dividends paid to Group shareholders		(2 663)	–
Coupon payments		(32 500)	(32 500)
NET CASH FROM FINANCING ACTIVITIES		**46 267**	**8 988**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**129 244**	**(87 057)**
Movement in cash and cash equivalents			
At start of year		91 612	197 383
Increase / (Decrease)		129 244	(87 057)
Effects of exchange rate changes on cash and cash equivalents		6 567	(18 714)
AT END OF YEAR		**227 423**	**91 612**
Thereof cash and cash equivalents	16	227 423	82 736
Thereof cash and cash equivalents classified as held for sale	2	–	8 876

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

Non-cash transactions

The following significant non-cash transactions took place in 2012:
– share swap China non cash consideration of CHF 103.8 million (see note 25)
– raising of hybrid capital netted against loan payables of CHF 36.4 million

The following significant non-cash transactions took place in 2011:
– disposal of treasury shares netted against loan payables of CHF 27.1 million
– raising of hybrid capital netted against loan payables of CHF 50.0 million
– payment of shareholder dividend netted against loan payables of CHF 30.5 million

Accounting Principles

1. General

Headquartered in Lenzburg, Switzerland, Hero is a limited liability company of which 100% of the share capital is held by Schwartau International GmbH, Bad Schwartau, Germany, a subsidiary of AOH Nahrungsmittel GmbH & Co. KG, Germany. The Group's primary activities are the production and selling of consumer food products in the product areas of fruit, infant & nutrition and other consumer foods such as cereals and decorations. Fruit, infant & nutrition and cereal products are sold in Europe, the Middle East and North America, while decorations products are sold mainly in North America. At the end of 2012 the Group had 4'366 employees (2011: 4'144). 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 19, 2013.

2. Basis for Preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These principles have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements for the year ending December 31, 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historic cost convention, unless otherwise stated (i.e. revaluation of land, financial assets, available-for-sale investments and financial assets and liabilities held-for-trading). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's Accounting Principles. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Accounting Principles no. 8 Critical Accounting Estimates and Judgements.

2.1 Change in accounting policy

Early adoption of IAS 19 – Employee Benefits (revised 2011)
The Group early adopted IAS 19 Employee Benefits (2011) with a date of initial application of January 1, 2012 and changed its basis for determining the income or expense related to defined benefit plans.

The material impacts of the early adoption of IAS 19R on the Hero Group's financial reporting are as follows:

- Elimination of the corridor approach: It is no longer possible to defer recognition of actuarial gains and losses using the corridor approach. They must now be recognized immediately in other comprehensive income.
- Calculation of pension costs: The previous practices of recognizing the expected return on plan assets and the calculation of interest expenses on the defined benefit obligation are now replaced by the recognition of net interest on the net benefit liability (assets). This takes into account any changes in the net defined benefit liability (assets) during the period as a result of contributions and benefit payments.
- Past service cost are recognized immediately through profit or loss when they occur.

If IAS 19R had not been adopted early, it would have had an estimated negative impact on net profit for 2012 of CHF 4.2 million. The negative impact on other comprehensive income in 2012 would have been CHF 5.3 million lower.

Upon early adoption of IAS 19R, the presentation of the income statement was adapted to reflect these changes.

The change in accounting policy has been applied retrospectively in accordance with IAS 8.

In addition, the presentation of pension costs for defined benefit plans has changed. In accordance with IAS 19R, pension costs comprise service costs, net interest and the remeasurement of employee benefits. Service costs (cur-

rent and past service costs, gains/losses on settlements) and net interest are part of personnel expenses included in administrative expense.

Remeasurements are part of other comprehensive income. The disclosure was also adapted in line with the new increased requirements.

The early adoption of IAS 19R as well as the change in the presentation of the income statement led to the restatement of prior periods (administrative and income tax expense).

The following tables show the financial impacts on the relevant positions in the income statement, statement of comprehensive income, balance sheet, cash flow statement and statement of changes in equity for prior periods:

Consolidated Income Statement 2011

in CHF 1000.–	Reported	Adjustment	Restated
Continuing operations	2011		2011
Operating profit *)	**32 636**	**153**	**32 789**
Loss before tax	**(36 584)**	**153**	**(36 431)**
Income tax income	34 147	(60)	34 087
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(2 437)**	**93**	**(2 344)**
Attributable to:			
Owners of the parent	4 287	93	4 380
Non-controlling interests	(6 724)	–	(6 724)
NET LOSS	**(2 437)**	**93**	**(2 344)**

*) Restatement included in administrative expense.

Comprehensive Income 2011

in CHF 1000.–	Reported	Adjustment	Restated
	2011		2011
NET LOSS	**(2 437)**	**93**	**(2 344)**
Other comprehensive income			
Remeasurements	–	(8 104)	(8 104)
Exchange differences on translating foreign operations	(2 444)	(963)	(3 407)
Income tax relating to components of other comprehensive income	135	1 753	1 888
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(2 309)**	**(7 314)**	**(9 623)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(4 746)**	**(7 221)**	**(11 967)**
Total comprehensive income attributable to:			
Equity holders of the company	2 230	(7 221)	(4 991)
Non-controlling interests	(6 976)	–	(6 976)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(4 746)**	**(7 221)**	**(11 967)**

Adjustments for provisions relate to pension scheme provisions, adjustments to non-current receivables relate to a prior year pension asset. Adjustments to deferred taxes reflect the deferred tax impact on the changes of pension provisions/assets.

Consolidated Balance Sheet January 1, 2011 in CHF 1000.–	Reported 2011	Adjustment	Restated 2011
Deferred tax assets	89 487	136	89 623
TOTAL NON-CURRENT ASSETS	**1 393 263**	**136**	**1 393 399**
Equity attributable to owners of the parent	**954 563**	**(3 674)**	**950 889**
Provisions	72 581	3 810	76 391
Total non-current liabilities	**543 703**	**3 810**	**547 513**

Consolidated Balance Sheet December 31, 2011 in CHF 1000.–	Reported 2011	Adjustment	Restated 2011
Non-current receivables	20 027	(952)	19 075
Deferred tax assets	128 284	2 255	130 539
TOTAL NON-CURRENT ASSETS	**1 343 489**	**1 303**	**1 344 792**
Other reserves	(59 898)	(10 988)	(70 886)
Retained earnings	429 492	93	429 585
Equity attributable to owners of the parent	**963 252**	**(10 895)**	**952 357**
Non-controlling interests	**22 761**	**–**	**22 761**
TOTAL EQUITY	**986 013**	**(10 895)**	**975 118**
Provisions	58 668	12 198	70 866
Total non-current liabilities	**456 382**	**12 198**	**468 580**

Changes in Equity 2011

for the year ended December 31

Hero Group

in CHF 1000.–

	Attributable to holders of the company					Non-controlling interests	Total equity
	Share capital (note 17)	Hybrid capital (note 17)	Treasury shares (note 17)	Other reserves (note 17)	Retained earnings		
BALANCE AT DECEMBER 31, 2010	**51 516**	**492 142**	**(19 418)**	**(57 842)**	**488 165**	**29 738**	**984 301**
Restatement	–	–	–	(3 674)	–	–	(3 674)
BALANCE AT JANUARY 1, 2011	**51 516**	**492 142**	**(19 418)**	**(61 516)**	**488 165**	**29 738**	**980 627**
Restatement	–	–	–	(7 314)	93	–	(7 221)
Net income / (loss) for the period	–	–	–	–	4 287	(6 724)	(2 437)
Other comprehensive income	–	–	–	(2 056)	–	(253)	(2 309)
Total comprehensive income	–	–	–	(9 370)	4 380	(6 977)	(11 967)
Disposal of treasury shares, net	–	–	19 418	–	–	–	19 418
Raising of hybrid capital	–	50 000	–	–	–	–	50 000
Dividend payments	–	–	–	–	(30 460)	–	(30 460)
Coupon payments	–	–	–	–	(32 500)	–	(32 500)
BALANCE AT DECEMBER 31, 2011	**51 516**	**542 142**	**–**	**(70 886)**	**429 585**	**22 761**	**975 118**

Consolidated Cash Flow Statement 2011

in CHF 1000.–	Reported 2011	Adjustment	Restated 2011
Net income (attributable to equity holders of the company)	**4 287**	**93**	**4 380**
Tax (income)/expense	(34 147)	60	(34 087)
Pensions	–	(153)	(153)
CASH GENERATED FROM OPERATIONS	**32 419**	**–**	**32 419**

2.2 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year, except for those described below. Various standards and interpretations of the IFRS have been revised or were introduced with effective date January 1, 2012, or before.

– **IAS 12 Income Taxes**
  Amendment – Deferred Taxes: Recovery of Underlying Assets

– **IFRS 1 First-Time Adoption of International Financial Reporting Standards**
  Amendment – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

– **IFRS 7 Financial Instruments**
  Disclosures – Enhanced Derecognition Disclosure Requirements

– **IAS 19 Employee Benefits (revised)**
  Early adoption

With the exception of the early adoption of IAS 19 – Employee Benefits (revised), the individual changes do neither have an effect on accounting policies nor on the reported amounts of disclosures in these financial statements.

For the impact in the early adoption of IAS 19 – Employee Benefit see 2.1. Changes in Accounting Policy.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

– **IAS 1 Presentation of Financial Statements**
  Amendment – Presentation of Items of Other Comprehensive Income. Effective for annual periods beginning on or after July 1, 2012.

– **IFRS 10 Consolidated Financial Statements**
  Consolidated Financial Statements. Effective for annual periods beginning on or after January 1, 2013.

– **IFRS 11 Joint Arrangements**
  Joint Arrangements. Effective for annual periods beginning on or after January 1, 2013.

– **IFRS 12 Disclosure of Interests in Other Entities**
  Disclosure of Interests in Other Entities. Effective for annual periods beginning on or after January 1, 2013.

– **IAS 27 Consolidated and Separate Financial Statements**
  Separate Financial Statements. Effective for annual periods beginning on or after January 1, 2013.

– **IFRS 13 Fair Value Measurement**
  Fair Value Measurement. Effective for annual periods beginning on or after January 1, 2013.

– **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**
  Stripping Costs in the production phase of a surface mine. Effective for annual periods on or after January 1, 2013.

– **IAS 28 Investments in Associates**
  Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after January 1, 2014.

- **IAS 32 Financial Instruments: Presentation**

  Amendment – Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after January 1, 2015.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards**

  Amendment – Government Loans. Effective for annual periods beginning on or after January 1, 2013.

- **IFRS 7 Financial Instruments: Disclosure**

  Amendment – Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after January 1, 2013.

- **IFRS 9 Financial Instruments: Classification and Measurement**

  Classifications and Measurement of Financial Assets. Effective for annual periods beginning on or after January 1, 2015.

2.4 ANNUAL IMPROVEMENTS MAY 2012

These improvements will not have an impact on the Group, but include:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards**
- **IAS 1 Presentation of Financial Statements**
- **IAS 16 Property Plant and Equipment**
- **IAS 32 Financial Instruments, Presentation**
- **IAS 34 Interim Financial Reporting**

These improvements are effective for annual periods beginning on or after January 1, 2013.

3. Consolidation

Consolidation Method

The consolidated financial statements include Hero AG, Switzerland and those companies over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights and companies where Hero exercises control.

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

Any contingent consideration to be transferred by the acquirer will be recognised 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 recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised 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 recognised 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.

Under the accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised 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.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

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

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

Net assets and the result for the year have been calculated using the company's own accounting principles in cases where it is not possible to adjust local records to the Group's accounting principles.

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

A list of investments, the investment percentage and the applicable consolidation method can be found on pages 79 to 82.

Eliminations in the Course of Consolidation

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

Associated Companies

Associated companies include AOH Nahrungsmittel Group companies (Germany).

Interest in Joint Ventures

Hero/WhiteWave, LLC (USA) (until December 2012).

Changes in the Scope of Consolidation

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

Effective February 29, 2012 Hero sold its 100% investment in Cap'Fruit.

Effective March 23, 2012 Hero founded Hero (Shenyang) Food Trading Co. Ltd, which is fully consolidated.

Effective August 30, 2012 Hero changed its 50% investment in Orient Link Holdings in a 6.5% investment in Treasure Ally.

Effective December 18, 2012 Hero sold its 50% investment in Hero/WhiteWave.

4. Foreign Currency Translation

The presentation currency for the Group is the Swiss Franc, which is the reporting 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:

	2012	2011
AVERAGE EXCHANGE RATES		
EUR/CHF	1.2053	1.2344
USD/CHF	0.9379	0.8881
GBP/CHF	1.4858	1.4234
SEK/CHF	0.1385	0.1369
CLOSING EXCHANGE RATES		
EUR/CHF	1.2071	1.2163
USD/CHF	0.9148	0.9416
GBP/CHF	1.4793	1.4514
SEK/CHF	0.1405	0.1361

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

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

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

5. Valuation Principles

Revenue Recognition

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

Revenue is recognized as follows:

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

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

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

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

Segment Reporting

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

Research and Development Costs

Research costs are recorded in the income statement in the period in which they are incurred. Development costs are recognized as intangible assets to the extent that they meet the recognition criteria of IAS 38, i.e. the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Following initial recognition of development expenditure as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Development costs are amortized on a straight-line-basis over the period of their expected benefit or tested for impairment annually. Other development costs are recorded in the income statement in the period in which they are incurred.

Borrowing Costs

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

Deferred Taxes

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

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

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

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

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

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

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

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

Current Income Tax

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

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

Government Grants and Other Subsidies

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

Cash and Cash Equivalents

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

Trade Receivables

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

Inventories

Inventories are recorded at the lower of acquisition or production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the necessary cost to make the sale. Production costs include direct and indirect material and production costs. Borrowing costs are excluded except if they qualify for capitalization according to IAS 23. Inventory is valued using the weighted average method. A provision is recognized for any damaged or slow-moving goods.

Property, Plant and Equipment

Tangible fixed assets, other than land, are recorded at historical acquisition cost less accumulated depreciation, and/or accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of

the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is recorded on a straight-line basis over the course of the useful economic life of the asset. Land is not depreciated. The general useful economic lives for various asset categories can be summarized as follows:

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

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

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

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

Leases

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

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

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

Intangible Assets

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill arising

on acquisitions of equity consolidated investments is included in investment value. 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 based on value-in use calculations less accumulated impairment losses and are tested annually for impairment. Brands are classified as indefinite useful life brands if the brand has sufficient history and the Group has no intention of re-branding.

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

– Brands (up to 20 years)
– Software (1 to 3 years)
– Customer relationships (up to 8 years)
– Distribution Network (up to 5 years)
– Other intangibles (3 to 5 years)

Impairment of non-financial Assets

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

Provisions

Provisions arise from restructuring programmes, 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 programmes, when the location, function and number of employees to be laid off or re-deployed is known and when the affected employees have been informed. Provisions are not recognized for future operating losses. In case the effect of time value is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is

recognized in the income statement over the period of the borrowings using the effective interest method.

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

Pension Obligations

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive 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 recognised 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 are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

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

Executive Share Compensation Plan

In April 2004, the Group established an equity compensation plan under the terms of which key management with a certain minimum service period may purchase restricted 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 purchase.

Management assesses the estimated future payment at the end of the restriction period and the original purchase price annually, based on the actual result of the Group and expected future development of the business and records

this difference as an expense over the respective vesting period. This plan was terminated during 2011.

Contingent Liabilities

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

Financial guarantee contracts

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

Dividends

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

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where 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 represents bonds that are undated securities in respect of which there is no maturity date and where there is no obligation of the part of Hero either to redeem at any future date the underlying nominal amounts or to pay any annual coupon insofar as no compulsory payment event occurs in any given accounting period. The key compulsory payment events listed in the terms and conditions of the bonds include the payment to Hero's shareholders of either a dividend or an amount in connection with a capital re-purchase. The bonds are subordinated obligations and are subordinate to all of Hero's present and future unsubordinated indebtedness. Coupon payments are recorded directly in equity.

Hybrid capital also represents two undated floating rate subordinated notes in the total amount of CHF 120 million issued by Hero and sold to Schwartau International GmbH. These notes have no fixed maturity date and Schwartau International has no right to call the notes for its redemption. The notes constitute a direct, unconditional and sub-

ordinated obligation of Hero. Interest will be payable if Hero or any of its subsidiaries declared or paid a dividend. Interest payments are recorded directly in equity.

Non-current assets (or disposal groups) held for sale

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

Comparatives

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

6. Financial Instruments

General

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

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realized within 12 months of the balance sheet date.

"Day 1" profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in "finance income or expense". In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

Loans and receivables

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

Available-for-sale financial assets

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

Purchases and sale of investments are recognized on trade date – the date on which the Group commits to purchase

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

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

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

Accounting for Derivative Financial Instruments and Hedging Activities

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

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

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

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

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

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

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

Fair Value Estimation

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

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted

market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

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

7. Financial Risk Management

Financial Risk Factors

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

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

Foreign Exchange Risk

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

External foreign exchange contracts are generally designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions. The Group hedges between 50% and 100% of anticipated export sales in each major currency for the following 12 months. In 2012 and 2011, no sales in each major currency qualified as "highly probable" for which hedge accounting was used.

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

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

The Group uses a risk computation similar to Value-at-Risk (VAR). It includes financial instruments (mainly currency forwards) as well as balance sheet positions and future operative cash flows (non-discounted) in foreign currency. The estimates are made assuming normal market conditions, using a 97.7% confidence interval. The correlations between currency pairs and the volatilities are observed over a 360 day period. The estimated potential intraday loss in the VAR model amounts to TCHF 337 as per December 31, 2012.

Foreign Currency Risk Table

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

	Increase/ (decrease) in USD rate	Increase/ (decrease) in EUR rate	Effect on profit before tax in CHF 1000.–	Effect on equity in CHF 1000.–
2012	5%	5%	3 091	–
	(5%)	(5%)	(3 091)	–
2011	5%	5%	2 727	–
	(5%)	(5%)	(2 727)	–

Interest Rate Risk

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

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

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

Interest Rate Risk Table

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

	Increase/ (decrease) in basis points	Effect on profit before tax in CHF 1000.–
2012	100	(2 699)
	(100)	2 661
2011	100	(1 900)
	(100)	1 875

Credit Risk

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

Liquidity Risk

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

Liquidity Risk Table

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

in CHF 1000.– at December 31, 2012	Within 1 year	1–2 years	2–3 years	3–4 years	More than 4 years	Total
Derivative instruments	1 146	3 394	1 697	–	–	6 237
Borrowings	269 908	57 780	66 592	15 000	53 296	462 576
Other liabilities	–	5 692	3 940	3 815	13 899	27 346
Trade and other payables	274 357	–	–	–	–	274 357

in CHF 1000.– at December 31, 2011	Within 1 year	1–2 years	2–3 years	3–4 years	More than 4 years	Total
Derivative instruments	6 156	–	–	–	–	6 156
Borrowings	189 979	206 730	22 895	23 260	15 000	457 864
Other liabilities	–	7 474	4 750	4 411	17 080	33 715
Trade and other payables	298 198	–	–	–	–	298 198

8. Critical Accounting Estimates, Assumptions and Judgements

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

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

(a) Goodwill

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

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

Management based its growth assumptions on internal forecasts and on external data such as the current inflation rate at December 31, 2012 of the respective countries where the cash generating units are located.

In 2011 Beech-Nut goodwill of CHF 13.8 million has been fully impaired. Goodwill of CHF 33.2 million relating to the Chinese operation has been reclassified to assets held for sale (see note 2).

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

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

December 31, 2012

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

*) Over the total period 2013–2018

(b) Brands with indefinite life

The Group tests annually whether brands with indefinite life are impaired. These calculations require the use of estimates (Note 9, Intangible Assets).

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

In 2012 no impairment was identified. In 2011 Friso brand was impaired by CHF 0.1 million.

December 31, 2012

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

(c) Income taxes

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

(d) Recognized tax loss carryforwards

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

(e) Intangible assets acquired in business combinations

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

f) Reserve for bad debts

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

Management believes that the total provision for these items is adequate, based upon currently available information. As these provisions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions recognised in the balance sheet in future periods and consequently the expenses recognised in the income statement in future periods.

g) Valuation of financial instruments

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

h) Valuation of inventory

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

i) Provisions

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

j) Pension benefits

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

9. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

In connection with external financing the Group is required to maintain a minimum level of net equity. During 2012 and 2011 the Group complied with this requirement. See also comments in Note 18 on "Covenants".

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new capital. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. No changes were made in the objectives, policies or processes during the years ended December 31, 2012 and December 31, 2011.

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

The gearing ratios at December 31, 2012 and 2011 were as follows:

in CHF 1000.–	2012	2011
Total borrowings	462 576	457 864
Less: cash and cash equivalents	(227 423)	(82 736)
Net debt	235 153	375 128
Total Equity	1 042 720	975 118 *)
Total Capital (Equity plus net debt)	1 277 873	1 350 246 *)
Gearing ratio	18%	28%

*) Restatement due to early adoption of IAS 19.

The gearing ratio changed 2012 compared to 2011 due to lower net debt.

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

The Group has implemented a risk management system. Management carries out an annual risk assessment to identify material risks including their probability of occurrence and impact on the Group. The Board of Directors takes appropriate measures to avoid, mitigate or transfer these risks. Risks which are not mitigated are closely monitored by the Group. The latest risk assessment by the Board of Directors was approved in December 2012. Management may take ad-hoc initiatives in order to ensure a timely response to changes in the risk environment.

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1. Details on Other Income / Expense

in CHF 1000.–	Note	2012	2011
Restructuring		(10 818)	(30 253)
Disposals of subsidiaries and businesses	25	29 037	(2 428)
Other		1 011	(2 593)
TOTAL OTHER INCOME / (EXPENSE)		**19 230**	**(35 274)**

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

In 2011 restructuring expenses mainly relate to reorganizational changes in the scope of the business undertaken in the country organizations of the US, Switzerland and Scandinavia.

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

2. Non-current Assets held for Sale

A manufacturing facility within the segment "International" was presented as non-current assets held for sale following the commitment of the Group's management in December 2011 to a plan to sell the facility. The sale was completed on August 30, 2012.

Assets

in CHF 1000.–	Note	2012	2011
Property, plant and equipment	8	–	96 554
Intangible assets	9	–	34 034
Deferred tax assets		–	3 207
Inventories		–	1 066
Trade receivables, prepayments and other receivables		–	12 171
Cash and cash equivalents		–	8 876
ASSETS CLASSIFIED AS HELD FOR SALE		**–**	**155 908**

Liabilities

in CHF 1000.–	2012	2011
Trade and other payables	–	28 285
Borrowings	–	43 575
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**–**	**71 859**

3. Financing Income / Expense

in CHF 1000.–	Note	2012	2011
Interest expense	24	(22 104)	(25 420)
Interest expense – finance leases	24	(36)	(222)
Net foreign exchange losses		(4 893)	(5 448)
Fair value losses on financial instruments held for trading		(30 468)	(34 330)
Other financial expense		(1 091)	(8 405)
TOTAL FINANCE EXPENSE		**(58 592)**	**(73 825)**
Interest income	24	3 690	9 265
Fair value gains on financial instruments held for trading		8 207	13 913
TOTAL FINANCE INCOME		**11 897**	**23 178**

4. Personnel Expense

in CHF 1000.–	Note	2012	2011
Wages and salaries		(186 379)	(189 786)
Social security costs		(36 891)	(38 046)
Pension costs – defined contribution plans		(5 478)	(5 218)
Pension costs – defined benefit plans	19	(3 601)	(4 773)[*]
TOTAL PERSONNEL EXPENSE		**(232 349)**	**(237 823)**

[*] Restatement due to early adoption of IAS 19 revised.

The Group employed 4'366 employees in 2012 (2011: 4'144).

5. Government Grants deducted from Expense

in CHF 1000.–	2012	2011
Government grants for Beech-Nut Infant plant	3 752	3 552
Government grants for Signature Brands Popcorn plant	–	126
Netherlands workforce education grant	133	270
Export subsidies in Switzerland	1	16
Other	–	6
TOTAL GOVERNMENT GRANTS	**3 886**	**3 970**

Government grants are deducted from the following type of expense:

in CHF 1000.–	2012	2011
Government grants deducted from cost of sales	(3 492)	3 695
Government grants deducted from research and development	39	84
Government grants deducted from administrative expense	94	5
Government grants included in sundry income	7 245	–
Government grants deducted from other expense	–	186
TOTAL GOVERNMENT GRANTS	**3 886**	**3 970**

Government grants deducted from cost of sales include the Beech-Nut grants correction.

6. Income Tax

in CHF 1000.–	Note	2012	2011
Current income tax expense		(15 784)	(13 929)
Deferred tax (expense) / income – temporary differences		(10 395)	8 357 *)
Deferred tax income – tax loss		13 734	38 204
Deferred tax income – changes in tax rates and tax laws		1 214	423
Tax income relating to prior periods		355	1 032
TOTAL INCOME TAX (EXPENSE) / INCOME	24	**(10 876)**	**34 087**

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

Analysis of tax rate

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

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

in CHF 1000.–	2012	2011
Income / (loss) before taxes	43 181	(36 431) *)
Tax (expense) / income based on expected group tax rate	(9 257) *21.4%*	11 240 *) *30.9%*
Impact of expense not entitled for deduction for tax purposes	(5 043)	(2 729)
Impact of non taxable income	9 676	27 613
Impact of tax expense related to profits of other periods	355	1 032
Impact of past losses, for which no deferred tax asset is recognized	95	19
Impact of current loss, for which no deferred tax asset is recognized	–	(673)
Impact of past losses, for which a deferred tax asset is recognized	(8 046)	(2 572)
Impact of past tax losses, for which no deferred tax assets have been recognized, but which are reassessed and released in current period	130	(266)
Impact of changes in the local tax rates	1 214	423
EFFECTIVE GROUP TAX (EXPENSE) / INCOME	**(10 876)**	**34 087**

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

7. Dividend

At the Annual General Meeting in 2013, no dividend is to be proposed in respect of 2012 (2011: no dividend).

On March 19, 2013 the Board of Directors resolved to pay the annual coupon of 6.5% on the Hybrid Bond of CHF 500 million.

The interest of TCHF 2'663 (2011: 0) for the undated Floating Rate Subordinated Note purchased by Schwartau International GmbH is treated as dividend, see note 17.

8. Property, Plant and Equipment

in CHF 1000.–	Land	Buildings	Plant and machinery	Other equipment	Total
Cost or valuation					
JANUARY 1, 2011	**40 099**	**301 847**	**333 855**	**29 960**	**705 761**
Additions	500	42 594	20 217	4 590	67 901
Disposals of assets	–	(103)	(52 346)	(458)	(52 907)
Reclassifications / Borrowing costs **)	20 908	(48 705)	56 252	(3 298)	25 157
Reclassification from held for sale	5 399	18 242	25 651	56	49 348
Reclassification to held for sale *)	(19 857)	(28 682)	(46 368)	(1 965)	(96 872)
Foreign exchange differences	(1 669)	(5 220)	(5 144)	(566)	(12 599)
BALANCE AT DECEMBER 31, 2011 / JANUARY 1, 2012	**45 380**	**279 973**	**332 117**	**28 319**	**685 789**
Additions	41	17 327	25 319	2 476	45 163
Disposals of subsidiaries	(82)	(3 065)	(4 004)	(262)	(7 413)
Disposals of assets	–	(913)	(3 179)	(4 581)	(8 673)
Reclassifications / Revaluation	(422)	(8 741)	1 224	6 677	(1 262)
Reclassification to held for sale *)	–	(8 996)	(875)	(740)	(10 611)
Foreign exchange differences	(171)	(4 749)	(4 590)	(538)	(10 048)
BALANCE AT DECEMBER 31, 2012	**44 746**	**270 836**	**346 012**	**31 351**	**692 945**
Accumulated depreciation					
JANUARY 1, 2011	**337**	**30 609**	**197 192**	**21 487**	**249 625**
Additions	10	4 312	20 668	1 994	26 984
Impairments / Reversal	–	–	14 318	–	14 318
Disposals of assets	–	(93)	(51 515)	(390)	(51 998)
Reclassifications	–	1 522	(21 482)	(3 333)	(23 293)
Reclassification from held for sale	–	9 493	7 292	45	16 830
Reclassification to held for sale *)	(55)	–	–	(263)	(318)
Foreign exchange differences	(39)	(889)	(3 690)	(415)	(5 033)
BALANCE AT DECEMBER 31, 2011 / JANUARY 1, 2012	**253**	**44 954**	**162 783**	**19 125**	**227 115**
Additions	179	9 356	28 150	2 060	39 745
Impairments	164	3 036***)	107	–	3 307
Disposals of subsidiaries	(5)	(1 572)	(2 835)	(168)	(4 580)
Disposals of assets	–	(2)	(2 518)	(4 120)	(6 640)
Reclassifications	–	2 546	(11 305)	4 232	(4 527)
Reclassification to held for sale *)	(178)	(41)	(1 744)	(141)	(2 104)
Foreign exchange differences	11	(810)	(1 971)	(351)	(3 121)
BALANCE AT DECEMBER 31, 2012	**424**	**57 467**	**170 667**	**20 637**	**249 195**
Carrying amount					
At January 1, 2012	45 127	235 019	169 334	9 194	**458 674**
At December 31, 2012	44 322	213 369	175 345	10 714	**443 750**

*) See note 2

**) Reclassifications include re-assignment of US Infant facility CIP among asset classes, reclassification of US government grants as related to income rather than assets and reclassification of Chinese government grants due to incomplete fulfilment of grant conditions.

***) Represents the impairment of a closed US plant.

In 2012 the Group has not capitalised any borrowing cost for eligible assets (2011: TCHF 6'287).

In 2012 the Group has not received any government grants for the purchase of property, plant and equipment.

In 2011 the Group has received government grants of TCHF 1'757 for the purchase of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

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

in CHF 1000.–	2012	2011
Land at historical cost	23 650	23 697
Land at historical depreciation	(424)	(253)
NET BOOK AMOUNT	**23 226**	**23 444**

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

The last external valuation for Netherlands as per December 31, 2012 was carried out in January 2013. The last external valuation for Spain was carried out in December 2010.

9. Intangible Assets

in CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost					
BALANCE AT JANUARY 1, 2011	**501 115**	**243 308**	**53 640**	**84 618**	**882 681**
Acquisitions of subsidiaries	–	–	3 272	–	3 272
Additions	113	–	–	5 775	5 888
Disposals of assets and businesses	–	–	–	(69)	(69)
Reclassifications	–	11 878	29 511	(28 093)	13 296
Reclassifications to held for sale *)	(33 222)	–	–	(812)	(34 034)
Foreign exchange differences	(7 985)	(3 255)	340	3 330	(7 570)
BALANCE AT DECEMBER 31, 2011 / JANUARY 1, 2012	**460 021**	**251 931**	**86 763**	**64 749**	**863 464**
Additions	–	1 200	–	2 731	3 931
Disposals of subsidiaries	–	(59)	–	(147)	(206)
Disposals of assets and businesses	–	–	–	(546)	(546)
Reclassifications	–	–	–	369	369
Reclassifications to held for sale *)	–	(12)	–	–	(12)
Foreign exchange differences	(951)	735	(1 169)	(869)	(2 254)
BALANCE AT DECEMBER 31, 2012	**459 070**	**253 795**	**85 594**	**66 287**	**864 746**

*) See note 2

In CHF 1000.–	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Accumulated amortization					
BALANCE AT JANUARY 1, 2011	**–**	**11 244**	**39 107**	**41 839**	**92 190**
Additions	–	6 421	11 912	5 961	24 294
Impairments	13 831	3 042	–	–	16 873
Reclassifications	–	21 919	1 113	(9 736)	13 296
Foreign exchange differences	833	(591)	666	789	1 697
BALANCE AT DECEMBER 31, 2011 / JANUARY 1, 2012	**14 664**	**42 035**	**52 798**	**38 853**	**148 350**
Additions	–	7 399	9 979	4 696	22 074
Impairments	9 836	–	–	–	9 836
Disposals of subsidiaries	–	(61)	–	(56)	(117)
Disposals of assets and businesses	–	–	–	(280)	(280)
Reclassifications	–	395	–	(395)	–
Reclassifications to held for sale*)	–	(13)	–	–	(13)
Foreign exchange differences	(418)	94	(988)	(498)	(1 810)
BALANCE AT DECEMBER 31, 2012	**24 082**	**49 849**	**61 789**	**42 320**	**178 040**
Carrying amount					
At January 1, 2012	445 357	209 896	33 965	25 896	**715 114**
At December 31, 2012	434 988	203 946	23 805	23 967	**686 706**

Development costs of TCHF 1'136 (2011: 1'782) were capitalized in 2012.
Certain prior year comparatives have been reclassified to conform to the current year's presentation.

Other intangibles

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

Intangible assets with indefinite lives

The carrying amount of brands with indefinite useful lives is CHF 186.4 million in 2012 (CHF 186.0 million in 2011). Brands are deemed to have an indefinite life if the brand has sufficient history. Hero has no intention of re-branding and there is no foreseeable limit to the period over which the brands are expected to generate net cash inflows.

Impairment tests for goodwill

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

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management and forecasts covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rates stated below. The growth rates generally correspond to the inflation rates plus general real gross domestic product (GDP) growth of the corresponding country. They are individually assessed and in case where management expects a significant deviation from general economic conditions they might be adjusted. Management determined budgeted growth rates based on past performance and its expectations for the market development. Where general industry forecasts do not reflect the growth expectations of management for specific businesses, the growth rates used depart from forecasts included in such industry reports in order to better reflect the specific growth potentials expected by management. Goodwill for Vitrac was impaired by CHF 9.8 million in 2012. For all other CGU's the recoverable amount exceeded the carrying amount.

Key assumptions used for value-in-use calculations:

in %	Eurozone	Middle East	US	Nordic	Other
Growth rate [1]	1.9–2.1	6.5	2.1	2.0	2.0–5.0
Discount rate [2]	11.7–11.9	24.3	12.7	11.5	10.9–17.6

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

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

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

10. Investments in Associates and Interest in Joint Ventures

Investments in associated companies

in CHF 1000.–	Hero WhiteWave	Other	Total
BALANCE AT JANUARY 1, 2011	**10 503**	**101**	**10 604**
Share of profit	(10 317) [1]	–	(10 317)
Capital contributions	5 998	–	5 998
Foreign exchange differences	(1 549)	(3)	(1 552)
BALANCE AT DECEMBER 31, 2011 / JANUARY 1, 2012	**4 635**	**98**	**4 733**
Share of profit	43	–	43
Capital contributions	1 811	–	1 811
Disposal of Investment	(6 312)	–	(6 312)
Foreign exchange differences	(177)	(2)	(179)
BALANCE AT DECEMBER 31, 2012	**–**	**96**	**96**

[1] Additional receivables and costs directly associated with Hero WhiteWave of TCHF 1'299 were expensed and foreign exchange differences in other comprehensive income relating to Hero WhiteWave of TCHF 6'956 were directly recycled through the income statement.

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

The Group's share of current assets, non-current assets, current liabilities, non-current liabilities, revenues and net income of its interests associated and joint-ventures in 2012 are insignificant. (In 2011: CHF 0 million, CHF 7 million, CHF 3 million, CHF 0 million, CHF 4 million and CHF –10 million respectively).

11. Segment Reporting

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

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

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

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

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

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

Year ended December 31, 2012

in CHF 1000.–	Europe	North America	International	Consolidation entries	Consolidated
Net sales					
External customer	985 036	299 262	144 954	–	1 429 252
Inter-segment [1]	14 587	173	3 524	(18 284)	–
TOTAL NET SALES	**999 623**	**299 435**	**148 478**	**(18 284)**	**1 429 252**
Results					
Depreciation and amortization	(30 175)	(25 603)	(6 041)	–	(61 819)
Share of profit of associates	–	43	–	–	43
INCOME/(LOSS) BEFORE TAX	**61 995**	**(74)**	**(18 740)**	**–**	**43 181**
Impairment of assets	(9 836)	(3 307)	–	–	(13 143)
Capital expenditure (tangible)	30 476	2 064	12 624	–	45 164

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

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

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

Year ended December 31, 2011

in CHF 1000.–	Europe	North America	Inter-national	Consoli-dation entries	Consoli-dated
Net sales					
External customer	1 015 564	280 640	134 897	–	1 431 100
Inter-segment [1]	30 924	1 156	2 397	(34 477)	–
TOTAL NET SALES	**1 046 488**	**281 796**	**137 294**	**(34 477)**	**1 431 100**
Results					
Depreciation and amortization	(32 839)	(17 670)	(3 811)	–	(54 320)
Share of profit of associates	–	(18 573)	–	–	(18 573)
(LOSS) / INCOME BEFORE TAX	**66 832**	**(81 449)**	**(21 967)**	**–**	**(36 584)**
Impairment of assets	(8 999)	(19 150)	–	–	(28 149)
Capital expenditure (tangible)	34 863	15 807	17 232	–	67 901

in CHF 1000.–	Infant & Nutrition	Fruit	Other consumer foods	Consoli-dated
Net sales from external customers by products	651 451	415 869	363 780	1 431 100

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

Net sales from external customers in Switzerland amount to TCHF 103'512. Non-current assets excluding deferred tax assets and financial instruments located in Switzerland amount to TCHF 558'270.

12. Non-current Receivables

in CHF 1000.–	Note	2012	2011
Loans to third parties		–	12 158
Other non-current receivables		7 699	7 869
TOTAL NON-CURRENT RECEIVABLES	26	**7 699**	**20 027**

Non-current receivables include pension assets of TCHF 4'086 (2011: TCHF 4'054) (see note 19).

Loans to third parties in 2011 reflect a credit linked loan which serves as a default guarantee on a joint venture credit facility and does not bear interest. The loan was reclassified to short term loans in 2012 as the instrument is expected to terminate July 1, 2013.

13. Development of Deferred Tax Assets and Liabilities

in CHF 1000.–	Deferred tax assets 2012	Deferred tax liabilities 2012	Deferred tax assets 2011	Deferred tax liabilities 2011
Assets				
Property, plant and equipment	2 630	42 282	517	48 374
Intangible assets	6 407	5 111	28 022	18 727
Financial assets	1 320	2 213	227	5 471
Trade receivables, prepayments and other receivables	3 060	130	4 159	283
Inventories	1 491	886	2 218	1 078
Liabilities				
Provisions	21 485	19 280	16 559 *)	21 876
Trade and other payables	502	–	683	–
Financial liabilities	293	–	1 241	–
CAPITALIZED UNUSED TAX LOSSES AND TAX CREDITS	**71 290**	**–**	**76 914**	**–**
TOTAL DEFERRED TAXES	**108 478**	**69 902**	**130 539**	**95 810**

Maturities

in CHF 1000.–	2012	2011
Deferred tax assets to be recovered after more than 12 months	101 831	127 810 *)
Deferred tax liabilities to be settled after more than 12 months	(63 840)	(92 179)

Unused Tax Losses

in CHF 1000.–	2012	2011
Items for which no deferred tax asset is recognized in balance sheet expire in:		
reporting year +1	1 351	–
reporting year +2	411	1 252
reporting year +3	478	381
reporting year +4	405	472
reporting year +5 and beyond	–	634
TOTAL UNUSED TAX LOSSES	**2 645**	**2 740**

Net deferred tax assets / (liabilities)

in CHF 1000.–	2012	2011
BALANCE AT JANUARY 1	**34 425**	**(16 245)** *)
Deferred tax income	4 551	47 144 *)
Deferred taxes reclassified to held for sale	–	(3 207)
Deferred taxes directly recognized in equity	(922)	1 888 *)
Foreign exchange differences	522	4 845 *)
BALANCE AT DECEMBER 31	**38 576**	**34 425**

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

14. Inventories

in CHF 1000.–	2012	2011
Raw materials and supplies	77 784	87 409
Work-in-progress	12 364	13 764
Finished goods	103 825	138 064
TOTAL INVENTORIES	**193 973**	**239 237**
Write down of inventories	712	11 086
Inventory expensed in cost of sales	916 944	907 188

15. Trade Receivables, Prepayments and other Receivables

in CHF 1000.–	Note	2012	2011
Trade receivables from customers		163 397	178 074
Less: Allowance for bad and doubtful trade receivables		(4 326)	(4 535)
TRADE RECEIVABLES, NET		**159 071**	**173 539**
Prepayments		9 107	7 529
Loans to third parties		11 896	830
Other receivables		26 993	36 394
TOTAL RECEIVABLES AND PREPAYMENTS	26	207 067	218 292

Allowance for bad and doubtful trade receivables

in CHF 1000.–	2012	2011
At January 1	(4 535)	(3 944)
Charge for the year	(577)	(952)
Amounts written off	122	275
Unused amounts reversed	611	(6)
Exchange rate differences	53	92
AT DECEMBER 31	**(4 326)**	**(4 535)**

Maturity of trade receivables

in CHF 1000.–	2012	2011
Neither past due nor impaired	78 765	96 430
< 30 days	36 857	41 392
30–60 days	22 100	23 802
60–90 days	15 509	10 387
90–120 days	1 118	1 065
> 120 days	9 048	4 998
TOTAL TRADE RECEIVABLES	**163 397**	**178 074**
Less: Allowance for bad and doubtful trade receivables	(4 326)	(4 535)
TOTAL TRADE RECEIVABLES, NET	**159 071**	**173 539**

The maturity of trade receivable prior year comparatives have been reclassified to conform to the current year's presentation.

Loans to third parties include a credit linked loan which serves as a default guarantee on a joint venture credit facility and does not bear interest. The loan was reclassified to short-term loans in 2012 as the instrument is expected to terminate July 1, 2013, see note 12.

16. Cash and Cash Equivalents

in CHF 1000.–	2012	2011
Bank balances	227 407	82 736
Cash equivalents	16	–
CASH AND CASH EQUIVALENTS	**227 423**	**82 736**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 4.5 million (2011: CHF 3.4 million) held by some subsidiaries which are not freely remissible to the holding company because those deposits are used to secure bank facilities and guarantees.

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

The weighted average effective interest rate on cash and cash equivalents in 2012 was 0.12% (2011: 0.07%).

17. Shares, Hybrid Capital and Other Reserves

a) Number of shares	2012	2011
Common stock	5 151 600	5 151 600
TOTAL SHARES AT DECEMBER 31	**5 151 600**	**5 151 600**

The following table illustrates the number (No.) and weighted average purchase price (WAPP) of, and movement in, treasury shares during the year:

in CHF 1000.–		2012 No.	2012 WAPP	2011 No.	2011 WAPP
AT JANUARY 1		**–**	**–**	**125 000**	**134.49**
AT JANUARY 1	**HELD BY KEY MANAGEMENT**	**–**	**–**	**50 000**	**–**
	Exercised	–	–	(50 000)	268.50
AT DECEMBER 31	**HELD BY KEY MANAGEMENT**	**–**	**–**	**–**	**–**
AT JANUARY 1	**HELD IN ESCROW BY HERO**	**–**	**–**	**75 000**	**–**
	Exercised	–	–	50 000	268.50
	Sold	–	–	(125 000)	216.65
AT DECEMBER 31	**HELD IN ESCROW BY HERO**	**–**	**–**	**–**	**–**
AT DECEMBER 31		**–**	**–**	**–**	**–**
Exercisable at December 31		–	–	–	–

Treasury shares in 2011 were held in connection with the executive share compensation plan. Treasury shares held by key management in 2011 were not available for distribution. In 2011 50'000 shares were exercised by key management, 125'000 shares were sold to Schwartau International GmbH & Co KG. The executive share compensation plan was terminated in 2011.

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

b) Hybrid capital	2012	2011
Hybrid Capital Third Party	490 315	490 315
Hybrid Capital Shareholder	120 000	50 000
Tax effect	1 000	1 827
TOTAL HYBRID CAPITAL AT DECEMBER 31	**611 315**	**542 142**

Hybrid Capital Third Party

In 2010 Hero issued CHF 100 million Undated Fixed to Floating Rate Subordinated Bonds in addition to the CHF 400 million Undated Fixed to Floating Rate Subordinated Bonds issued in October 2009. The bonds bear interest on their principal amount at a fixed rate of 6.5% p.a. from the payment date up to October 28, 2016, and thereafter at a floating interest rate. The terms and conditions of the bonds are such, that in accordance with IAS 32, the bonds qualify for treatment as equity in the financial statements of the Group. Payments of the coupons relating to the bonds are recorded as dividend payments to shareholders.

Hybrid Capital Shareholder

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

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

c) Other reserves

for the year ended December 31 in CHF 1000.–	Re-valuation reserve	Legal reserves	Fair value reserve	Pensions reserve	Equity loans translation reserve	Foreign currency translation reserve	Total
BALANCE AT JANUARY 1, 2011	31 528	25 758	–	(3 674) *)	(1 605)	(113 523)	(61 516)
Remeasurements	–	–	–	(8 104) *)	–	–	(8 104)
Tax effects	–	–	–	1 753 *)	135	–	1 888
Foreign exchange differences	(311)	–	–	(963) *)	(995)	(885)	(3 154)
BALANCE AT DECEMBER 31, 2011 / JANUARY 1, 2012	31 217	25 758	–	(10 988) *)	(2 465)	(114 408)	(70 886)
Revaluation of land	(422)	–	–	–	–	–	(422)
Available-for-sale investments	–	–	15 259	–	–	–	15 259
Remeasurements	–	–	–	(6 817)	–	–	(6 817)
Tax effects	105	–	–	(1 046)	19	–	(922)
Foreign exchange differences	(571)	–	737	2 576	(39)	4 363	7 066
BALANCE AT DECEMBER 31, 2012	30 329	25 758	15 996	(16 275)	(2 485)	(110 045)	(56 722)

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

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of assets and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in other comprehensive income.

Legal reserves

Legal reserves are not available for distribution.

Fair value reserve

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

Pensions reserve

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

Equity loans translation reserve

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

18. Borrowings

in CHF 1000.–	2012	2011
Current		
Bank overdrafts	173 745	140 784
German Promissory Note	77 805	–
Loan liabilities third parties	18 339	49 106
Finance lease liabilities	19	89
TOTAL CURRENT BORROWINGS	269 908	189 979
Non-current		
Bank borrowings	192 668	183 575
Loan liabilities third parties	–	6 000
German Promissory Note	–	78 310
TOTAL NON-CURRENT BORROWINGS	192 668	267 885

Analysis of unsecured non-current borrowings 2012 (excl. Finance liabilities)

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

Analysis of unsecured non-current borrowings 2011 (excl. Finance liabilities)

in CHF 1000.–	2011
Expiring in	
2013	177 557
2014	37 664
2015	37 664
2016	15 000
TOTAL NON-CURRENT BORROWINGS AT THE YEAR END 2011	**267 885**

Finance lease liabilities

in CHF 1000.–	Minimum payment	Future interest	Total liability
Year 2012			
Less than one year	19	–	19
TOTAL 2012	**19**	**–**	**19**
Year 2011			
Less than one year	89	–	89
TOTAL 2011	**89**	**–**	**89**

The carrying value of future finance lease liabilities approximates the present values.

Assets under finance lease

in CHF 1000.–	2012	2011
Plant and machinery	17	44
TOTAL ASSETS UNDER FINANCE LEASE	**17**	**44**

German Promissory Note

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

Covenants

Hero is engaged in different kind of financings and most of them are related to certain covenants. The main covenants are Net Debt / EBITDA and interest coverage. As per December 31, 2012 and 2011 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2012 was 4.2% (2011: 3.6%).

The interest rates for the majority of current bank overdrafts and loan liabilities were between 0.75% and 6% fixed interest rates. Non-current bank borrowings had fixed interest rates between 1.14% and 6%.

19. Pensions and Other Post-Retirement Obligations

Depending on the legal, economic and fiscal circumstances in each country, different retirement benefit systems are provided for the employees of the Group. As a rule, these systems are based on length of service and salary of the employees. Pension obligations in the Group relate to both defined benefit and defined contribution plans. Defined benefit plans are funded and unfunded. Most Group companies sponsor defined benefit pension schemes which are funded by payments to separate trustee-administered funds. The obligations of German companies are unfunded. The latest actuarial valuations under IAS 19 were carried out as at December 31, 2012 for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 85% (2011: 85%) of the Group's defined benefit obligations and 88% (2011: 89%) 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, 2012, is 96.1% (2011: 91.7%, definitive). In addition, a report is prepared annually in accordance with IFRS requirements.

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

Pension plan Schwartauer Werke, Germany

Schwartauer Werke grants pension benefits to its employees in addition to the state plan. The plan is an unfunded plan and the risks associated to the plan are covered by pension provisions of Schwartauer Werke, and reimbursement rights under an insurance policy. The rights to reimbursement are under an insurance policy that exactly matches the amount and timing of some of the benefits payable under the pension scheme. They are disclosed as an asset (see note 12). The actual return on reimbursement rights in 2012 is TCHF 4 086 (2011: TCHF 4 054) and the expected rate of return on reimbursement rights in 2012 is 3.5% (in 2011 4.0%).

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 2013 are TCHF 2 121. 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 0.2% of the plan.

The scheme shows based on latest information a USD 3.6 billion deficit. Therefore the scheme is in a "work-out plan" – a federal requirement for funds less than 65% funded. The workout plan requires the fund to get above 65% funding within 10 years and it requires an actuarial certified plan. This work-out plan has triggered a reset of pension contributions for employers at the next renegotiation of the union contract.

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

in CHF 1000.–	2012	2011[*)]
Balance sheet obligations for:		
Defined pension benefits	69 172	65 724
LIABILITY IN THE BALANCE SHEET	**69 172**	**65 724**
Income statement charge included in operating profit for:		
Defined pension benefits	3 601	4 773
INCOME STATEMENT CHARGE	**3 601**	**4 773**
Remeasurements for:		
Defined pension benefits	6 817	8 103
OTHER COMPREHENSIVE INCOME	**6 817**	**8 103**

[*)] Restated due to early adoption of IAS 19 revised.

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

in CHF 1000.–	2012	2011[*)]
Switzerland		
Present value of funded obligations	95 698	95 309
(Fair value of plan assets)	(83 708)	(82 758)
Deficit of funded obligations	11 990	12 551
LIABILITY IN THE BALANCE SHEET	**11 990**	**12 551**
Germany		
Present value of unfunded obligations	43 312	39 653
LIABILITY IN THE BALANCE SHEET	**43 312**	**39 653**
Other		
Present value of funded obligations	13 951	12 737
(Fair value of plan assets)	(11 519)	(10 155)
Deficit of funded obligations	2 432	2 582
Present value of unfunded obligations	10 871	10 281
Total deficit of defined benefit pension plans	13 303	12 863
Impact of minimum funding requirement / asset ceiling	567	655
LIABILITY IN THE BALANCE SHEET	**13 870**	**13 518**
Total		
Present value of funded obligations	109 649	108 046
(Fair value of plan assets)	(95 227)	(92 913)
Deficit of funded obligations	14 422	15 133
Present value of unfunded obligations	54 183	49 934
Total deficit of defined benefit pension plans	68 605	65 067
Impact of minimum funding requirement / asset ceiling	567	655
LIABILITY IN THE BALANCE SHEET	**69 172**	**65 722**

[*)] Restated due to early adoption of IAS 19 revised.

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

in CHF 1000.–	Present value of obligation	Fair value of plan assets	Total	Impact of minimum funding requirement/ asset ceiling	Total
AT JANUARY 1, 2011 [*]	**154 252**	**(95 272)**	**58 980**	**563**	**59 543**
Current service cost	2 209	–	2 209	–	2 209
Interest expense / (income)	5 584	(3 019)	2 564	–	2 565
	7 793	**(3 019)**	**4 774**	**–**	**4 774**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense / (income)	–	1 760	1 760	–	1 760
(Gain) / loss from change in demographic assumptions	3 439	–	3 439	–	3 439
(Gain) / loss from change in financial assumptions	2 428	430	2 858	–	2 858
Experience (gains) / losses	(42)	–	(42)	–	(42)
Change in asset ceiling, excluding amounts included in interest expense	–	–	–	88	88
	5 825	**2 190**	**8 015**	**88**	**8 103**
Contributions:					
Employers	–	(2 594)	(2 594)	–	(2 594)
Plan participants	1 432	(1 432)	–	–	–
Payments from plans:					
Benefit payments	(9 180)	6 340	(2 840)	–	(2 840)
Insurance premiums	(921)	921	–	–	–
FX-Differences	(1 219)	(46)	(1 265)	3	(1 262)
AT DECEMBER 31, 2011 / JANUARY 1, 2012 [*]	**157 982**	**(92 912)**	**65 070**	**654**	**65 724**
Current service cost	2 038	–	2 038	–	2 038
Past service cost	(1 084)	–	–	–	(1 084)
Interest expense / (income)	5 265	(2 619)	2 646	–	2 646
	6 219	**(2 619)**	**3 600**	**–**	**3 600**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense / (income)	–	(4 341)	(4 341)	–	(4 341)
(Gain) / loss from change in demographic assumptions	8 973	–	8 973	–	8 973
(Gain) / loss from change in financial assumptions	5 495	(223)	5 272	–	5 272
Experience (gains) / losses	(2 986)	–	(2 986)	–	(2 986)
Change in asset ceiling, excluding amounts included in interest expense	–	–	–	(101)	(101)
	11 482	**(4 564)**	**6 918**	**(101)**	**6 817**
Contributions:					
Employers	–	(3 715)	(3 715)	–	(3 715)
Plan participants	1 448	(1 448)	–	–	–
Payments from plans:					
Benefit payments	(12 198)	9 320	(2 878)	–	(2 878)
Insurance premiums	(598)	598	–	–	–
FX-Differences	(503)	114	(389)	13	(376)
AT DECEMBER 31, 2012	**163 832**	**(95 226)**	**68 606**	**566**	**69 172**

[*] Restated due to early adoption of IAS 19 revised.

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

The significant actuarial assumptions were as follows:

	SWITZERLAND		GERMANY		OTHER	
in %	2012	2011	2012	2011	2012	2011
Discount rate	1.90	2.60	3.75	4.75	3.50–4.20	4.00–4.90
Salary growth rate	1.00	1.00	1.00	1.00	0.00	0.00
Pension growth rate	0.00	0.00	2.00	2.00	0.00–2.40	0.00–2.20

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

	SWITZERLAND		GERMANY		OTHER	
	2012	2011	2012	2011	2012	2011
Retiring at the end of the reporting period:						
Male	21	21	19	19	21–23	21–23
Female	24	24	23	23	22–25	22–25
Retiring 20 years after the end of the reporting period:						
Male	23	20	21	21	19–24	18–24
Female	25	23	25	25	20–26	19–26

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

in CHF 1000.–		Impact of defined benefit obligation					
	Change in assumption	Increase in assumption			Decrease in assumption		
Discount rate	0.50%	Decrease by	9 693	5.9%	Increase by	10 948	6.7%
Salary growth rate	0.50%	Increase by	1 429	0.9%	Decrease by	1 429	0.9%
Pension growth rate	0.25%	Increase by	4 131	2.5%	Decrease by	1 371	0.8%

	Increase by 1 year in assumption			Decrease by 1 year in assumption		
Life expectancy	Increase by	4 595	2.8%	Decrease by	4 379	2.7%

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 recognised within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Plan assets are comprised as follows:

in CHF 1000.–	2012		2011[*]	
		in %		in %
Equity instruments	27 817	29.2	17 687	19.0
Bonds	48 400	50.9	51 426	55.3
Property	14 509	15.2	15 312	16.5
Cash and cash equivalents	4 303	4.5	2 945	3.2
Other	197	0.2	5 541	6.0
TOTAL	**95 226**	**100.0**	**92 911**	**100.0**

[*] Restated due to early adoption of IAS 19 revised.

The assets of the Swiss pension funds which represent 88% (2011: 89%) of the Group's plan assets are comprised of:

- 23% (2011: 17%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 55% (2011: 55%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 17% (2011: 19%) Property with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (level 2 fair value classification)
- 4% (2011: 3%) Cash and cash equivalents with quoted prices in an active market (level 1 fair value classification).
- 0% (2011: 7%) Alternative investments with quoted prices in an active market (level 1 fair value classification).

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

Asset volatility

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

Changes in bond yields

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

Inflation risk

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

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. In case of the funded plans, the group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to

manage its pension scheme risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in bonds, although the Group also invests in property, equity, cash and alternative investments.

Expected contributions to post-employment benefit plans for the year ending December 31, 2013 are TCHF 2'531.

The weighted average durations of the defined benefit obligations are:

SWITZERLAND		GERMANY		OTHER	
2012	2011	2012	2011	2012	2011
12 years	11 years	11 years	11 years	13–25 years	13–25 years

20. Non-current Provisions

in CHF 1000.–	Taxes	Litigation	Pension schemes	Social Security	Other	Total
Balance at January 1, 2012	2 017	85	65 453[*)]	1 626	1 685	70 866
Additional provisions	107	5	3 597	176	4 370	8 255
Utilized	–	(4)	(3 498)	–	(469)	(3 971)
Subsidiaries sold	–	–	–	–	(93)	(93)
Unused amounts reversed / reclassifications	(1 829)	(31)	1 234	(512)	2 982	1 844
Foreign exchange differences	(35)	(4)	(279)	(13)	(21)	(352)
BALANCE AT DECEMBER 31, 2012	**260**	**51**	**66 507**	**1 277**	**8 454**	**76 549**

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

Litigation

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

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

21. Other Non-current Liabilities

in CHF 1000.–	Note	2012	2011
Other liabilities	26	27 346	33 715
TOTAL OTHER NON-CURRENT LIABILITIES		**27 346**	**33 715**

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

CHF 20.4 million was reclassified to other non-current liabilities in 2011 to reflect an alternative classification of US government grants as related to income rather than assets. This classification was due to a change in estimation regarding the economic substance of the relevant agreements based on new information and additional experience. There was no impact to Shareholders' Equity, Other Comprehensive Income or the Income Statement.

22. Trade and Other Payables

in CHF 1000.–	Note	2012	2011
Trade payables		142 959	145 099
Amounts due to related and associated companies	27	6 108	8 677
Social security		5 115	5 130
Accrued expense		94 831	93 717
Other payables		25 344	45 575
TOTAL TRADE AND OTHER PAYABLES	26	**274 357**	**298 198**

Other payables consist primarily of obligations arising from factored receivables and restructuring arrangements.

23. Current Provisions

in CHF 1000.–	Taxes	Discounts	Pension schemes	Social Security	Restruc-turing	Other	Total
Balance at January 1, 2012	3 331	11 013	4 079	5 039	–	11 659	35 121
Additional provisions	3 213	7 188	–	4 020	4	10 205	24 630
Utilized	(2 912)	(4 343)	(2 741)	(4 907)	–	(10 173)	(25 076)
Unused amounts reversed / recl.	(641)	(2 408)	1 348	424	68	946	(263)
Foreign exchange differences	(18)	(82)	(21)	(38)	(4)	(10)	(173)
BALANCE AT DECEMBER 31, 2012	**2 973**	**11 368**	**2 665**	**4 538**	**68**	**12 627**	**34 239**

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

Taxes
The provision covers the tax liabilities of the Group.

Discounts
The amounts represent provisions for sales discounts and similar transactions.

Pension schemes
Refer to note 19 (Pensions and Other Post-Retirement Obligations).

Social Security
This position represents a provision for social security obligations.

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

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

24. Cash Generated from Operations

in CHF 1000.–	Note	2012	2011
Net income (attributable to equity holders of the company)		**37 740**	**4 380** *)
Adjustments for:			
Non-controlling interests		(5 434)	(6 724)
Tax expense / (income)	6	10 876	(34 087) *)
Depreciation / Impairment	8, 11	43 052	41 303
Amortization / Impairment	9, 11	31 910	41 166
Net (gain) on sale of property, plant and equipment and businesses	24	(30 128)	(164)
Other non-cash expense		–	(153) *)
Fair value gains, net		22 261	12 755
Interest income	3	(3 690)	(9 265)
Interest expense	3	22 140	25 641
Share of result before tax of associates and joint-ventures	10	(43)	18 573
Net loss in foreign exchange		1 055	10 008
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)			
Inventories		36 588	(26 032)
Trade and other receivables		801	(27 205)
Trade and other payables		(8 519)	11 559
Provisions		3 401	(29 336)
CASH GENERATED FROM OPERATIONS		**162 009**	**32 419**

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

25. Business Combinations, Acquisition of Minority Interests and Disposals

Major Disposals in 2012

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

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

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

Details of disposal consideration at fair value

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

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

Major Acquisitions in 2011

Effective October 3, 2011 the Group acquired certain assets of the Beauvais baby food business in Denmark.

The acquisition had the following effect on the Group's assets and liabilities:

in CHF 1000.–	Beauvais baby food business
FAIR VALUE OF INTANGIBLE ASSETS ACQUIRED	**3 272**
TOTAL PURCHASE CONSIDERATION	**3 272**
CASH OUTFLOW ON ACQUISITIONS	**3 272**
Revenues contributed to the Group in 2011 after acquisition	1 259
Net income contributed to the Group in 2011 after acquisition	192
Revenues, if acquisition had occurred on January 1, 2011	4 928
Net income, if acquisition had occurred on January 1, 2011	287

The carrying amount immediately before the acquisition of the intangible asset acquired was zero. Acquisition related costs incurred in 2011 amounted to TCHF 150.

26. Financial Instruments

Fair values

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

in CHF 1000.–		Carrying amount		Fair value	
	Note	2012	2011	2012	2011
Financial assets at fair value through profit or loss – held for trading					
Non-current					
Available-for-sale investments		115 742	–	115 742	–
Financial assets at fair value		–	16 657	–	16 657
Current					
Financial assets at fair value		1 819	1 488	1 819	1 488
Loans and receivables					
Non-current					
Non-current receivables	12	7 699	20 027	7 699	20 027
Current					
Trade receivables, prepayments and other receivables	15	207 067	218 292	207 067	218 292
Cash and cash equivalents	16	227 432	82 736	227 423	82 736
Financial liabilities at fair value through profit or loss – held for trading					
Non-current					
Derivative financial liability		5 091	–	5 091	–
Current					
Derivative financial liabilities		1 146	6 156	1 146	6 156
Other financial liabilities					
Non-current					
Borrowings	18	192 668	267 885	192 374	267 697
Other liabilities	21	27 346	33 715	27 346	33 715
Current					
Trade and other payables	22	274 357	298 198	274 357	298 188
Borrowings	18	269 908	189 979	269 908	189 979

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 other non-current liabilities approximate their fair values.

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

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.

Derivative financial instruments

in CHF 1000.–

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

at December 31, 2011	Assets	Liabilities
Non-current		
Interest-Rate Swap	16 657	–
TOTAL NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**16 657**	**–**
Current		
Forward foreign exchange contracts	1 488	6 156
TOTAL CURRENT DERIVATIVE FINANCIAL INSTRUMENTS	**1 488**	**6 156**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS AT DECEMBER 31, 2011	**18 145**	**6 156**

Interest-Rate Swap

The Group entered into a structured CHF Interest-Rate Swap linked to Deutsche Bank's Trends USD Index. Starting October 28, 2009 and ending at October 28, 2016 Hero receives in the first two years 6.5% and pays 5.5% interest p.a. on the underlying amount of CHF 500 million. From the 3rd year until the end of the instrument Hero receives 6.5% interest and pays interest in the range of 0% – 8% p.a. on the underlying amount of CHF 500 million depending on the performance of the underlying Deutsche Bank's Trends USD Index. This Interest-Rate Swap will be fair valued every year using a Monte-Carlo-Simulation with the resulting profit or loss being recognized in the income statement. While applying this Monte-Carlo valuation technique the longest available historical data set of the underlying index has been used to determine parameters such as volatility and average performance of the index. The discount rate is based on a 7 year risk free interest rate. In 2012 a loss of CHF 27.6 million (2011: loss of CHF 13.2 million) has been recognized in the financial result.

Available-for-sale investments

As per August 30, 2012 the Group sold its 50% interest in Orient Link Holdings for a consideration of a 6.5% share in the diluted share capital of Treasury Ally Limited. The fair value of the shares is based on a third party valuation as per October 31, 2012. The valuers adopted the Discounted Free Cash Flow method. The valuation contains unobservable inputs such as weighted average cost capital (WACC) (15.20%), long-term revenue growth (between 110% and 187%), EBIT margin (between 33% and 44%), discount of lack of marketability (20%) and discount for lack of control (10%). The valuation as per December 31, 2012 resulted in a fair value of CHF 115.7 million. The fair value gain of CHF 15.3 million was recorded in Other Comprehensive Income.
Group management assessed the input parameters used and assumptions made in the external valuation for the period from November 1, 2012 to December 31, 2012. This assessment confirmed the valuation.
The disposal of the shares also included a put option agreement for the Group, where the Group has the option under certain circumstances to sell its share in Treasury Ally to the former joint-venture partner of Orient Link Holdings. This option meets the definition of an embedded derivative and its current value is zero.

Forward foreign exchange contracts

The notional amounts of the outstanding foreign exchange contracts include commitments to sell for a notional amount of CHF 41.7 million (2011: CHF 81.3 million) and commitments to buy for a notional amount of CHF 431.6 million (2011: CHF 431.8 million).

in CHF 1000.–	2012	2011
Contracts with positive fair values		
Forward foreign exchange contracts	41 908	80 320
Contracts with negative fair values		
Forward foreign exchange contracts	(431 195)	(435 770)

Fair value hierarchy

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

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

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

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

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

During the reporting period ending December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Assets measured at fair value

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

at December 31, 2011 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Interest-Rate Swap	–	–	16 657	16 657
Forward foreign exchange contracts	–	1 488	–	1 488

Liabilities measured at fair value

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

at December 31, 2011 in CHF 1000.–	Level 1	Level 2	Level 3	Total
Forward foreign exchange contracts	–	6 156	–	6 156

27. Related and Associated Party Transactions

in CHF 1000.–	Note	2012	2011
Sales of Goods			
to associated companies		42 872	44 077
Purchases			
from associated companies		13 867	17 757
Other income / (expenses)			
Capital gain on disposal of treasury shares to parent entity		–	7 663
Interest expense to AOH Nahrungsmittel Group		(302)	(1 267)
Receivables			
Trade receivables from associated companies		8 470	10 829
Other short-term receivables from associated companies		–	11 478
Payables			
Trade payables to AOH Nahrungsmittel Group		–	9
Trade payables to associated companies	22	3 879	3 928
Other short-term liabilities to associated companies	22	2 229	8 327
Short-term loan liabilities to AOH Nahrungsmittel Group		–	36 888
Other long-term liabilities to associated companies		428	1 892
Hybrid capital shareholder contribution		70 000	50 000
Dividend on hybrid capital to shareholder		2 663	–
Executive share compensation plan			
Net compensation income / (expense) recognized		–	(2 105)
Key management compensation *)			
Salaries and other short-term employee benefits		(5 939)	(5 328)
Termination benefits		(4 600)	(339)
Post-employment benefits		(616)	(442)

*) Key management compensation reflects the enlarged Executive Board as of July 1, 2011.

Details of the executive share compensation plan are laid down in the accounting principles. The plan was terminated during 2011.

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

28. Contingent Liabilities

in CHF 1000.–	2012	2011
Contingent liabilities in favour of third parties	5 253	6 668

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

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

29. Commitments

in CHF 1000.–	2012	2011
Commitments for the acquisition of tangible fixed assets	10 110	19 334
Commitments for raw materials	60 701	57 722
TOTAL CAPITAL COMMITMENTS	**70 811**	**77 056**

Commitments for operating lease are as follows:

in CHF 1000.–	2012	2011
Amount due within one year	7 050	7 526
Between one and five years	13 479	12 905
After five years	929	637
TOTAL OPERATING LEASE COMMITMENTS	**21 458**	**21 068**
TOTAL OPERATING LEASE EXPENSE RECOGNIZED IN THE INCOME STATEMENT	**(7 475)**	**(6 707)**

30. Events after the Balance Sheet Date

There are no events after the balance sheet date noted.

Corporate Governance

Introduction

Hero interprets Corporate Governance to include the totality of all governing principles and regulations aimed to defend the interests of its shareholders which, within the context of decision-making abilities and efficiency, ensure that management's leadership and control of the enterprise are undertaken focused on value creation with full knowledge of its responsibilities.

Hero's corporate regulations fully incorporate the recommendations of "Swiss Code of Best Practices" in addition to the provisions of Swiss law. Hero's Board of Directors and the Executive Board are separate decision-making bodies, each with distinct functions and responsibilities. No member of the Board of Directors is a member of the management team. Further, a member of the Board of Directors may sit on the Board of no more than six other quoted Swiss companies.

Board of Directors

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

The Board of Directors convenes its own meetings at least four times each year. The Board of Directors has delegated individual tasks to two sub-committees, which analyze specific issues in more depth on behalf of the Board:

- Finance & Audit Committee
  Dr. Arend Oetker (until December 31, 2012)
  Herbert J. Scheidt
  Dr. Hagen Duenbostel
  Dr. Hasso Kaempfe
- Compensation Committee
  Dr. Arend Oetker (until December 31, 2012)
  Herbert J. Scheidt
  Dr. Hasso Kaempfe

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

Executive Board

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

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

Auditors

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

Report of the Statutory Auditor

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Hero AG, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 8 to 69) for the year ended 31 December 2012.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

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

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

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

Ernst & Young Ltd.

Philip Klopfenstein
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

Zurich, 19 March 2013

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Income Statement

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

	2012	2011
NET SALES	**157 283**	**225 181**
Material	(102 950)	(132 215)
Personnel	(33 435)	(37 791)
Depreciation	(11 633)	(32 768)
Production and distribution	(7 879)	4 301
Advertising and promotion	(11 832)	(23 831)
Sales and general administration	(13 236)	(18 313)
Total operating expenses	**(180 965)**	**(240 617)**
OPERATING LOSS	**(23 682)**	**(15 436)**
Financial income	67 671	70 326
Financial expense	(98 362)	(97 555)
Financial result	**(30 691)**	**(27 229)**
Participation income	32 394	35 612
Gains on fixed assets disposed	1 876	–
Other income	35 250	50 405
Total other income	**69 520**	**86 017**
Other expense	(29 520)	(2 103)
Total other expenses	**(29 520)**	**(2 103)**
(LOSS) / PROFIT BEFORE TAXES	**(14 373)**	**41 249**
Taxes	(4 511)	(4 798)
NET (LOSS) / INCOME	**(18 884)**	**36 451**

Balance Sheet

as at December 31, before appropriation of profit

Hero AG

in CHF 1000.–

Assets	2012	2011
Cash	5	12
Banks	151 901	44 149
Liquid funds	**151 906**	**44 161**
Trade receivables	16 619	23 888
Receivables from subsidiaries	148 869	156 874
Other short-term receivables	2 533	16 372
Prepaid expenses	191	371
Receivables	**168 212**	**197 505**
Raw material and supplies	9 720	10 883
Work-in-progress and finished goods	1 581	2 717
Inventories	**11 301**	**13 600**
CURRENT ASSETS	**331 419**	**255 266**
Land	4 749	4 749
Buildings	28 164	26 896
Plant and machinery	11 831	11 799
Other equipment and vehicles	643	664
Tangible fixed assets	**45 387**	**44 108**
Financial investments	91	91
Long-term loans bank	11 396	12 158
Long-term loans to subsidiaries	400 816	430 168
Investments in subsidiaries	434 532	441 247
Intangible assets	80 455	89 354
Financial and intangible assets	**927 290**	**973 018**
FIXED ASSETS	**972 677**	**1 017 126**
TOTAL ASSETS	**1 304 096**	**1 272 392**

Liabilities and shareholders' equity	2012	2011
Banks	243 812	165 656
Trade payables	9 878	11 600
Payables to subsidiaries	128 629	166 708
Other short-term liabilities	3 940	10 702
Accruals	14 338	11 367
Short-term provisions	8 754	12 975
Current liabilities	**409 351**	**379 008**
Long-term bank liabilities	90 000	150 000
Long-term loans from subsidiaries	9 427	9 499
Other long-term liabilities	685	878
Long-term provisions	18 480	7 969
Debentures	620 000	550 000
Medium and long-term liabilities	**738 592**	**718 346**
TOTAL LIABILITIES	**1 147 943**	**1 097 354**
Share capital	51 516	51 516
Legal reserve	25 758	25 758
Retained earnings	78 879	97 763
SHAREHOLDERS' EQUITY	**156 153**	**175 037**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1 304 096**	**1 272 392**

Notes to the Statutory Accounts of Hero AG

1.
Guarantees amounting to CHF 108 million (2011: CHF 107 million) exist in favour of third parties. Included here is among others, a guarantee of CHF 78 million given to lenders associated with the promissory note bond issued by Hero Spain in August 2008.

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

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

4.
The fire insurance value of tangible assets amounts to CHF 77.1 million (2011: CHF 71.2 million).

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

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

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

8.
An overview of the significant group companies can be found on pages 79 to 82.

9.
As of December 31, 2012, Schwartau International GmbH, Bad Schwartau, Deutschland, holds 100% (2011: 100%) of the share capital of Hero AG ranking for dividends.

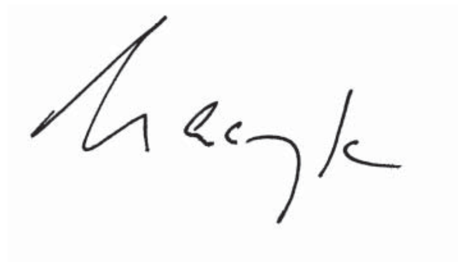
10.
Net release of excess reserves:
During 2012 excess reserves amounting to CHF 0.1 million (2011: 3.9 million) have been released.

11.
The company has implemented a risk management system. Management carries out an annual risk assessment to identify material risks including their probability of occurrence and impact on the group. The board of directors takes appropriate measures to avoid, mitigate or transfer these risks. Risks which are not mitigated are closely monitored by the group. The latest risk assessment by the board of directors was approved in December 2012. Management is entitled to take ad-hoc initiatives in order to ensure a timely response to changes in the risk environment.

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

in CHF 1000.–	2012
Amount carried forward from last year	97 763
Net profit for the current year	(18 884)
TOTAL AVAILABLE FOR DISTRIBUTION	**78 879**
DIVIDEND	
CHF 0.– on 5'151'600 registered shares of CHF 10.– par value	–
TOTAL DIVIDEND PAYMENT	**–**
BALANCE CARRIED FORWARD	**78 879**

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



Report of the Statutory Auditor of Hero AG

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Hero AG, which comprise the balance sheet, income statement and notes (pages 73 to 76) for the year ended 31 December 2012.

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 2012 comply with Swiss law and the company's articles of incorporation.

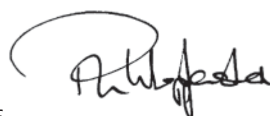
Report on other legal requirements

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

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

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

Ernst & Young Ltd.



Philip Klopfenstein
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

Zurich, 19 March 2013

Subsidiaries and Participations

Company	Address	Telephone Fax Internet	Owner- ship	Consoli- dation*	Remarks
Hero AG	Karl Roth-Strasse 8 5600 Lenzburg Switzerland	T +41 62 885 51 11 F +41 62 885 54 30 www.hero.ch			
Beech-Nut Nutrition Corporation	100 Hero Drive Amsterdam, NY 12010 USA	T +1 518 839 0300 F +1 518 839 0301 www.beechnut.com	100%	F	
Cap' Fruit SAS	Zone artisanale Rapon 26140 Anneyron France	T +33 475 31 40 22 F +33 475 31 59 72 www.capfruit.com	100%	F	Disposed February 29, 2012
Citron Export Inc.	Puerto Rico		97.4%	E	Dormant
Friso Nederland BV	Teteringsedijk 227 Postbus 3243 4817 ME Breda Netherlands	T +31 76 57 98 000 F +31 76 57 14 903 www.hero.nl	100%	F	
Hero Beteiligungen AG	c/o Hero AG Karl Roth-Strasse 8 5600 Lenzburg Switzerland	T +41 62 885 51 11 F +41 62 885 55 28	100%	F	
Hero Drinks BV	Teteringsedijk 227 Postbus 3243 4817 ME Breda Netherlands	T +31 76 57 98 000 F +31 76 57 14 903 www.hero.nl	100%	F	
Hero Czech s.r.o.	Radlicka 751 / 113e 158 00 Praha 5 Czech Republic	T +420 227 031 311 F +420 227 031 330 www.hero.cz	100%	F	
Hero España SA	Avenida de Murcia 1 30820 Alcantarilla (Murcia) Spain	T +34 968 898 900 F +34 968 800 727 www.hero.es	100%	F	
Hero Foods Canada Inc.	Canada		100%	F	Dormant
Hero Gida San.ve Tic. AS	Kisikli Mah. Ferah cad. No: 1 BuyukCamlica 34692 Istanbul Turkey	T +90 216 524 26 30 F +90 216 481 77 25 www.ulkerhero.com	50%	F	
Hero GmbH & Co. KG **	Werner-Bock-Strasse 23 33602 Bielefeld Germany	T +49 521 96469 0 F +49 521 96469 50	100%	F	

* Consolidation: F = fully consolidated, E = equity consolidated

** For the purpose of German commercial law, these consolidated Group financial statements release these 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).

Company	Address	Telephone Fax Internet	Owner-ship	Consoli-dation*	Remarks
Hero Huishan (Shenyang) Nutrition Food Co., Ltd	Bajiazi Village, Xiushuihe Town, Faku, Shenyang, China	T +86 024 88045977 F +86 024 88045977	50%	F	Disposed August 30, 2012
Hero Hungary Ltd.	Soroksári út 160 1095 Budapest Hungary	T +420 227 031 311 F +420 227 031 330	100%	F	
Hero Inc.	100 Hero Drive Amsterdam, NY 12010 USA	T +1 518 839 0300 F +1 518 839 0301	100%	F	
Hero Italia SpA	Via Leoni 4 Casella Postale 492 37121 Verona Italy	T +39 045 8060 911 F +39 045 8060 900 www.hero.it	100%	F	
Hero Japan Co., Ltd.	Japan		51%	F	Dormant
Hero Nederland BV	Teteringsedijk 227 Postbus 3243 4817 ME Breda Netherlands	T +31 76 57 98 000 F +31 76 57 14 903 www.hero.nl	100%	F	
Hero North America LLC	100 Hero Drive Amsterdam, NY 12010 USA	T +1 518 839 0300 F +1 518 839 0301 www.heronorthamerica.com	100%	F	Dormant
Hero Nutritional Food Industries SAE (Vitrac)	Plot No. 2/6S, Zone 6, 1st District 5th Settlement New Cairo Egypt	T +20 2 275 97 900 F +20 2 261 830 86 www.hero.com.eg	100%	F	
Hero Polska Sp. z o.o.	Ul. Pilchowicka 9/11 02-175 Warszawa Poland	T +48 22 574 23 20 F +48 22 574 23 30 www.hero.pl	100%	F	
Hero Portugal Lda	Avenida das Laranjeiras, No 6a Urbanização da Quinta Grande Alfragide 2720-333 Amadora Portugal	T +351 21 472 18 80 F +351 21 472 18 88 www.hero.pt	100%	F	
Hero Rus OOO	Kremenchugskaya 9 Moscow 121352 Russia	T +7 495 988 34 82 F +7 495 988 34 82 www.semper-info.ru	100%	F	

* Consolidation: F = fully consolidated, E = equity consolidated

Company	Address	Telephone Fax Internet	Owner-ship	Consoli-dation*	Remarks
Hero (Shenyang) Food Trading Co. Ltd	2 Building, No. 29 Sha Jing Rd Hongkou District, Shanghai China		100%	F	Founded March 23, 2012
Hero Slovakia s.r.o.	Murgasova 2 949 01 Nitra Slovak Republic	T +421 377 784 005 F +421 377 784 006 www.hero.cz	100%	F	
Hero UA LLC	Voziednania pr. 19 Office 414 Kiev 02160 Ukraine	T +38 044 498 02 95 F +38 044 498 02 95 www.semper.com.ua	100%	F	
Hero UK Ltd.	19 De Havilland Drive Speke, Liverpool, L24 8RN UK	T +44 1514 325 300 F +44 1514 325 335	100%	F	
Hero WhiteWave LLC	12002 Airport Way Broomfield, CO 80021 USA	T +1 303 635 46 30 F +1 303 635 56 30 www.fruit2day.com	50%	E	Disposed December 18, 2012
Houston Harvest Inc.	808 S.W. 12th Street Ocala, FL 34478-0279 USA	T +1 352 622 31 34 F +1 352 622 31 64	100%	F	
Liaoning Chengrui Trading Co., Ltd	Bajiazi Village, Xiushuihe Town, Faku, Shenyang, China	T +86 024 88045977 F +86 024 88045977	50%	F	Disposed August 30, 2012
Milnot Holding Corp.	100 Hero Drive Amsterdam, NY 12010 USA	T +1 518 839 0300 F +1 518 839 0301	100%	F	
Organix Brands Ltd.	The Greenhouse 120-122 Commercial Road Bournemouth, Dorset BH2 5LT UK	T +44 120 258 61 00 F +44 120 231 10 96 www.organix.com	100%	F	
Orient Link Holdings Ltd.	Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands		50%	F	Disposed August 30, 2012
OY Semper ab	Klubbekrigarevägen 3A 00401 Helsingfors Finland	T +35 850 516 09 51	100%	F	

* Consolidation: F = fully consolidated, E = equity consolidated

** For the purpose of German commercial law, these consolidated Group financial statements release these 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).

Company	Address	Telephone Fax Internet	Owner-ship	Consoli-dation*	Remarks
Schönauer IAV AG **	Lübecker Strasse 49-55 23611 Bad Schwartau Germany	T +49 451 204 0 F +49 451 204 108	100%	F	
Schwartauer Werke GmbH & Co. KGaA **	Lübecker Strasse 49-55 23611 Bad Schwartau Germany	T +49 451 204 0 F +49 451 204 385 www.schwartau.de	100%	F	
Semper AB	Allén 5 172 22 Sundbyberg Sweden	T +46 8 505 931 00 F +46 8 505 931 01 www.semper.com	100%	F	
Semper AS	Vollsveien 9 1366 Lysaker Norway	T +47 80 03 05 80	100%	F	
Signature Brands LLC	808 S.W. 12th Street Ocala, FL 34478-0279 USA	T +1 352 622 31 34 F +1 352 622 31 64 www.signaturebrands.com	100%	F	
SP HoldCo AB	Allén 5 172 22 Sundbyberg Sweden	T +46 8 505 931 00 F +46 8 505 931 01	100%	F	
Wealth Come Investments Ltd	Room 1201, Huachuang Tower, No. 303 Hennessy Rd, Wan Chai Rd Hong Kong		50%	F	Disposed August 30, 2012

* Consolidation: F = fully consolidated, E = equity consolidated

Contact

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Imprint

Concept and Design
Hero Group Controlling

Print
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