Shareholder letter and half-year report 2018

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Dear Shareholders

Emmi's positive sales performance in the fourth quarter of 2017 continued in the first months of the current year with the Group benefiting in particular from strong sales in the business division Europe. The business divisions Switzerland and Americas were also able to post organic sales growth.

In total, Emmi generated Group sales in line with the full-year forecast published in March 2018. The business divisions Switzerland and Americas met expectations while the business division Europe clearly exceeded them.

Pleasing organic sales growth

Sales at Group level were CHF 1,674.8 million, an increase of 4.7 % compared to the first six months of 2017. In organic terms, i.e. excluding currency and acquisition effects, this resulted in a rise of 2.4 %.

The positive sales trend was primarily apparent in the international markets. The good performance was broad-based. The business division Switzerland again faced considerable pressure on prices and from imports but was able to post organic growth thanks to higher milk prices. In the business division Europe, Emmi Caffè Latte grew considerably in a number of markets and the dessert business also achieved pleasing growth. In the business division Americas, Emmi made good progress in key strategic markets. We are particularly satisfied about the fact that Chile has recovered and is returning to growth.

Higher EBIT, stable EBIT margin

In the first half of 2018, Emmi generated an EBIT of CHF 95.0 million, compared to CHF 90.4 million in the previous year, corresponding to an increase of 5.1 %. The EBIT margin was stable at 5.7 % despite the highly competitive environment. This result again demonstrates the importance of Emmi's cost-saving programme, which has now been implemented for a decade.

Furthermore, net profit amounted to CHF 129.0 million, almost doubling compared to the previous year's figure of CHF 66.0 million. The net profit margin was 7.7 % (previous year: 4.1 %). The sharp increase is the result of the sale of the minority stake in the US-based company The Icelandic Milk and Skyr Corporation "siggi's". Shareholders benefited from the sale through a special dividend in spring 2018. Adjusted for this non-recurring effect, net profit was CHF 72.1 million (a rise of 9.2 %) and the net profit margin was 4.3 %.

Organic growth remains a challenge

Compared to the first half of 2017 when sales were weak, Emmi has posted a clearly improved performance. However, sales in the second half of 2018 will be compared to a period shaped by an extremely strong final quarter of 2017. Emmi therefore expects that the growth curve will flatten in the second half. Alongside organic growth, the emphasis will be on cost management – in Switzerland and abroad. The dessert business in Italy is being brought together under one roof. We hope that this will generate synergies in production, sales and above all in the development of new products. Innovation is also an important driver of success in this business.

Effective brand concepts as a solid basis

Emmi will rely on proven brands and support them with innovations in the second half of the year. In Switzerland, the focus is on new varieties of the high-protein Yoqua yogurt and a Kaltbach-aged mountain cheese. A vegan range of yogurts has just been launched in Spain, and in Germany Gläserne Molkerei recently began manufacturing "pure" yogurts based on the Jogurtpur concept, but organic. We also expect more momentum in cheese, where sales did not always meet expectations in the first six months.

Emmi is doing everything it can to continue to achieve organic growth in the second half of 2018 while also securing earnings. The conditions for this are right although our competitors will not make it easy for us.

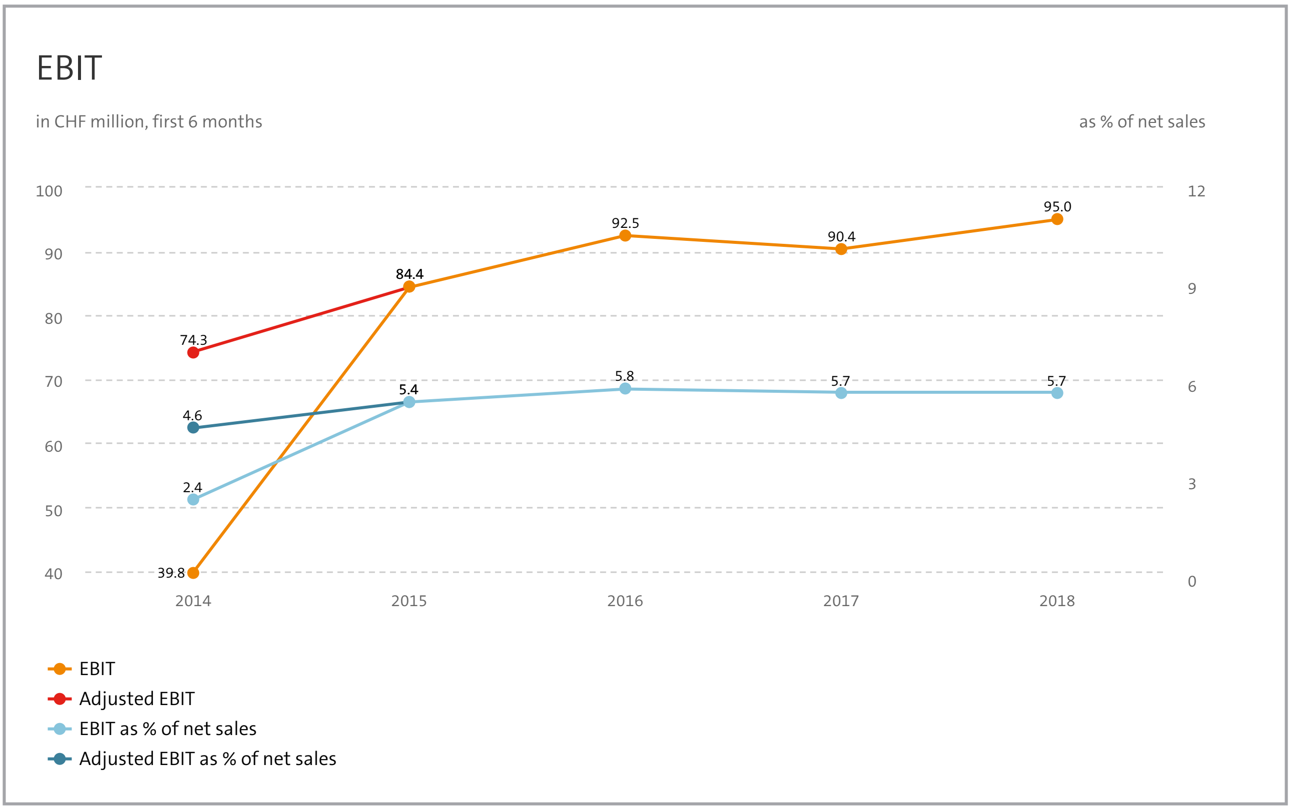
Konrad Graber
Chairman of the Board of Directors

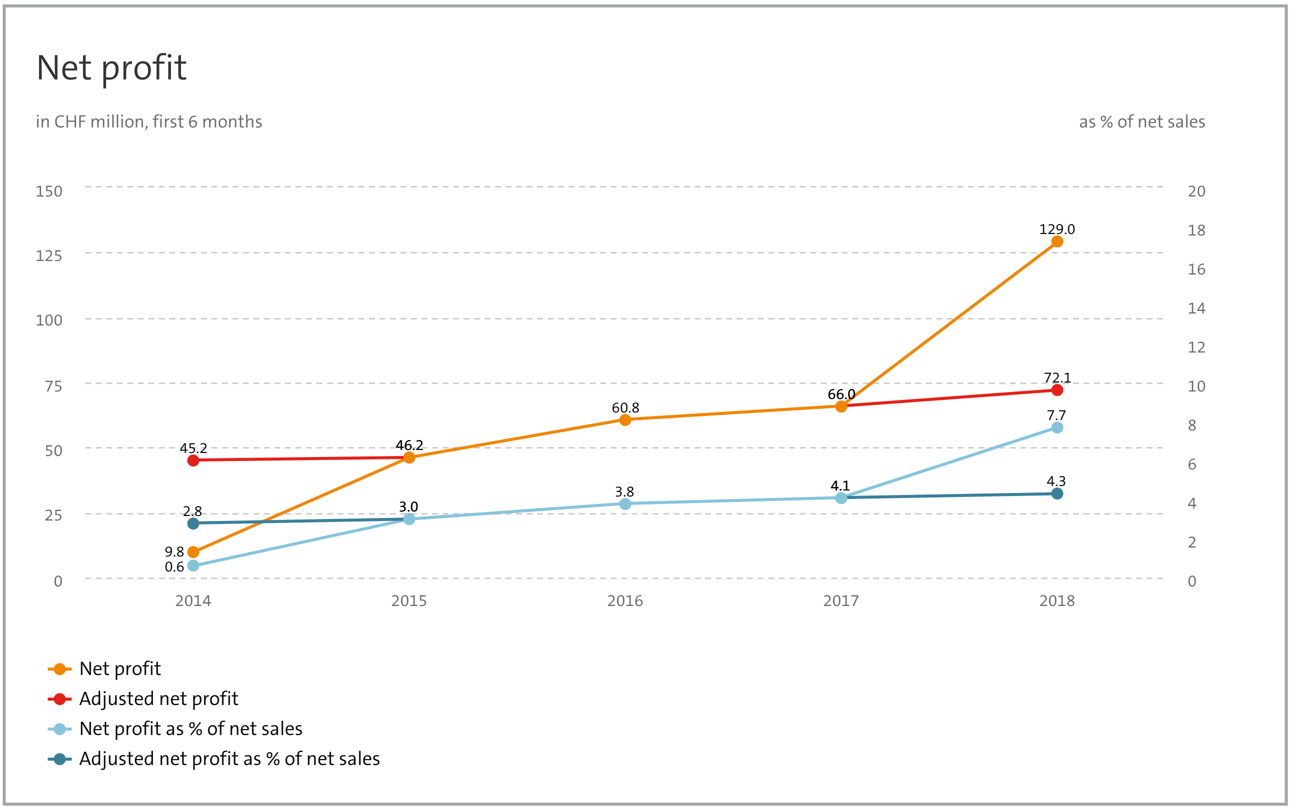
Urs Riedener
CEO

Key figures Emmi Group

Amounts in CHF million	First 6 months 2018	First 6 months 2018 adjusted*)	First 6 months 2017
Net sales	**1,675**		1,600
Sales development in %	**4.7**		0.4
Acquisition effect in %	**0.7**		2.6
Currency effect in %	**1.6**		-0.9
Net sales increase in organic terms (in loc. currency) in %	**2.4**		-1.3
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**162.7**		156.6
as % of net sales	**9.7**		9.8
Earnings before interest and taxes (EBIT)	**95.0**		90.4
as % of net sales	**5.7**		5.7
Net profit	**129.0**	**72.1**	66.0
as % of net sales	**7.7**	**4.3**	4.1
	30.06.2018		31.12.2017
Total assets	**2,747**		2,697
of which shareholders' equity incl. minority interests	**1,571**		1,521
as % of total assets	**57.2**		56.4
Headcount (full-time equivalents) as at balance sheet date	**6,146**		6,147

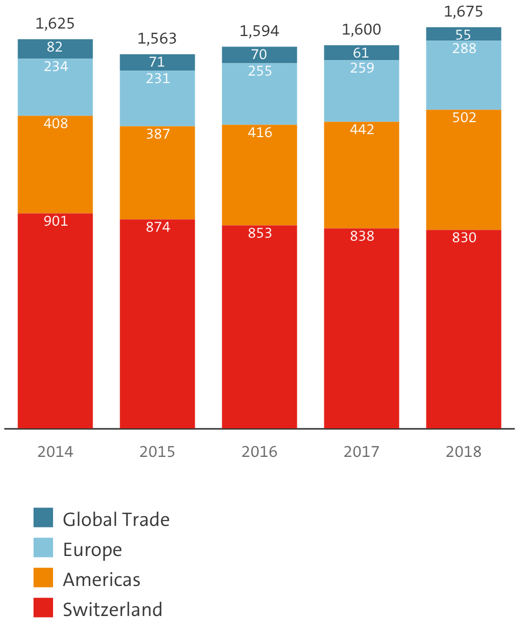
*) Adjusted for non-recurring effects. Non-recurring effects had an impact of CHF 56.9 million on net profit in the period under review and resulted from the sale of the minority stake in The Icelandic Milk and Skyr Corporation "siggi's". There were no significant non-recurring effects in the previous year.


EBIT
in CHF million, first 6 months
as % of net sales
100
90
80
70
60
50
40
12
9
6
3
0
2014
2015
2016
2017
2018
39.8
84.4
92.5
90.4
95.0
74.3
4.6
5.4
5.8
5.7
5.7
2.4
EBIT
Adjusted EBIT
EBIT as % of net sales
Adjusted EBIT as % of net sales


Net profit
in CHF million, first 6 months
as % of net sales
150
125
100
75
50
25
0
20
18
16
14
12
10
8
6
4
2
0
2014
2015
2016
2017
2018
129.0
72.1
66.0
60.8
45.2
46.2
7.7
2.8
3.0
3.8
4.1
4.3
9.8
0.6
Net profit
Adjusted net profit
Net profit as % of net sales
Adjusted net profit as % of net sales

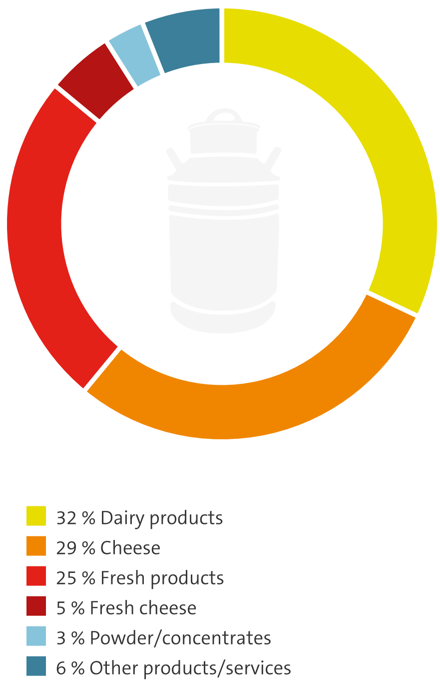
Net sales

in CHF million, first 6 months



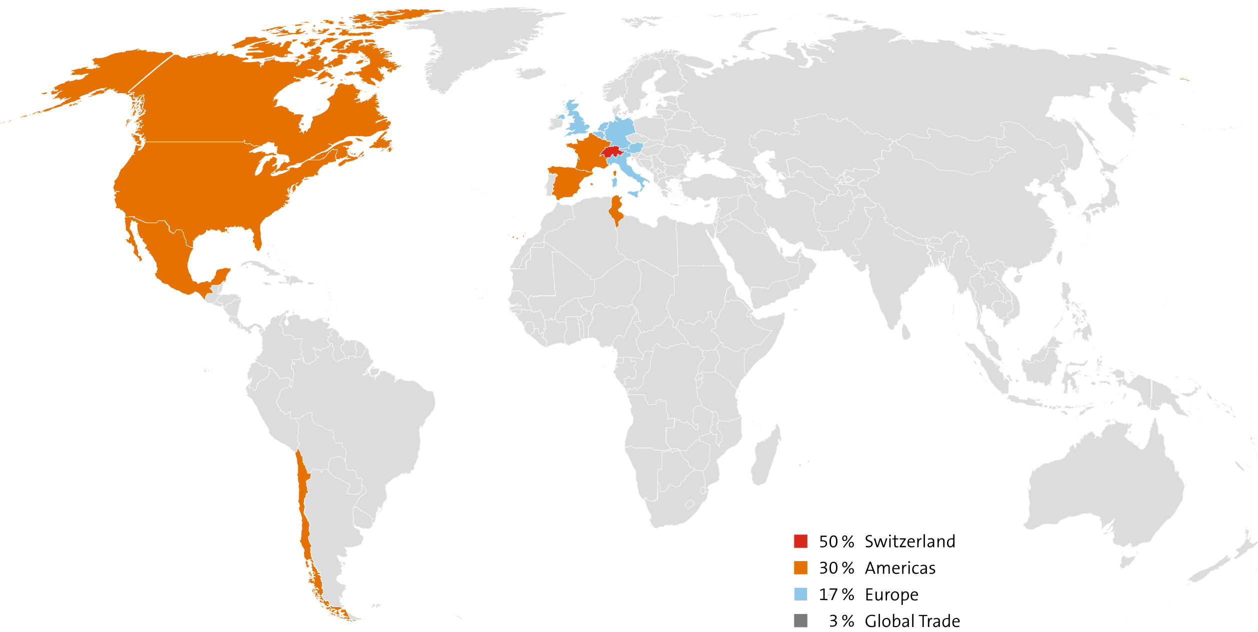
Net sales by product group

first 6 months



Net sales by business division

first 6 months



Pleasing organic sales growth

In the first half of 2018, Emmi reported Group sales of CHF 1,674.8 million, up from CHF 1,600.2 million in the same period of the previous year. This corresponds to an increase of 4.7 %. Adjusted for currency and acquisition effects, this resulted in growth of 2.4 % (full-year forecast from March 2018: 1.5 % to 3 % growth).

The overall positive acquisition effect of 0.7 % is due to the following **positive factors**:

- Acquisition of Italian Fresh Foods (Italy, 1 March 2017)
- Increased stake in Mexideli (Mexico, 8 October 2017)

Negative factors include:

- Disposal of shares in Venchiaredo (Italy, 31 July 2017)
- Disposal of part of the trading goods business (Switzerland, 1 January 2018):
  When it acquired the Kirchberg cheese centre in 1998, Emmi also took over a trading goods business from Coop. Part of this trading goods business, through which Coop directly maintains business relationships with suppliers, has now been sold back to Coop.

Developments in the business divisions Switzerland, Americas, Europe and Global Trade are explained in the following.

Sales development Switzerland

in CHF million	Sales 1HY 2018	Sales 1HY 2017	Difference 2018/2017	Acquisition effect	Organic growth
Dairy products	327.8	312.8	4.8 %	0.0 %	4.8 %
Cheese	207.8	219.2	-5.2 %	-2.8 %	-2.4 %
Fresh products	171.8	175.3	-2.0 %	0.0 %	-2.0 %
Fresh cheese	54.4	56.7	-4.1 %	-6.6 %	2.5 %
Powder/concentrates	31.2	33.5	-6.8 %	0.0 %	-6.8 %
Other products/services	37.3	40.7	-8.1 %	-4.1 %	-4.0 %
Total Switzerland	**830.3**	**838.2**	**-0.9 %**	**-1.4 %**	**0.5 %**

Sales in the business division Switzerland amounted to CHF 830.3 million, a decline of 0.9 % compared to the previous year's level of CHF 838.2 million. In organic terms, i.e. adjusted for divestment effects, this resulted in growth of 0.5 %. This is at the upper end of the full-year sales forecast of 0 % to 0.5 % announced by Emmi in March 2018.

Sales of dairy products in particular performed well. The divestment effect is a result of the sale of part of the trading goods business. The business division Switzerland accounted for 50 % of Group sales.

Sales of **dairy products** (milk, cream and butter) increased from CHF 312.8 million to CHF 327.8 million in the first half of 2018. This translates into growth of 4.8 % compared to the same period of the previous year. A significant proportion of this is attributable to milk price developments.

In the **cheese** segment, sales declined from CHF 219.2 million to CHF 207.8 million, a fall of 5.2 %, or 2.4 % in organic terms. This development reflects cheese imports, which were up 3.2 % on the first half of 2017 (source: TSM Treuhand). The decline primarily concerned AOP cheeses. By contrast, speciality cheeses such as Kaltbach, Der Scharfe Maxx, Le Petit Chevrier and Luzerner Rahmkase saw growth.

In **fresh products**, sales fell from CHF 175.3 million in the previous year to CHF 171.8 million, a decrease of 2.0 %. Caffè Latte, Energy Milk and Jogurtpur in particular made positive contributions, while Yoqua and private labels in retail declined.

Sales of **fresh cheese** declined from CHF 56.7 million to CHF 54.4 million, down 4.1 %, which reflects the sale of part of the trading goods business. In organic terms, sales increased by 2.5 %. It can be assumed that the warm spring months boosted fresh cheese consumption somewhat.

Powder/concentrates generated sales of CHF 31.2 million, a decline of 6.8 % (previous year: CHF 33.5 million), reflecting the lower milk powder prices.

Sales of **other products/services** fell from CHF 40.7 million to CHF 37.3 million, which corresponds to a drop of 8.1 % (organic decline of 4.0 %).

Sales development Americas

in CHF million	Sales 1HY 2018	Sales 1HY 2017	Difference 2018/2017	Acquisition effect	Currency effect	Organic growth
Cheese	199.7	180.4	10.7 %	8.2 %	-1.2 %	3.7 %
Dairy products	142.1	130.2	9.1 %	0.2 %	1.0 %	7.9 %
Fresh products	103.9	97.2	6.9 %	0.3 %	2.6 %	4.0 %
Fresh cheese	5.9	0.2	>100.0 %	>100.0 %	-40.8 %	>100.0 %
Powder/concentrates	2.4	2.5	-2.5 %	0.1 %	-2.8 %	0.2 %
Other products/services	48.2	31.8	51.4 %	38.3 %	3.2 %	9.9 %
Total Americas	**502.2**	**442.3**	**13.5 %**	**7.3 %**	**0.6 %**	**5.6 %**

The business division Americas includes the US, Canada, Chile, Mexico, Spain (excluding Lácteos Caprinos), France and Tunisia.

Sales in this business division improved over the first six months of 2018 from CHF 442.3 million to CHF 502.2 million, up 13.5 % year-on-year. In organic terms, i.e. adjusted for currency and acquisition effects, this represents growth of 5.6 %, which is in line with Emmi's expectations. The full-year forecast from March 2018 was 4 % to 6 %. The positive sales performance is attributable to the largest non-European markets: the US, Chile and Tunisia. The business division Americas accounted for 30 % of total sales.

The **cheese** segment generated sales of CHF 199.7 million, compared to CHF 180.4 million in the previous year. This corresponds to an increase of 10.7 %. The positive acquisition effect is due to Mexideli. In organic terms, sales grew by 3.7 %. Cow's milk cheese in the US, including significantly higher exports of Le Gruyère AOP from Switzerland, had a positive impact. By contrast, the goat's cheese business was slightly below expectations.

Sales of **dairy products** rose from CHF 130.2 million to CHF 142.1 million. This growth of 9.1 % or 7.9 % in organic terms is a result of the good sales performance in Chile and Tunisia.

Sales of **fresh products** rose by 6.9 % from CHF 97.2 million to CHF 103.9 million. Organic growth amounted to 4.0 %. Factors making a positive contribution included growth in Tunisia and at Redwood Hill in California. By contrast, sales of Caffè Latte in Spain stagnated due to the pressure of private labels, and traditional yogurts recorded a downwards trend.

At CHF 5.9 million and CHF 2.4 million, respectively, sales of **fresh cheese** and **powder/concentrates** were marginal.

Other products/services posted an increase in sales of 51.4 % (9.9 % in organic terms), up from CHF 31.8 million to CHF 48.2 million. The positive acquisition effect is due to Mexideli.

Sales development Europe

in CHF million	Sales 1HY 2018	Sales 1HY 2017	Difference 2018/2017	Acquisition effect	Currency effect	Organic growth
Fresh products	124.8	105.7	18.1 %	3.6 %	8.8 %	5.7 %
Dairy products	57.8	49.6	16.6 %	0.0 %	9.3 %	7.3 %
Cheese	57.5	53.4	7.7 %	0.0 %	8.5 %	-0.8 %
Fresh cheese	26.2	37.4	-30.0 %	-34.5 %	5.6 %	-1.1 %
Powder/concentrates	15.5	9.6	62.0 %	0.0 %	12.9 %	49.1 %
Other products/services	5.8	3.6	59.6 %	0.0 %	12.7 %	46.9 %
Total Europe	**287.6**	**259.3**	**10.9 %**	**-3.5 %**	**8.6 %**	**5.8 %**

The business division Europe includes Italy, Germany, Austria, Belgium, the Netherlands, the UK, and Lácteos Caprinos in Spain.

The business division posted sales of CHF 287.6 million in the first half of 2018, compared to CHF 259.3 million in the weak same period of the previous year. This corresponds to growth of 10.9 %. Excluding currency and acquisition effects, organic growth amounted to a pleasing 5.8 %. Sales therefore exceeded expectations considerably (full-year forecast: 1 % to 3 %). This positive performance is attributable to significant sales increases in fresh products, dairy products and powders/concentrates. The acquisition effects are due to Italian Fresh Foods (fresh products) and Venchiaredo (fresh cheese). The business division Europe accounted for 17 % of Group sales.

In **fresh products**, sales increased from CHF 105.7 million in the same period of the previous year to CHF 124.8 million, corresponding to growth of 18.1 %. The positive acquisition effects were due to Italian Fresh Foods. In organic terms, growth was 5.7 %. This is attributable in particular to higher sales in the dessert business of Rachelli, Italian Fresh Foods and A-27 as well as very strong Caffè Latte sales. By contrast, sales of Onken yogurts declined slightly.

Dairy products posted an increase of 16.6 % in sales from CHF 49.6 million to CHF 57.8 million. In organic terms, growth was 7.3 %. This rise is primarily due to higher sales at Gläserne Molkerei.

The **cheese** segment generated sales of CHF 57.5 million. Compared to CHF 53.4 million in the previous year, this represents an increase of 7.7 %. By contrast, the segment reported a slight decline of 0.8 % in organic terms, probably due to the high temperatures in the early summer. Individual speciality cheeses such as Kaltbach in Germany were nevertheless able to post growth.

Sales of **fresh cheese** declined by 30.0 %, from CHF 37.4 million to CHF 26.2 million. The negative acquisition effects are due to Venchiaredo. In organic terms, the segment reported a decline of 1.1 %.

In the smaller product segments of the business division Europe, **powder/concentrates** achieved sales of CHF 15.5 million and **other products/services** CHF 5.8 million. The significant growth in the powder/concentrates segment is attributable to higher sales of goat’s milk powder (AVH dairy).

Sales development Global Trade

in CHF million	Sales 1HY 2018	Sales 1HY 2017	Difference 2018/2017	Acquisition effect	Organic growth
Cheese	23.6	21.0	11.9 %	-1.5 %	13.4 %
Fresh products	20.5	21.9	-6.4 %	0.0 %	-6.4 %
Powder/concentrates	8.1	7.1	14.0 %	0.0 %	14.0 %
Dairy products	2.1	8.0	-73.9 %	0.0 %	-73.9 %
Fresh cheese	0.3	0.4	-23.2 %	0.0 %	-23.2 %
Other products/services	0.1	2.0	-94.6 %	0.0 %	-94.6 %
Total Global Trade	**54.7**	**60.4**	**-9.5 %**	**-0.5 %**	**-9.0 %**

The business division Global Trade includes direct sales from Switzerland to customers in countries where Emmi has no companies, including the Asian and Eastern European markets, most South American countries and the Arabian Peninsula. The business division Global Trade accounts for 3 % of Group sales.

Sales in this business area amounted to CHF 54.7 million in the first half of 2018. Compared to CHF 60.4 million in the previous year, this constitutes a decrease of 9.5 % or 9.0 % in organic terms.

Growth in the **cheese** segment is a result of higher sales in Russia. The declines in **fresh products** and **dairy products** are due to declining sales in China and lower butter exports. The increase in **powder/concentrates** reflects significantly higher milk collection in Switzerland and the associated rise in milk powder exports.

Gross profit

Gross profit amounted to CHF 604.5 million in the reporting period, corresponding to a rise of CHF 27.4 million (previous year: CHF 577.1 million). This increase is primarily due to the organic growth in the business divisions Americas and Europe as well as an overall favourable development of exchange rates and acquisition effects. The **gross profit margin** was unchanged year-on-year at 36.1 %. The successful implementation of further cost-cutting and productivity measures offset the negative effects of increased pressure on prices.

Operating result

Operating expenses rose by CHF 21.1 million to CHF 443.4 million (previous year: CHF 422.3 million) in the period under review. Recently acquired companies and the euro, which was considerably stronger against the Swiss franc compared to 2017, contributed significantly to this result. In relation to net sales, operating expenses rose slightly disproportionately from 26.4 % to 26.5 %.

Personnel expenses increased by CHF 11.1 million to CHF 232.1 million in the first half of 2018 (previous year: CHF 221.0 million). Compared to the development in sales, this meant a slight increase from 13.8 % to 13.9 %.

Other operating expenses rose by CHF 10.0 million to CHF 211.3 million (previous year: CHF 201.3 million). Given the continuing challenging conditions, a strong focus on costs is also required in financial year 2018. Marketing and sales-related expenses were not affected by this, however. They increased year-on-year by CHF 4.0 million to CHF 63.2 million (previous year: CHF 59.2 million). Logistics costs and expenses for maintenance and repairs were also above the previous year's level, while other operating expenses were lower. In relation to net sales, total other operating expenses were constant at 12.6 %.

Other operating income fell by CHF 0.3 million to CHF 1.6 million (previous year: CHF: 1.9 million).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by CHF 6.1 million to CHF 162.7 million, up from CHF 156.6 million in the previous year. The EBITDA margin declined slightly from 9.8 % to 9.7 %.

Depreciation on property, plant and equipment rose from CHF 47.4 million in 2017 to CHF 48.4 million in the period under review and was therefore unchanged as a proportion of sales. **Amortisation** on intangible assets remained at almost the same level as in the previous year and therefore grew at a slightly lower rate than net sales. Additional amortisation of goodwill was largely offset by lower amortisation of other intangible assets.

Earnings before interest and taxes (EBIT) amounted to CHF 95.0 million in the period under review, which was CHF 4.6 million higher than the previous year's EBIT of CHF 90.4 million. The EBIT margin was unchanged at 5.7 %.

Non-recurring effects in the 2018 half-year results

The sale of the minority stake in The Icelandic Milk and Skyr Corporation "siggi's" had a significant impact on the income statement. The sale resulted in a pre-tax profit of CHF 78.2 million (USD 80.9 million) or CHF 56.9 million (USD 58.9 million) after taxes. This profit will change again slightly in the second half of 2018 due to minor adjustments to the purchase price. The profit in Swiss francs also depends on the future performance of the CHF and USD currency pair.

The profit from this sale is included in the position "Income from associates and joint ventures". Accordingly, earnings before taxes (EBT) rose by CHF 78.2 million and net profit by CHF 56.9 million. Shareholders benefited from the sale through a special dividend in spring 2018.

No significant non-recurring effects were recorded in the same period of the previous year.

Income from associates, financial result and income taxes

Income from associates and joint ventures totalling CHF 76.8 million mainly includes the profit made on the sale of the minority stake in "siggi's" of CHF 78.2 million. The adjusted income from associates and joint ventures thus fell by CHF 2.3 million year-on-year.

The **financial result** (net financial expenses) declined significantly by CHF 4.0 million versus the previous year to CHF 3.2 million. This reduction was achieved thanks to the significantly lower net interest expenses as a result of the successful refinancing in 2017. Currency losses totalled CHF 1.0 million and were therefore lower than in the previous year (CHF 1.5 million).

Adjusted for the non-recurring effect from the sale of the minority stake in "siggi's", **income taxes** amounted to CHF 14.4 million, a decrease of CHF 0.7 million year-on-year (previous year: CHF 15.1 million). The expected tax rate for full-year 2018 is 16.0 %, compared to 15.2 % in financial year 2017.

Net profit

Profit including minority interests totalled CHF 132.9 million and was affected significantly by the gain on the sale of the minority stake in “siggi’s”, which amounted to CHF 56.9 million after taxes. As a result, **adjusted profit including minority interests** amounted to CHF 76.0 million, up CHF 7.0 million year-on-year.

Minority interests accounted for CHF 3.9 million of profit, an increase of CHF 0.9 million on the previous year, mainly due to the acquisition of Mexideli in the second half of 2017.

After deduction of minority interests, **net profit** was CHF 129.0 million and **adjusted net profit** was CHF 72.1 million (previous year: CHF 66.0 million). Adjusted net profit therefore increased by CHF 6.1 million or 9.3 %. The **adjusted net profit margin** rose to 4.3 % (previous year: 4.1 %). Adjusted earnings per share also increased accordingly to CHF 13.48 (previous year: CHF 12.34).

Assets, financing and cash flow

Total assets as at 30 June 2018 were up by 1.8 % or CHF 49.7 million compared to 31 December 2017, to CHF 2,746.7 million (previous year: CHF 2,697.1 million). This change is mainly due to the increase in cash and cash equivalents, which were again impacted significantly by the sale of the minority stake in “siggi’s”. **Operating net working capital** amounted to CHF 525.5 million, up CHF 19.3 million compared with 31 December 2017. By contrast, non-current assets declined by CHF 69.2 million. The main reason for this was a low level of investments in the first six months of 2018. However, investments in property, plant and equipment are likely to rise significantly in the second half. With regard to financing, the adjustments between short and long-term liabilities were due to a bond issued in the amount of CHF 100 million, which will mature in June 2019. The **equity ratio** rose to 57.2 %, from 56.4 % as at 31 December 2017. This too is mainly due to higher net profit resulting from the non-recurring effect from the sale of the minority stake in “siggi’s”. This non-recurring effect also led **net debt** to decrease from CHF 338.4 million as at 31 December 2017 to CHF 229.7 million as at 30 June 2018.

Cash inflow from operating activities amounted to CHF 119.9 million, an increase of CHF 6.3 million compared with CHF 113.6 million in the previous year. Alongside a slightly increased operating result, this was mainly attributable to the improvement in operating net working capital compared to the same period of 2017. Trade receivables were reduced more significantly since 31 December 2017 than in the same period of the previous year, while trade payables saw a less pronounced decrease year-on-year. However, these positive cash flow effects compared to the previous year were partially offset by a greater increase in inventories (particularly cheese and butter). The development of net working capital resulted overall in a higher operating cash flow than in the same period of 2017. **Cash inflow from investing activities** amounted to CHF 39.1 million in the period under review, compared to an outflow of CHF 293.0 million in the previous year. The cash inflow resulting from investing activities is attributable to the sale of the minority stake in “siggi’s”. Furthermore, the cash outflow for acquisitions was CHF 16.2 million, which is significantly below the amount in the same period of 2017 (CHF 260.0 million). A similar effect, but to a far lesser extent, also occurred with regard to investments in property, plant and equipment, which were CHF 15.8 million lower year-on-year. Not including the cash flows from acquisition activities, the **free cash flow** generated in the first half of 2018 amounted to CHF 94.3 million, compared to CHF 80.6 million in the same period of 2017. **Cash outflow from financing activities** totalled CHF 45.5 million in the first six months of 2018 and was the result of dividend payments to shareholders and minority interests as well as cash inflows from current and non-current financial liabilities. The same period of the 2017 saw a net cash inflow of CHF 32.4 million due to the refinancing. As a result of these cash flows, cash and cash equivalents increased, up by CHF 117.9 million to CHF 330.5 million, compared with CHF 212.6 million as at 31 December 2017.

Outlook for 2018 as a whole

Emmi is bracing itself for a continuing highly competitive environment in the second half of 2018. The growth curve in sales is likely to flatten as it will be difficult to outperform the strong fourth quarter of 2017, particularly in Europe and Switzerland. It should be noted in this regard that 1 October 2018 marks one year of the positive sales effects in Switzerland resulting from the higher milk price and additional listings of Caffè Latte. These effects will therefore be absent from this date. Furthermore, it is currently difficult to assess the consequences of the dry weather on milk volumes and the subsequent influence on sales of the business divisions Switzerland and Europe.

In view of the current situation, Emmi expects to be able to achieve the sales targets communicated in March 2018 at Group level and in the business divisions Switzerland and Americas. The forecasts for the business division Europe have been revised upwards to between 2 % and 4 % (from 1 % to 3 %). The EBIT and net profit targets continue to be considered realistic.

Consolidated income statement

in CHF 000s

	First 6 months 2018	%	First 6 months 2017	%
Sales of products	**1,663,202**		1,587,647	
Sales of services	**11,569**		12,506	
Net sales	**1,674,771**	**100.0**	1,600,153	100.0
Change in inventories of semi-finished and finished products	**-13,288**	**0.8**	-3,651	0.2
Cost of materials and services	**-1,057,004**	**63.1**	-1,019,444	63.7
Gross operating profit	**604,479**	**36.1**	577,058	36.1
Other operating income	**1,643**	**0.1**	1,872	0.1
Personnel expenses	**-232,097**	**13.9**	-221,039	13.8
Other operating expenses	**-211,341**	**12.6**	-201,282	12.6
Operating expenses	**-443,438**	**26.5**	-422,321	26.4
Earnings before interest[1], taxes, depreciation and amortisation (EBITDA)	**162,684**	**9.7**	156,609	9.8
Depreciation on property, plant and equipment	**-48,437**	**2.9**	-47,444	2.9
Amortisation on intangible assets	**-19,372**	**1.1**	-18,899	1.2
Write-back of negative goodwill	**155**		155	
Earnings before interest[1] and taxes (EBIT)	**95,030**	**5.7**	90,421	5.7
Income from associates and joint ventures	**76,802**		882	
Financial result	**-3,176**		-7,170	
Earnings before taxes (EBT)	**168,656**	**10.1**	84,133	5.3
Income taxes	**-35,755**		-15,144	
Profit incl. minority interests	**132,901**	**7.9**	68,989	4.3
Minority interests	**-3,863**		-2,978	
Net profit	**129,038**	**7.7**	66,011	4.1
Earnings per share (diluted/basic in CHF)	**24.12**		12.34	

[1] Incl. income from associates and joint ventures and other financial positions that are reported in the financial result.

Consolidated balance sheet

in CHF 000s

Assets	30.06.2018	%	31.12.2017	%
Cash and cash equivalents	**330,532**		212,605	
Securities	**1,574**		1,661	
Trade receivables	**384,335**		432,729	
Other receivables	**30,153**		31,066	
Inventories	**405,939**		362,109	
Prepayments and accrued income	**36,375**		29,915	
Current assets	**1,188,908**	**43.3**	1,070,085	39.7
Investments in associates and joint ventures	**61,976**		71,539	
Loans and other receivables	**58,093**		59,018	
Securities	**2,397**		2,222	
Employer contribution reserves	**2,048**		2,048	
Deferred tax assets	**7,766**		10,908	
Total financial assets	**132,280**		145,735	
Prepayments and accrued income	**5,590**		5,869	
Property, plant and equipment	**905,691**		930,439	
Intangible assets	**514,263**		544,931	
Non-current assets	**1,557,824**	**56.7**	1,626,974	60.3
Total assets	**2,746,732**	**100.0**	2,697,059	100.0

Liabilities and shareholders' equity				
Bank overdrafts	**34,459**		33,403	
Finance lease liabilities	**1,389**		1,331	
Bonds	**100,000**		–	
Loans	**5,401**		5,609	
Trade payables	**264,760**		288,659	
Other payables	**30,126**		23,301	
Accrued liabilities and deferred income	**176,006**		165,423	
Provisions	**4,679**		6,750	
Current liabilities	**616,820**	**22.4**	524,476	19.4
Bank overdrafts	**124,164**		120,306	
Finance lease liabilities	**1,547**		1,407	
Loans	**52,970**		49,647	
Bonds	**300,000**		400,000	
Accrued liabilities and deferred income	**5,560**		3,098	
Provisions	**74,746**		76,888	
Non-current liabilities	**558,987**	**20.4**	651,346	24.2
Liabilities	**1,175,807**	**42.8**	1,175,822	43.6
Share capital	**53,498**		53,498	
Capital reserves	**7,438**		44,887	
Retained earnings	**1,450,342**		1,357,833	
Shareholders' equity excl. minority interests	**1,511,278**	**55.0**	1,456,218	54.0
Minority interests	**59,647**	**2.2**	65,019	2.4
Shareholders' equity incl. minority interests	**1,570,925**	**57.2**	1,521,237	56.4
Total liabilities and shareholders' equity	**2,746,732**	**100.0**	2,697,059	100.0

Consolidated cash flow statement

in CHF 000s

	First 6 months 2018	First 6 months 2017
Profit incl. minority interests	**132,901**	68,989
Net interest expense	**2,393**	5,330
Income taxes	**35,755**	15,144
Gain/loss on disposal of fixed assets	**-446**	-32
Depreciation and amortisation	**67,700**	66,146
Impairment charges	**109**	197
Write-back of negative goodwill	**-155**	-155
Change in provisions	**-4,872**	-618
Income from associates and joint ventures	**-76,802**	-882
Other non-cash adjustments	**-176**	1,267
Cash flow before changes in net working capital, interest and taxes	**156,407**	155,386
Change in inventories	**-44,771**	-33,432
Change in trade receivables	**46,179**	32,917
Change in other receivables, prepayments and accrued income	**-5,810**	-9,986
Change in trade payables	**-22,297**	-32,013
Change in other payables, accrued liabilities and deferred income	**22,098**	34,393
Interest paid	**-1,823**	-6,411
Taxes paid	**-30,118**	-27,243
Cash flow from operating activities	**119,865**	113,611
Investments in property, plant and equipment	**-26,783**	-42,541
Proceeds from disposal of property, plant and equipment	**862**	269
Purchase of securities	**–**	-941
Investments in intangible assets	**-1,940**	-1,688
Proceeds from sale of shares in associates	**80,856**	–
Acquisition of consolidated companies	**-16,177**	-260,008
Repayment of loans receivable	**257**	7,730
Dividend received	**704**	3,487
Interest received	**1,314**	682
Cash flow from investing activities	**39,093**	-293,010
Change in other current financial liabilities	**2,184**	116,554
Change in other non-current financial liabilities	**8,011**	-2,831
Repayments of bonds	**–**	-250,000
Proceeds from bond-issuance	**–**	200,613
Dividend paid to shareholders	**-53,498**	-31,564
Dividend paid to minority interests	**-2,214**	-399
Cash flow from financing activities	**-45,517**	32,373
Currency translation	**4,486**	-740
Net change in cash and cash equivalents	**117,927**	-147,766
Cash and cash equivalents at beginning of period	**212,605**	406,882
Cash and cash equivalents at end of period	**330,532**	259,116

Consolidated statement of changes in equity

in CHF 000s

	Share capital	Capital reserves (premium)	Retained earnings	Accumulated translation differences	Total profit reserves	**Total excl. minority interests**	Minority interests	**Total incl. minority interests**
Shareholders' equity at 1 January 2017	53,498	76,451	1,259,588	-67,983	1,191,605	**1,321,554**	184,465	**1,506,019**
Change in scope of consolidation	–	–	–	–	–	**–**	881	**881**
Acquisition of minority interests	–	–	–	–	–	**–**	-131,927	**-131,927**
Profit incl. minority interests	–	–	66,011	–	66,011	**66,011**	2,978	**68,989**
Currency translation differences	–	–	–	-22,190	-22,190	**-22,190**	-2,816	**-25,006**
Dividend	–	-31,564	–	–	–	**-31,564**	-1,938	**-33,502**
Shareholders' equity at 30 June 2017	53,498	44,887	1,325,599	-90,173	1,235,426	**1,333,811**	51,643	**1,385,454**
Shareholders' equity at 1 January 2018	53,498	44,887	1,421,162	-63,329	1,357,833	**1,456,218**	65,019	**1,521,237**
Acquisition of minority interests	–	–	–	–	–	**–**	-5,314	**-5,314**
Profit incl. minority interests	–	–	129,038	–	129,038	**129,038**	3,863	**132,901**
Currency translation differences	–	–	–	-20,480	-20,480	**-20,480**	-1,707	**-22,187**
Dividend	–	-37,449	-16,049	–	-16,049	**-53,498**	-2,214	**-55,712**
Shareholders' equity at 30 June 2018	53,498	7,438	1,534,151	-83,809	1,450,342	**1,511,278**	59,647	**1,570,925**

Segment reporting

in CHF 000s

By product groups and divisions	1HY 2018	Switzerland 1HY 2017	1HY 2018	Americas 1HY 2017	1HY 2018	Europe 1HY 2017	1HY 2018	Global Trade 1HY 2017	1HY 2018	Group 1HY 2017
Dairy products	**327,776**	312,832	**142,109**	130,223	**57,778**	49,567	**2,103**	8,047	**529,766**	500,669
As % of net sales	**39.4**	37.3	**28.3**	29.4	**20.1**	19.1	**3.8**	13.3	**31.6**	31.3
Fresh products	**171,742**	175,305	**103,921**	97,208	**124,844**	105,694	**20,493**	21,894	**421,000**	400,101
As % of net sales	**20.7**	20.9	**20.7**	22.0	**43.4**	40.8	**37.5**	36.2	**25.1**	25.0
Cheese	**207,825**	219,233	**199,722**	180,359	**57,503**	53,409	**23,555**	21,048	**488,605**	474,049
As % of net sales	**25.0**	26.2	**39.7**	40.8	**20.0**	20.6	**43.1**	34.8	**29.2**	29.6
Fresh cheese	**54,435**	56,741	**5,902**	223	**26,190**	37,391	**311**	405	**86,838**	94,760
As % of net sales	**6.6**	6.8	**1.2**	0.1	**9.1**	14.4	**0.6**	0.7	**5.2**	5.9
Powder/ concentrates	**31,215**	33,484	**2,400**	2,462	**15,474**	9,550	**8,105**	7,107	**57,194**	52,603
As % of net sales	**3.8**	4.0	**0.5**	0.5	**5.4**	3.7	**14.8**	11.8	**3.4**	3.3
Other products and services	**37,313**	40,611	**48,132**	31,798	**5,820**	3,647	**103**	1,915	**91,368**	77,971
As % of net sales	**4.5**	4.8	**9.6**	7.2	**2.0**	1.4	**0.2**	3.2	**5.5**	4.9
Net sales	**830,306**	838,206	**502,186**	442,273	**287,609**	259,258	**54,670**	60,416	**1,674,771**	1,600,153
As % of Group	**49.5**	52.4	**30.0**	27.6	**17.2**	16.2	**3.3**	3.8	**100.0**	100.0

By country group	1HY 2018	in %	1HY 2017	in %
Switzerland	**830,306**	**49.5**	838,206	52.4
Europe excl. Switzerland	**440,586**	**26.3**	419,254	26.2
North and South America	**304,735**	**18.2**	251,532	15.7
Africa	**74,646**	**4.5**	71,341	4.5
Asia/Pacific	**24,498**	**1.5**	19,820	1.2
Total	**1,674,771**	**100.0**	1,600,153	100.0

Emmi does not publish segment results since this would cause significant competitive disadvantages towards stakeholders, non-listed and larger listed competitors both in Switzerland and abroad.

The business divisions are not defined strictly according to geographical considerations. The business division Americas includes the Emmi Group companies in the US, Canada, Chile, Mexico, Spain (excl. Lácteos Caprinos S.A.), France and Tunisia. The business division Europe incorporates those in Italy, Germany, Austria, Belgium, the Netherlands, the UK and Lácteos Caprinos S.A. in Spain. The business division Global Trade primarily comprises direct sales from Switzerland to customers in countries in which Emmi has no subsidiaries. These include the Asian and Eastern European markets, most South American countries and the Arabian Peninsula.

Notes to the half-year results

Principles of consolidation

Accounting principles

These consolidated interim financial statements comprise the unaudited half-year results of Emmi AG and its subsidiaries for the period ending 30 June 2018. The consolidated interim financial statements for 2018 have been prepared in compliance with Swiss GAAP FER 31 “Additional accounting and reporting recommendations for listed companies” and the consolidation and accounting principles described in the 2017 consolidated financial statements.

Income taxes are calculated based on an estimate of the expected income tax rate for the full-year 2018, adjusted for the non-recurring profit from the sale of the minority stake in “siggi’s”. The consolidated half-year results should be read in conjunction with the consolidated financial statements compiled for the financial year ending 31 December 2017, as they represent an update of the last complete financial statements and therefore do not contain all information and disclosures required in the year-end consolidated financial statements. The consolidated half-year results are presented in Swiss francs (CHF). Except where stated otherwise, all amounts are presented in thousands of Swiss francs (CHF 000s).

The consolidated interim financial statements were approved by the Board of Directors on 24 August 2018.

Changes to the scope of consolidation or capital share

Centrale Laitière de Mahdia, S.A.

On 16 January 2018, Kaiku Corporación Alimentaria, S.L. “Kaiku”, an Emmi subsidiary based in San Sebastián (Spain), increased its stake in Centrale Laitière de Mahdia SA “Vitalait”, based in Mahdia (Tunisia), from 45.4 % to 54.7 %. As a result, Emmi, which holds 73.4 % of the shares in Kaiku, now has a 40.2 % stake in Vitalait. The transaction has no impact on the consolidation method as Emmi already exercised control over Vitalait before this transaction.

Servicios Logísticos Jundiz, S.L.

Servicios Logísticos Jundiz, S.L., based in Vitoria (Spain), was founded on 24 January 2018.

Kaiku Internacional, S.L. Agencia en Chile

Kaiku Internacional, S.L. Agencia en Chile, based in Santiago (Chile) was liquidated on 28 June 2018.

The Icelandic Milk and Skyr Corporation

The Icelandic Milk & Skyr Corporation “siggi’s” was sold to the French milk processor Lactalis on 1 February 2018. The sale of the minority stake of 22 % held by Emmi had a significant impact on the income statement in the period under review. The sale resulted in a pre-tax profit of CHF 78.2 million (USD 80.9 million) or CHF 56.9 million (USD 58.9 million) after taxes. This profit will change again slightly in the second half of 2018 due to minor adjustments to the purchase price. The profit in Swiss francs also depends on the future performance of the CHF and USD currency pair.

The profit from this sale is included in the position “Income from associates and joint ventures”. Accordingly, earnings before taxes (EBT) rose by CHF 78.2 million and net profit by CHF 56.9 million.

Changes in the financial year 2017

We refer to the consolidated financial statements 2017 for the changes to the scope of consolidation in the financial year 2017.

Contingent liabilities

Emmi is involved in legal disputes in connection with ordinary operating activities. Although the outcome of the lawsuits currently cannot be predicted with certainty, Emmi assumes that none of the disputes will have any fundamental negative impact on operating activities or on the Group's financial situation. Expected outgoing payments are provided for accordingly.

Subsequent events

On 2 July 2018, Emmi increased its stake in AVH dairy trade B.V., headquartered in Bergen (the Netherlands) from 75 % to 90 %. As a consequence, Emmi's share in Goat Milk Powder B.V., which is directly held by AVH dairy trade B.V., increased from 45 % to 54 %. Both companies were already controlled by Emmi and therefore fully consolidated before this transaction.

On 31 July 2018, Emmi increased its stake in SAS Emmi Ambrosi France E.A.F. and EAF Immo 84 SCI from 51 % to 85 % in each case. As a consequence, Emmi's share in Ets Schoepfer SAS and Distribution Disfrais SAS, which are directly held by SAS Emmi Ambrosi France E.A.F., increased from 51 % to 85 % in each case. All companies mentioned were already controlled by Emmi and therefore fully consolidated before this transaction.

From the balance sheet date until the consolidated financial statements were approved by the Board of Directors on 24 August 2018, no other major events occurred which could adversely affect the validity of the interim financial statements for 2018.

	First 6 months average rates		End rates	
	2018	2017	**30.06.2018**	31.12.2017
1 EUR	**1.17**	1.08	**1.16**	1.17
1 USD	**0.97**	0.99	**0.99**	0.98
1 GBP	**1.33**	1.25	**1.31**	1.32
1 CAD	**0.76**	0.75	**0.75**	0.78
1 TND	**0.39**	0.42	**0.38**	0.40
1 MXN	**0.05**	0.05	**0.05**	0.05
100 CLP	**0.16**	0.15	**0.15**	0.16
1 BRL	**0.28**	0.31	**0.26**	0.29

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The Emmi shareholder letter and half-year report 2018 are available in German and English. The German version is legally binding.

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