Shareholder letter and half-year report 2017

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The Emmi shareholder letter and half-year report 2017
are available in German and English. The German version
is legally binding.

Contents

Dear Shareholders

The first half of 2017 was challenging. In Switzerland, retail sales fell, while cheese imports rose. Emmi nonetheless managed to make gains with various brand concepts. Abroad, Brexit and declining cheese exports took the wind out of our sails. Many markets outside Europe – especially Tunisia and the US – performed well, however. Overall, Group sales were below expectations. Nevertheless, profitability was kept nearly stable.

Business division Switzerland in line with expectations, European business disappointing

At Group level, Emmi generated sales of CHF 1,600.2 million – an increase of 0.4 % compared with the first half of 2016. Adjusted for currency and acquisition effects, this resulted in an organic decline of 1.3 %.

This performance is not satisfactory. The business division Switzerland reached the lower end of the range forecasted for the full year, while the business divisions Americas and Europe fell short of expectations. There were some rays of light, however. For example, sales of Caffè Latte in Switzerland saw a renewed rise, and the business division Americas generated significant growth in several strategically important markets.

The business division Europe is proving more challenging: the weak pound sterling has made Italian desserts by A-27 and Onken yogurts from Germany massively more expensive in the UK – a situation that is compounded by the fact that multiple competitors are based in the UK and therefore do not have to contend with the negative currency effects. This constellation is also impacting earnings. Exports of AOP cheeses remain causes for concern, especially the Emmentaler exports to Italy.

Stable earnings

In the first half of 2017, Emmi generated an EBIT of CHF 90.4 million, compared with CHF 92.5 million in the previous year, corresponding to a decline of 2.2 %. The EBIT margin declined slightly from 5.8 % to 5.7 %. The fact that we were able to keep operating profit at practically the same level as last year in spite of the challenging markets is a promising sign. In terms of EBITDA, the previous year's result was even exceeded slightly. Furthermore, net profit amounted to CHF 66.0 million – an increase of 8.6 % compared with the 2016 figure of CHF 60.8 million. This improvement is mainly attributable to lower minority interests due to the full takeover of Mittelland Molkerei AG. The net profit margin was 4.1 % (2016: 3.8 %).

Doing our homework

Emmi isn't sitting back and waiting for better times to come along; it is putting in the work to turn the situation around. When sales are under pressure, cost management becomes even more important. Operational excellence measures have been stepped up not only in Switzerland, but especially at the Italian dessert facilities. In spring 2017, we began relocating the Italian dessert business of A-27 to the existing facility in Gattico and closing the Rancio Valcuvia site. This process is nearing completion. The focus in 2018 will be on identifying redundancies at the facilities of A-27, Rachelli and Italian Fresh Foods and reducing these where possible. This will bolster our competitiveness and consolidate our power of innovation.

Strengthening efficient brand concepts and promoting innovation

Tried-and-tested brand concepts continued to prop up sales and earnings in the first half of 2017. Caffè Latte, exports of cheese specialities such as Kaltbach and Der Scharfe Maxx, the lactose-free range from Kaiku, speciality cheeses made from cow's and goat's milk in the US, and fresh products in Tunisia continued to be top performers. We will supplement these with new products this autumn. This rollout will be led by a Dutch goat's cheese that is sold in the Netherlands. In Switzerland, the range will be complemented by dessert specialities with state-of-the-art manufacturing procedures and additions to existing fresh product lines.

Emmi is doing everything it can to strengthen sales in the second half of 2017. Our declared goal remains the same: to pursue organic growth while keeping a watchful eye on earnings. We want to achieve this by being a fair business partner in a competitive Swiss production location and in viable international markets.

Konrad Graber
Chairman of the Board of Directors

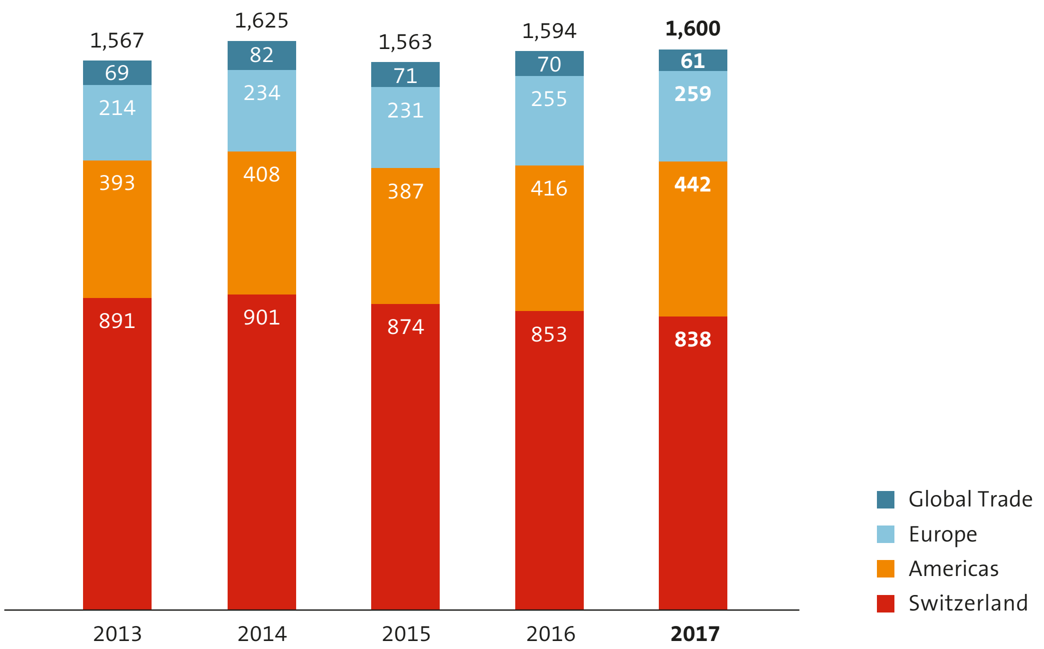
Urs Riedener
CEO

Emmi Group key figures

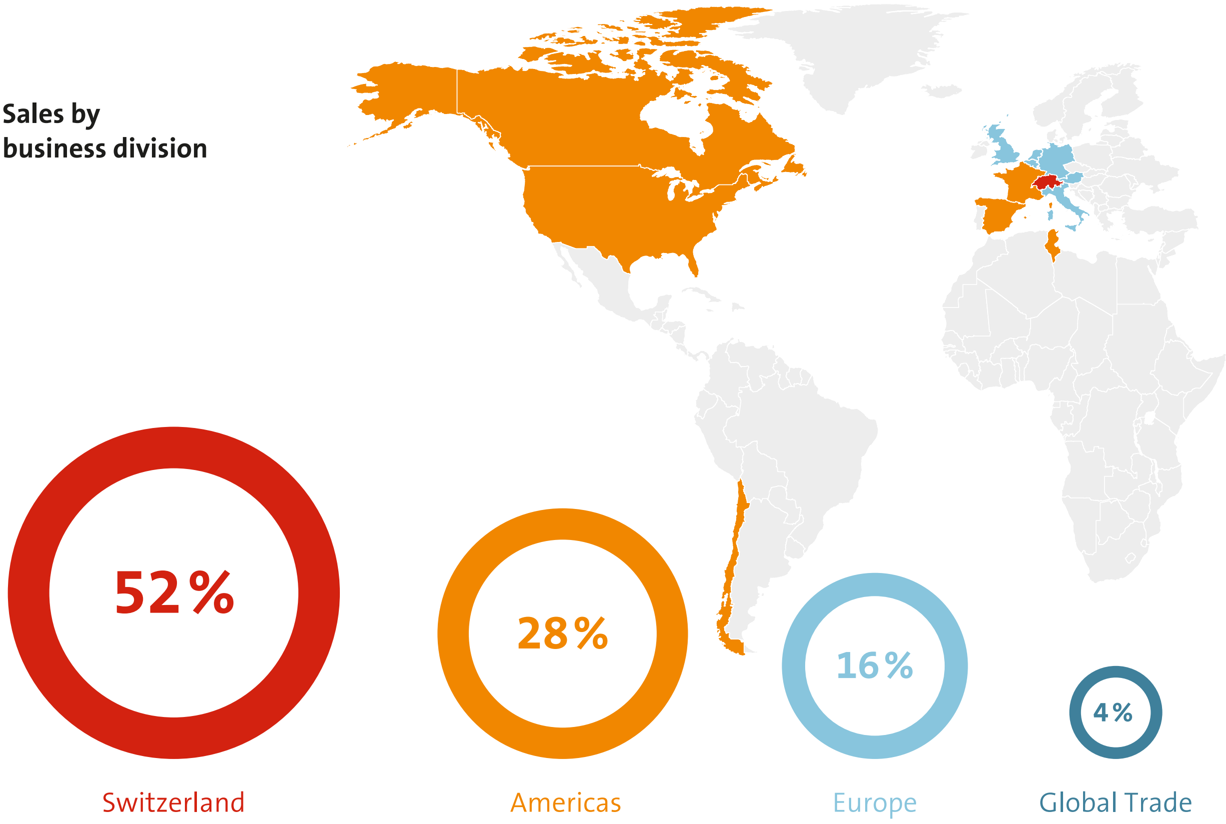
Amounts in CHF million	**First 6 months 2017**	First 6 months 2016
Net sales	**1,600**	1,594
Sales development in %	**0.4**	2.0
Acquisition effect in %	**2.6**	2.0
Currency effect in %	**-0.9**	0.7
Net sales increase in organic terms (in loc. currency) in %	**-1.3**	-0.7
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**156.6**	153.3
as % of net sales	**9.8**	9.6
Earnings before interest and taxes (EBIT)	**90.4**	92.5
as % of net sales	**5.7**	5.8
Net profit	**66.0**	60.8
as % of net sales	**4.1**	3.8
	30.06.2017	31.12.2016
Total assets	**2,548**	2,603
of which shareholder's equity incl. minority interests	**1,385**	1,506
as % of total assets	**54.4**	57.9
Full-time equivalents	**5,940**	5,779

Net sales

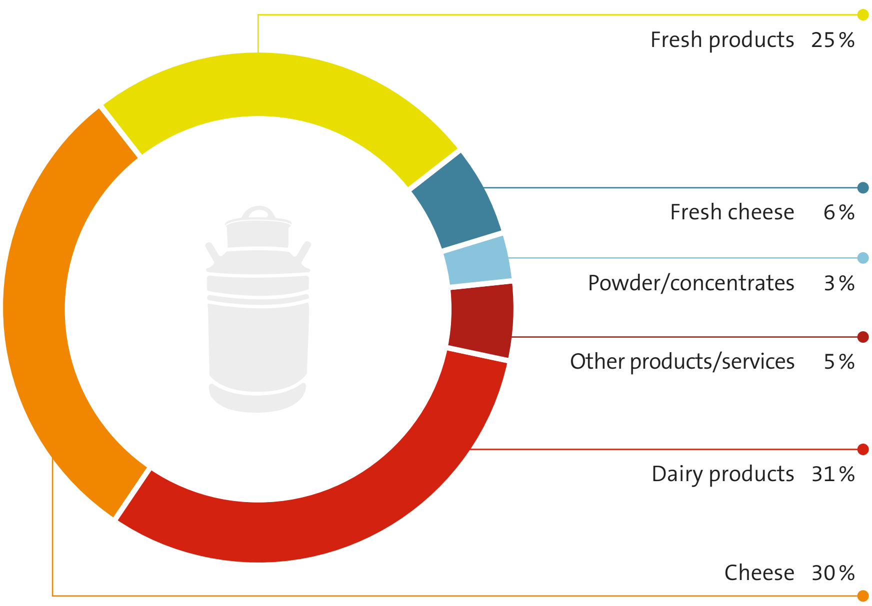
in CHF million, first six months



Sales by business division



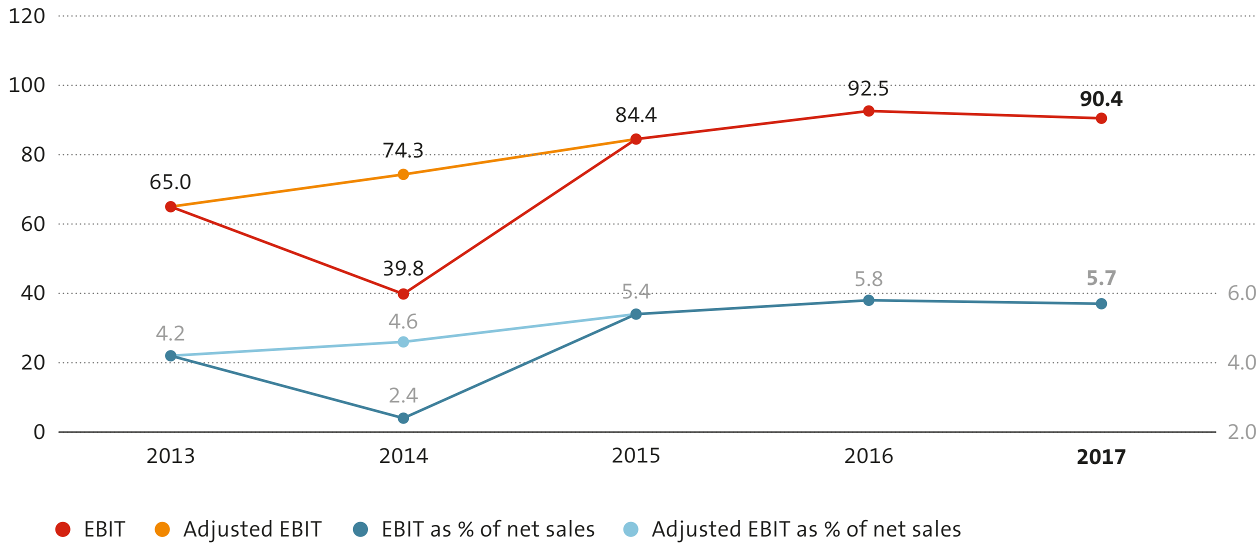
Sales by product group



EBIT

in CHF million, first six months

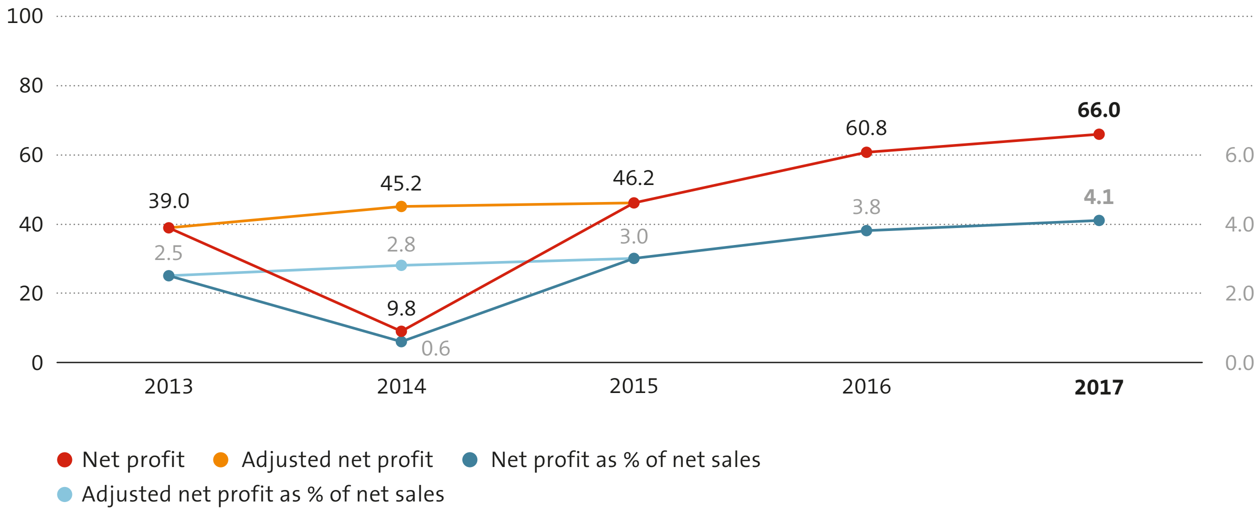
as % of net sales



Net profit

in CHF million, first six months

as % of net sales



New products and campaigns

Emmi's sweet secrets

Keeping secrets isn't always easy. That's why Emmi's about to share its latest one with lovers of dessert: Ooola Secrets. The secrets waiting to be unveiled are moments full of chocolate, caramel and fruit, embedded in delicious mousse creations and packed in small portions of 60 or 90 grams each. Ooola Secrets will be available in three versions: chocolate & raspberry with chocolate shavings, chocolat trio with caramel, and stracchiatella with lemon. They're made from fresh ingredients and contain no preservatives. The launch in retail outlets in Switzerland will start in October 2017. Plans to extend their sale to international markets are in place. www.ooola-secrets.com (coming soon)

Enjoy yogurt on the move

Who says you have to eat your yogurt out of a pot and with a spoon? Our days are packed full of things to do and time is short. That's why we eat more and more away from home. Jogurtpur to go is Emmi's solution; it comes in a practical, resealable pouch and is like traditional Jogurtpur in every way. It has just three ingredients – yogurt, fruit and sugar – and there are no additives. It is available in strawberry, apricot and blueberry flavours. Jogurtpur to go is ideal for families with children, commuters and other people who are always on the move. www.emmi.com

Excellence with a touch of caprice

Goat's cheese is becoming more popular in Europe and elsewhere. That's why Emmi is adding the Zoë&Zazu brand to its goat's cheese range. The matured fresh cheeses are made from organic goat's milk by the Emmi subsidiary Bettinehoeve in Holland. And whether consumers end up enjoying a young, fresh cheese or a more mature, intense one depends on how long it is left to carry on maturing in the supermarket or in the fridge at home. Its triangular shape and creative varieties are distinctive. Zoë&Zazu are goats who surprise us not only with Super Natural, a natural variety with an ash crust, but also with Midnight Truffle and Wild Fennel. They will be hitting the shelves in Dutch shops in October 2017. There are plans to roll the brand out in other European markets too. www.zoeandzazu.com (coming soon)

Superfood meets Birchermüesli

In ages past, chia seeds were a staple in the diet of the Mayas and Aztecs. The tiny seeds come from a plant of the Salvia genus, and contain lots of vitamins, minerals and antioxidants. As a result, modern-day products increasingly contain this superfood. Emmi's new Chia Müesli is one such example, which supplements its classic and seasonal varieties. All are made using fresh Swiss milk, and contain 30 percent fruit and extra cereals. Bon appétit! www.emmi.com

Lots of energy, no added sugar

Feedback from consumers matters a lot to Emmi and is something we always try to take on board when developing our products. Energy Milk High Protein is one such example. Despite the trend towards less sugar, young adults like it sweet. Emmi kept on experimenting until it found the ideal sweetener for the protein drink – cyclamate acesulfame K. With a new recipe, the energy kick is as good and tasty as ever. It comes in three flavours – vanilla, strawberry and chocolate. So you can be sure of some variety. www.emmi-energy-milk.ch

Modest sales development, business division Europe significantly below expectations

In the first half of 2017, Emmi reported Group sales of CHF 1,600.2 million, up from CHF 1,594.1 million in the previous year. This corresponds to an increase of 0.4 %. Adjusted for currency and acquisition effects, this resulted in a decline of 1.3 % (full-year forecast from March 2017: 1 % to 2 % growth).

The positive acquisition effect of 2.6 % is due to the following factors:

- 60 % stake in Dutch company Bettinehoeve acquired on 2 February 2016 (cheese specialities made from goat's milk)
- increased stake in SDA Chile acquired on 19 May 2016 (fresh products, dairy products and cheese)
- acquisition of American company Cowgirl Creamery on 31 May 2016 (cheese specialities made from cow's milk)
- acquisition of US-based Jackson-Mitchell, Inc. on 4 January 2017 (goat's milk, condensed milk and powder from goat's milk)
- 80 % stake in Spanish goat's milk processor Lácteos Caprinos S.A. acquired on 12 January 2017 (semi-finished products and cheese from goat's milk)
- acquisition of Italian Fresh Foods S.p.A. on 1 March 2017 (dessert specialities)

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

Sales development Switzerland

Sales in the business division Switzerland amounted to CHF 838.2 million, a year-on-year decline of 1.8 % and at the lower end of the full-year sales forecast of -2 % to 0 % announced by Emmi in March. One of the factors inhibiting sales was the troubled Swiss retail business, where milk products saw a decline of approximately 1 % versus the previous year (source: Nielsen). Brand concepts, by contrast, proved robust, especially in the area of fresh products. The business division Switzerland accounts for 52 % of Group sales.

Sales of dairy products (milk, cream, butter) fell from CHF 329.0 million to CHF 312.8 million in the first half of 2017. This translates into a year-on-year drop of 4.9 %, owing primarily to lower milk prices and – to a lesser extent – lower volumes.

In the cheese segment, sales contracted from CHF 223.5 million to CHF 219.2 million. This corresponds to a decline of 1.9 % and stands in sharp contrast to cheese imports, which rose 4.4 % in the first six months of 2017 (source: TSM Treuhand). The warm spring may have also been slightly detrimental to sales, with AOP cheeses and speciality cheeses both underperforming. Luzerner Rahmkäse saw a significant increase in sales, however.

In fresh products, sales reached CHF 175.3 million, compared with CHF 174.4 million in the previous year. This improvement of 0.5 % was fuelled in particular by Caffè Latte und Jogurtpur, while private labels recorded losses.

Sales of fresh cheese declined by 0.6 % from CHF 57.1 million to CHF 56.7 million, owing to a slight fall in sales of quark due to volume-related factors. By contrast, a slight increase in sales was recorded for mozzarella.

In powder/concentrates, sales amounted to CHF 33.5 million, up 15.3 % (first half of 2016: CHF 29.0 million).

Sales of other products/services rose by 0.9 % to CHF 40.7 million (first half of 2016: CHF 40.2 million).

Switzerland: Net sales by product group

in CHF million	Sales 1HY 2017	Sales 1HY 2016	Organic growth
Dairy products	312.8	329.0	-4.9 %
Cheese	219.2	223.5	-1.9 %
Fresh products	175.3	174.4	0.5 %
Fresh cheese	56.7	57.1	-0.6 %
Powder/concentrates	33.5	29.0	15.3 %
Other products/services	40.7	40.2	0.9 %
Total Switzerland	**838.2**	**853.2**	**-1.8 %**

Sales development Americas

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

Sales in this business division improved over the first six months of 2017 to CHF 442.3 million, up 6.2 % on the previous year's figure of CHF 416.4 million. In organic terms (excluding currency and acquisition effects), this represents growth of 2.4 %, which was below Emmi's expectations; March's full-year forecast was 3 % to 5 %. This is due in large part to the continued challenging economic situation in Spain and France, whose markets carry a great deal of weight for the business division Americas and thus are inhibiting growth of the business division overall. While sales in Chile stabilised, they have not yet reached the desired level.

The Tunisian and US markets performed well, however. The business division Americas accounts for 28 % of total sales.

The cheese segment generated sales of CHF 180.4 million, compared with CHF 163.9 million in the previous year. This corresponds to an increase of 10.0 %. The cow's milk and goat's cheese business in the US had a positive impact, whereas cheese sales in France declined. The positive acquisition effect resulted from the acquisition of Cowgirl Creamery and SDA Chile. In organic terms, sales grew by 5.6 %.

Sales of dairy products rose from CHF 122.4 million to CHF 130.2 million. This 6.4 % gain is attributable primarily to the Tunisian market, while milk sales in Spain were down. The positive acquisition effect is due to Jackson-Mitchell and SDA Chile. Organic growth amounted to 1.2 %.

Sales of fresh products declined by 3.5 %, from CHF 100.7 million to CHF 97.2 million. The factors that made a positive contribution included the growth of yogurts and desserts in Tunisia as well as that of the lactose-free range in Spain.

Another pleasing development in Spain is that Caffè Latte sales were kept stable in spite of losing the product's largest customer in 2016. Traditional yogurts, meanwhile, took a hit in Spain. Yogurts in Chile and desserts in France also performed below expectations. The positive acquisition effect is mainly attributable to SDA Chile. In organic terms, sales declined by 0.7 %.

At CHF 0.2 million and CHF 2.5 million, respectively, sales of fresh cheese and powder/concentrates were marginal.

Other products/services posted an increase in sales of 10.2 % (1.7 % in organic terms), up from CHF 28.9 million to CHF 31.8 million. The positive acquisition effect is due mainly to SDA Chile and Cowgirl Creamery.

Americas: Net sales by product group

in CHF milion	Sales 1HY 2017	Sales 1HY 2016	Difference 2017/2016	Acquisition effect	Currency effect	Organic growth
Cheese	180.4	163.9	10.0 %	3.4 %	1.0 %	5.6 %
Dairy products	130.2	122.4	6.4 %	9.5 %	-4.3 %	1.2 %
Fresh products	97.2	100.7	-3.5 %	0.5 %	-3.3 %	-0.7 %
Powder/concentrates	2.5	0.1	2,147.5 %	2,093.0 %	23.5 %	31.0 %
Fresh cheese	0.2	0.4	-43.0 %	71.7 %	0.7 %	-115.4 %
Other products/services	31.8	28.9	10.2 %	8.0 %	0.5 %	1.7 %
Total Americas	**442.3**	**416.4**	**6.2 %**	**5.4 %**	**-1.6 %**	**2.4 %**

Sales development Europe

The business division Europe includes the markets Benelux, Germany, UK, Italy and Austria as well as Lácteos Caprinos in Spain.

Sales rose from CHF 254.4 million to CHF 259.3 million in the first half of 2017. This corresponds to an increase of 1.9 %. Excluding currency and acquisition effects, it corresponds to a decline of 2.1 % year-on-year. This means that sales from the business division Europe were significantly below expectations (full-year forecast: 0 % to 2 % growth). This disappointing result can be explained by the negative trend for desserts from A-27 and for Onken yogurts, as well as declining cheese exports. The acquisition effects are attributable to the investments in Italian Fresh Foods, Lácteos Caprinos and Bettinehoeve. The business division Europe accounts for 16 % of Group sales.

Fresh products registered a sales decline of 0.9 % to CHF 105.7 million in the first half of 2017 (previous year: CHF 106.7 million). Desserts from Rachelli performed well, while the dessert business of A-27 and Onken yogurts suffered. The positive acquisition effects are due to Italian Fresh Foods. In organic terms, the decline was 4.5 %.

Sales of cheese declined by 4.8 %, from CHF 56.1 million to CHF 53.4 million. The main reason for this negative trend was declining Emmentaler exports to Italy, with cheese exports to the UK, Germany and Austria also contracting. The positive acquisition effects resulted from Bettinehoeve. Sales declined by 5.6 % in organic terms.

Sales of dairy products rose by 0.7 % from CHF 49.2 million to CHF 49.6 million, benefiting above all from growth at Gläserne Molkerei. The growth in organic terms was 2.4 %.

Sales of fresh cheese rose by 15.0 %, from CHF 32.5 million to CHF 37.4 million. The positive acquisition effects were attributable to Bettinehoeve and Lácteos Caprinos. Falling sales in Italy were the primary cause of the declines. In organic terms, the segment reported a decline of 6.3 %.

In the smaller product segments of the business division Europe, powder/concentrates achieved sales of CHF 9.6 million and other products/services CHF 3.6 million.

Europe: Net sales by product group

in CHF million	Sales 1HY 2017	Sales 1HY 2016	Difference 2017/2016	Acquisition effect	Currency effect	Organic growth
Fresh products	105.7	106.7	-0.9 %	8.5 %	-4.9 %	-4.5 %
Cheese	53.4	56.1	-4.8 %	3.2 %	-2.4 %	-5.6 %
Dairy products	49.6	49.2	0.7 %	0.1 %	-1.8 %	2.4 %
Fresh cheese	37.4	32.5	15.0 %	23.4 %	-2.1 %	-6.3 %
Powder/concentrates	9.6	7.2	32.9 %	–	-2.4 %	35.3 %
Other products/services	3.6	2.7	34.7 %	–	-2.3 %	37.0 %
Total Europe	**259.3**	**254.4**	**1.9 %**	**7.3 %**	**-3.3 %**	**-2.1 %**

Sales development Global Trade

The business division Global Trade includes direct sales from Switzerland to customers in international markets. Specifically, these are countries where Emmi has no subsidiaries, including the Asian, Eastern European and South American markets (excluding Chile). The business division Global Trade accounts for 4 % of Group sales.

Sales in this business area amounted to CHF 60.4 million in the first half of 2017. Compared with CHF 70.1 million in the previous year, this constitutes a decrease of 13.8 %.

The declines in the two larger product segments cheese and fresh products can be explained in large part by lower sales in Russia (cheese) as well as in Asia and the Middle East (fresh products). The decrease in the dairy products segment reflects the modest performance of milk sales in China. The decline in powder/concentrates is the result of lower milk collection and the associated reduction in milk powder exports.

Global Trade: Net sales by product group

in CHF million	Sales 1HY 2017	Sales 1HY 2016	Difference 2017/2016	Acquisition effect	Currency effect	Organic growth
Fresh products	21.9	23.1	-5.1 %	–	–	-5.1 %
Cheese	21.0	21.9	-4.0 %	–	–	-4.0 %
Dairy products	8.0	9.6	-16.2 %	–	–	-16.2 %
Powder/concentrates	7.1	10.3	-31.3 %	–	–	-31.3 %
Fresh cheese	0.4	0.1	533.2 %	–	–	533.2 %
Other products/services	2.0	5.1	-62.5 %	–	–	-62.5 %
Total Global Trade	**60.4**	**70.1**	**-13.8 %**	**–**	**–**	**-13.8 %**

Gross profit

Gross profit amounted to CHF 577.1 million in the reporting period, corresponding to a slight reduction of CHF 0.1 million compared with the previous year (first half of 2016: CHF 577.2 million). This was only achieved thanks to the acquisitions made, though. In organic terms, the negative sales trend resulted in a decline of gross profit. The gross profit margin remained nearly constant year-on-year at 36.1 % (previous year: 36.2 %). The successful implementation of further rationalisation and productivity measures enabled the company to largely offset the adverse effects of increased price pressure.

Non-recurring effects in the 2017 half-year results

No significant non-recurring effects were recorded in the reporting periods in 2017 or 2016. For this reason, Emmi does not disclose adjusted earnings.

Operating result

Operating expenses fell by a total of CHF 4.2 million year-on-year to CHF 422.3 million, in spite of the intense acquisition activity (previous year: CHF 426.5 million). This means that Emmi was able to considerably reduce operating expenses in organic terms, something that was necessary in view of the negative sales trend to keep profitability largely on a par with the previous year. In relation to sales, operating expenses fell from 26.8 % to 26.4 %. Consequently, the small decrease in the gross profit margin was offset by proportionately lower operating expenses.

Personnel expenses rose by CHF 9.3 million to CHF 221.0 million in the first half of 2017 (previous year: CHF 211.7 million). Since the increase was disproportionately high in comparison with the development in sales, the ratio of personnel expenses to sales rose from 13.3 % in 2016 to 13.8 % in the period under review. The lion's share of this increase was down to the acquisitions made.

Other operating expenses amounted to CHF 201.3 million in the period under review (previous year: CHF 214.9 million), constituting a reduction of CHF 13.6 million in spite of the acquisitions made. An increased focus was placed on costs in view of the adverse sales trend, although this did not extend to marketing expenses, which at CHF 35.8 million were practically on a par with last year (CHF 36.0 million). Sales related expenses, expenses for maintenance and repairs, and other operating expenses were considerably lower, however. In relation to sales, other operating expenses fell from 13.5 % to 12.6 %.

Other operating income registered a year-on-year decrease of CHF 0.7 million to CHF 1.9 million (previous year: CHF 2.6 million).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased in the reporting period by CHF 3.3 million to CHF 156.6 million, up from CHF 153.3 million in the previous year. This led to an improvement in the EBITDA margin, which rose from 9.6 % to 9.8 %.

Depreciation on property, plant and equipment increased from CHF 46.4 million in 2016 to CHF 47.4 million in the period under review, remaining unchanged as a proportion of sales. The increase in **amortisation** on intangible assets of CHF 4.3 million to CHF 18.9 million (previous year: CHF 14.6 million) is mainly attributable to additional goodwill amortisations as a result of the acquisitions made. A considerable portion of this is due to the acquisition of minority interests in Mittelland Molkerei AG. Since this company was fully consolidated before the transaction indicated, however, the additional goodwill amortisation is not accompanied by any additional operating profit.

Earnings before interest and taxes (EBIT) was CHF 90.4 million in the reporting period and is thus CHF 2.1 million below the previous year's EBIT of CHF 92.5 million. The EBIT margin decreased slightly from 5.8 % to 5.7 %.

Financial result and income taxes

The **financial result** (net financial expenses) fell by CHF 0.5 million versus the previous year to CHF 7.2 million. This reduction was achieved thanks to significantly lower interest expenses. The financial result includes CHF 1.5 million in currency losses, compared with CHF 1.2 million in the previous year.

In the period under review, **income taxes** decreased by CHF 1.0 million to CHF 15.1 million. The expected tax for the full year decreased from 18.5 % to 18.0 %.

Net profit

Net profit including minority interests amounted to CHF 69.0 million, a decline of CHF 1.9 million versus the previous year's level of CHF 70.9 million. Minority interests were significantly down on the previous year by CHF 7.1 million. This is essentially due to the acquisition of the minority interests in Mittelland Molkerei AG. After deducting the remaining minority interests, this resulted in a **net profit** of CHF 66.0 million, compared with CHF 60.8 million a year earlier. Net profit rose by 8.6 % accordingly. The **net profit margin** increased to 4.1 % (previous year: 3.8 %). Net earnings per share was up accordingly, and now stands at CHF 12.34 (previous year: CHF 11.36).

Assets, financing and cash flow

Total assets fell by CHF 55.2 million versus 31 December 2016 as a consequence of operating activities, with major changes recorded in cash and cash equivalents and intangible assets in particular. The strong acquisition activity explains the increase in intangible assets by CHF 118.8 million, which is also the reason why cash and cash equivalents declined by CHF 147.8 million. Operating net working capital amounted to CHF 482.4 million, up CHF 38.3 million versus the end of 2016. However, it decreased by CHF 6.5 million compared with 30 June 2016 in spite of the acquisitions made since this date. With regard to financing, the significant reclassifications between short and long-term liabilities were due to a bond in the amount of CHF 250 million, which matured on 30 June 2017. Two new bonds totalling CHF 200 million have been taken out to refinance this maturity and for general corporate financing purposes. In addition, Schuldscheine (promissory notes) in the amount of EUR 100 million were paid up after the balance sheet date on 21 July 2017. From 30 June 2017 until the Schuldscheine (promissory notes) were paid up on 21 July 2017, temporary bridging funding was taken out in the amount of EUR 100 million, which comprised part of the short-term bank debt as at the balance sheet date. The **equity ratio** declined to 54.4 %, from 57.9 % on 31 December 2016. The main reason for the reduction is the acquisition of the minority interests in Mittelland Molkerei AG, which decreased not only the minority interests but also equity. **Net debt** increased from CHF 71.4 million as at 31 December 2016 to CHF 288.1 million as at 30 June 2017.

Cash inflow from operating activities amounted to CHF 113.6 million, significantly higher than the previous year's figure of CHF 93.9 million. Whereas the operating result remained largely stable, it was the overall positive change in net working capital that led to this development, which in turn is primarily attributable to the year-on-year change in payables.

At CHF 293.0 million, **cash outflow from investing activities** was considerably higher than in the previous year (cash outflow of CHF 98.1 million). This is primarily due to acquisitions, which accounted for CHF 260.0 million in the first six months of 2017 versus CHF 63.3 million a year earlier. Net investment in property, plant and equipment amounted to CHF 42.3 million, up CHF 8.2 million year-on-year. **Cash inflow from financing activities** amounted to CHF 32.4 million in the first half of 2017 (previous year: cash outflow of CHF 32.8 million). This cash inflow resulted primarily from the funding activities described, less CHF 32.0 million in dividend payments. As a consequence of these cash flows, cash and cash equivalents fell by CHF 147.8 million compared with 31 December 2016, from CHF 406.9 million to CHF 259.1 million.

Outlook for 2017 as a whole

Emmi continues to face challenging conditions in the second half of 2017. The intensely competitive and volatile environment in Switzerland and the demanding economic situation in markets such as the UK, Spain, Italy and France will continue to play a decisive role. This is compounded by generally restrained consumption of milk products.

In view of the current situation, we expect to be able to achieve the sales targets communicated in March 2017 for Switzerland and the business division Americas – albeit at the lower end of the target range. In the business division Europe, however, in light of current trends, we assume that we will not be able to meet our original sales targets and are forecasting an organic decline in sales of between -3 % and -1 % (instead of 0 % to 2 % growth). For the Group, we are currently expecting organic sales development of -1 % to 0 % (instead of 1 % to 2 % growth). Our EBIT and net profit targets are considered to be challenging but still achievable given ongoing sales developments.

Consolidated income statement

in CHF 000s

	First 6 months 2017	%	First 6 months 2016	%
Sales of products	**1,587,647**		1,582,377	
Sales of services	**12,506**		11,731	
Net sales	**1,600,153**	**100.0**	1,594,108	100.0
Change in inventories of semi-finished and finished products	**-3,651**	**0.2**	4,253	0.3
Cost of materials and services	**-1,019,444**	**63.7**	-1,021,134	64.1
Gross operating profit	**577,058**	**36.1**	577,227	36.2
Other operating income	**1,872**	**0.1**	2,613	0.2
Personnel expenses	**-221,039**	**13.8**	-211,666	13.3
Other operating expenses	**-201,282**	**12.6**	-214,855	13.5
Operating expenses	**-422,321**	**26.4**	-426,521	26.8
Earnings before interest [1], taxes, depreciation and amortisation (EBITDA)	**156,609**	**9.8**	153,319	9.6
Depreciation on property, plant and equipment	**-47,444**	**2.9**	-46,442	2.9
Amortisation on intangible assets	**-18,899**	**1.2**	-14,571	0.9
Write-back of negative goodwill	**155**	**–**	155	–
Earnings before interest [1] and taxes (EBIT)	**90,421**	**5.7**	92,461	5.8
Income from associates and joint ventures	**882**		2,267	
Financial result	**-7,170**		-7,717	
Earnings before taxes (EBT)	**84,133**	**5.3**	87,011	5.5
Income taxes	**-15,144**		-16,096	
Profit incl. minority interests	**68,989**	**4.3**	70,915	4.4
Minority interests	**-2,978**		-10,123	
Net profit	**66,011**	**4.1**	60,792	3.8
Earnings per share (diluted/basic in CHF)	**12.34**		11.36	

[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

Assets	30.06.2017	%	31.12.2016	%
Cash and cash equivalents	259,116		406,882	
Securities	6,907		3,318	
Trade receivables	359,179		386,523	
Other receivables	35,510		32,192	
Inventories	381,899		347,021	
Prepayments and accrued income	33,389		56,245	
Current assets	**1,076,000**	**42.2**	1,232,181	47.3
Investments in associates and joint ventures	27,088		28,880	
Loans and other receivables	49,622		59,912	
Securities	1,838		1,429	
Employer contribution reserves	2,048		2,048	
Deferred tax assets	7,398		8,011	
Total financial assets	87,994		100,280	
Prepayments and accrued income	5,997		6,242	
Property, plant and equipment	914,660		920,018	
Intangible assets	463,191		344,359	
Non-current assets	**1,471,842**	**57.8**	1,370,899	52.7
Total assets	**2,547,842**	**100.0**	2,603,080	100.0

Liabilities and shareholders' equity

Liabilities and shareholders' equity	30.06.2017	%	31.12.2016	%
Bank debt	128,653		14,865	
Finance lease liabilities	906		1,226	
Bonds	–		250,000	
Loans	5,020		598	
Trade payables	258,661		289,486	
Other payables	34,976		17,944	
Accrued liabilities and deferred income	165,674		149,896	
Provisions	8,090		6,760	
Current liabilities	**601,980**	**23.6**	730,775	28.1
Bank debt	14,106		15,051	
Finance lease liabilities	2,487		1,911	
Loans	52,657		57,899	
Bonds	400,000		200,000	
Accrued liabilities and deferred income	15,123		7,462	
Provisions	76,035		83,963	
Non-current liabilities	**560,408**	**22.0**	366,286	14.0
Liabilities	**1,162,388**	**45.6**	1,097,061	42.1
Share capital	53,498		53,498	
Capital reserves	44,887		76,451	
Retained earnings	1,235,426		1,191,605	
Shareholders' equity excl. minority interests	**1,333,811**	**52.4**	1,321,554	50.8
Minority interests	51,643	2.0	184,465	7.1
Shareholders' equity incl. minority interests	**1,385,454**	**54.4**	1,506,019	57.9
Total liabilities and shareholders' equity	**2,547,842**	**100.0**	2,603,080	100.0

Consolidated cash flow statement

in CHF 000s

	First 6 months 2017	First 6 months 2016
Profit incl. minority interests	**68,989**	70,915
Net interest expense	**5,330**	6,070
Income taxes	**15,144**	16,097
Gain on disposal of fixed assets	**-32**	-171
Depreciation and amortisation	**66,146**	60,240
Impairment charges	**197**	773
Write-back of negative goodwill	**-155**	-155
Change in provisions	**-618**	2,922
Income from associates and joint ventures	**-882**	-2,267
Other non-cash adjustments	**1,267**	-927
Cash flow before changes in net working capital, interest and taxes	**155,386**	153,497
Change in inventories	**-33,432**	-33,648
Change in trade receivables	**32,917**	44,694
Change in other receivables, prepayments and accrued income	**-9,986**	-1,612
Change in trade payables	**-32,013**	-54,060
Change in other payables, accrued liabilities and deferred income	**34,393**	15,767
Interest paid	**-6,411**	-7,421
Taxes paid	**-27,243**	-23,339
Cash flow from operating activities	**113,611**	93,878
Investments in property, plant and equipment	**-42,541**	-34,489
Proceeds from disposal of property, plant and equipment	**269**	451
Purchase of securities	**-941**	–
Sale of securities	**–**	569
Investments in intangible assets	**-1,688**	-5,166
Acquisition of consolidated companies	**-260,008**	-63,327
Repayment of loans receivable	**7,730**	3,032
Dividend received	**3,487**	–
Interest received	**682**	854
Cash flow from investing activities	**-293,010**	-98,076
Change in other current financial liabilities	**116,554**	-5,465
Change in other non-current financial liabilities	**-2,831**	4,956
Repayments of bonds	**-250,000**	–
Proceeds from bond-issuance	**200,613**	–
Dividend paid to shareholders	**-31,564**	-26,214
Dividend paid to minority interests	**-399**	-6,033
Cash flow from financing activities	**32,373**	-32,756
Currency translation	**-740**	-253
Net change in cash and cash equivalents	**-147,766**	-37,207
Cash and cash equivalents at beginning of period	**406,882**	388,822
Cash and cash equivalents at end of period	**259,116**	351,615

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 January 1, 2016	53,498	102,665	1,119,267	-67,662	1,051,605	**1,207,768**	185,959	**1,393,727**
Change in scope of consolidation	–	–		–	–	**–**	1,975	**1,975**
Acquisition of minority interests	–	–	–	–	–	**–**	-13,303	**-13,303**
Profit incl. minority interests	–	–	60,792	–	60,792	**60,792**	10,123	**70,915**
Currency translation differences	–	–	–	-3,762	-3,762	**-3,762**	-1,875	**-5,637**
Dividend	–	-26,214	–	–	–	**-26,214**	-6,033	**-32,247**
Shareholders' equity at June 30, 2016	53,498	76,451	1,180,059	-71,424	1,108,635	**1,238,584**	176,846	**1,415,430**
Shareholders' equity at January 1, 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 June 30, 2017	53,498	44,887	1,325,599	-90,173	1,235,426	**1,333,811**	51,643	**1,385,454**

Segment reporting

in CHF 000s

By product group and division	Switzerland First 6 months 2017	Switzerland First 6 months 2016	Americas First 6 months 2017	Americas First 6 months 2016
Dairy products	**312,832**	328,966	**130,223**	122,403
As % of net sales	**37.3**	38.6	**29.4**	29.4
Fresh products	**175,305**	174,366	**97,208**	100,684
As % of net sales	**20.9**	20.4	**22.0**	24.2
Cheese	**219,233**	223,554	**180,359**	163,908
As % of net sales	**26.2**	26.2	**40.8**	39.4
Fresh cheese	**56,741**	57,091	**223**	391
As % of net sales	**6.8**	6.7	**0.1**	0.1
Powder/concentrates	**33,484**	29,030	**2,462**	110
As % of net sales	**4.0**	3.4	**0.5**	–
Other products and services	**40,611**	40,240	**31,798**	28,858
As % of net sales	**4.8**	4.7	**7.2**	6.9
Net sales	**838,206**	853,247	**442,273**	416,354
As % of Group net sales	**52.4**	53.5	**27.6**	26.1

By country group	First 6 months 2017	in %	First 6 months 2016	in %
Switzerland	**838,206**	**52.4**	853,247	53.5
Europe excl. Switzerland	**419,254**	**26.2**	436,228	27.4
North and South America	**251,532**	**15.7**	211,624	13.3
Africa	**71,341**	**4.5**	74,536	4.7
Asia/Pacific	**19,820**	**1.2**	18,473	1.1
Total	**1,600,153**	**100.0**	1,594,108	100.0

Emmi does not publish segment results since this would cause significant competetive 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, Spain (excluding 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.

	Europe		Global trade		Group
First 6 months 2017	First 6 months 2016	**First 6 months 2017**	First 6 months 2016	**First 6 months 2017**	First 6 months 2016
49,567	49,225	**8,047**	9,608	**500,669**	510,202
19.1	19.3	**13.3**	13.7	**31.3**	32.0
105,694	106,645	**21,894**	23,073	**400,101**	404,768
40.8	41.9	**36.2**	32.9	**25.0**	25.4
53,409	56,121	**21,048**	21,924	**474,049**	465,507
20.6	22.1	**34.8**	31.3	**29.6**	29.2
37,391	32,512	**405**	64	**94,760**	90,058
14.4	12.8	**0.7**	0.1	**5.9**	5.7
9,550	7,185	**7,107**	10,341	**52,603**	46,666
3.7	2.8	**11.8**	14.7	**3.3**	2.9
3,647	2,708	**1,915**	5,101	**77,971**	76,907
1.4	1.1	**3.2**	7.3	**4.9**	4.8
259,258	254,396	**60,416**	70,111	**1,600,153**	1,594,108
16.2	16.0	**3.8**	4.4	**100.0**	100.0

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 reporting period ended 30 June 2017. The consolidated interim financial statements for 2017 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 2016 consolidated financial statements.

Income taxes are calculated based on an estimate of the expected income tax rate for the full-year 2017. The consolidated half-year results should be read in conjunction with the consolidated financial statements compiled for the financial year ended 31 December 2016, 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 21 August 2017.

Changes in the financing structure

The CHF 250 million bond for 2011 to 2017 was repaid on 30 June 2017. To refinance this bond and for general corporate financing purposes, new variable and fixed-interest debt in Swiss francs and euros have been issued. On 21 June 2017, a variable-interest bond between 0.00 % and 0.05 % was issued in the amount of CHF 100 million with a term of two years (all-in costs: -0.29 % on launch), and a fixed-interest bond at 0.50 % was issued in the amount of CHF 100 million with a term of 12 years (all-in costs: 0.51 %). On 21 July 2017, Schuldscheine (promissory notes) denominated in euro totalling 100 million were paid up (EUR 70 million variable based on 6-month EURIBOR at initially 0.50 %, and EUR 30 million for seven years fixed at 1.42 %). From 30 June 2017 until the Schuldscheine (promissory notes) were paid up on 21 July 2017, temporary bridging funding was taken out in the amount of EUR 100 million.

Changes to the scope of consolidation or capital share

Jackson-Mitchell, Inc.

On 4 January 2017, Emmi acquired 100 % of the American family company Jackson-Mitchell, Inc. This firm is a leading supplier of goat’s milk and evaporated and powdered goat’s milk in the US. The company employs around 30 employees working at two production sites in California and Arkansas and generates annual sales of almost USD 30 million.

Mittelland Molkerei AG

On 9 January 2017, Emmi fully took over the Mittelland Molkerei AG by increasing its stake from 60 % to 100 %.

Lácteos Caprinos S.A.

On 12 January 2017, Emmi acquired a stake of 80 % in Lácteos Caprinos S.A. in Campillo de Arenas (Spain). This firm is specialised in the manufacture of semi-finished products (curd) for goat’s cheese manufacturers both in Spain and abroad. With around 40 employees, Lácteos Caprinos S.A. generates annual sales of around EUR 13 million.

Italian Fresh Foods S.p.A.

Emmi fully acquired Italian dessert specialist Italian Fresh Foods S.p.A. in Lasnigo/Como on 1 March 2017. Italian Fresh Foods S.p.A. generates annual sales of around EUR 20 million and employs some 70 employees.

Emmi Finance Netherlands B.V.

On 16 June 2017, Emmi fully took over Emmi Finance Netherlands B.V. by increasing its stake from 95 % to 100 %.

Emmi do Brasil Holding Ltda.

On 30 May 2017, Emmi set up Emmi do Brasil Holding Ltda., with its registered office in São Paulo.

Changes in the financial year 2016

We refer to the consolidated financial statements 2016 for the changes to the scope of consolidation in the financial year 2016.

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 3 July 2017, Emmi acquired a 40 % stake in Brazil-based Laticínios Porto Alegre Indústria e Comércio S/A headquartered in Ponte Nova in the state of Minas Gerais. The company is one of the five largest dairies in its key market of Minas Gerais, with strong positions in the product categories cheese, fresh cheese, UHT milk, butter and whey powder. In 2016, it generated sales of approximately BRL 500 million (around CHF 150 million) and employs approximately 1,000 employees.

On 21 July 2017, Emmi took out Schuldscheine (promissory notes) in the amount of EUR 100 million and deactivated temporary bridging funding (see "Changes in the financing structure").

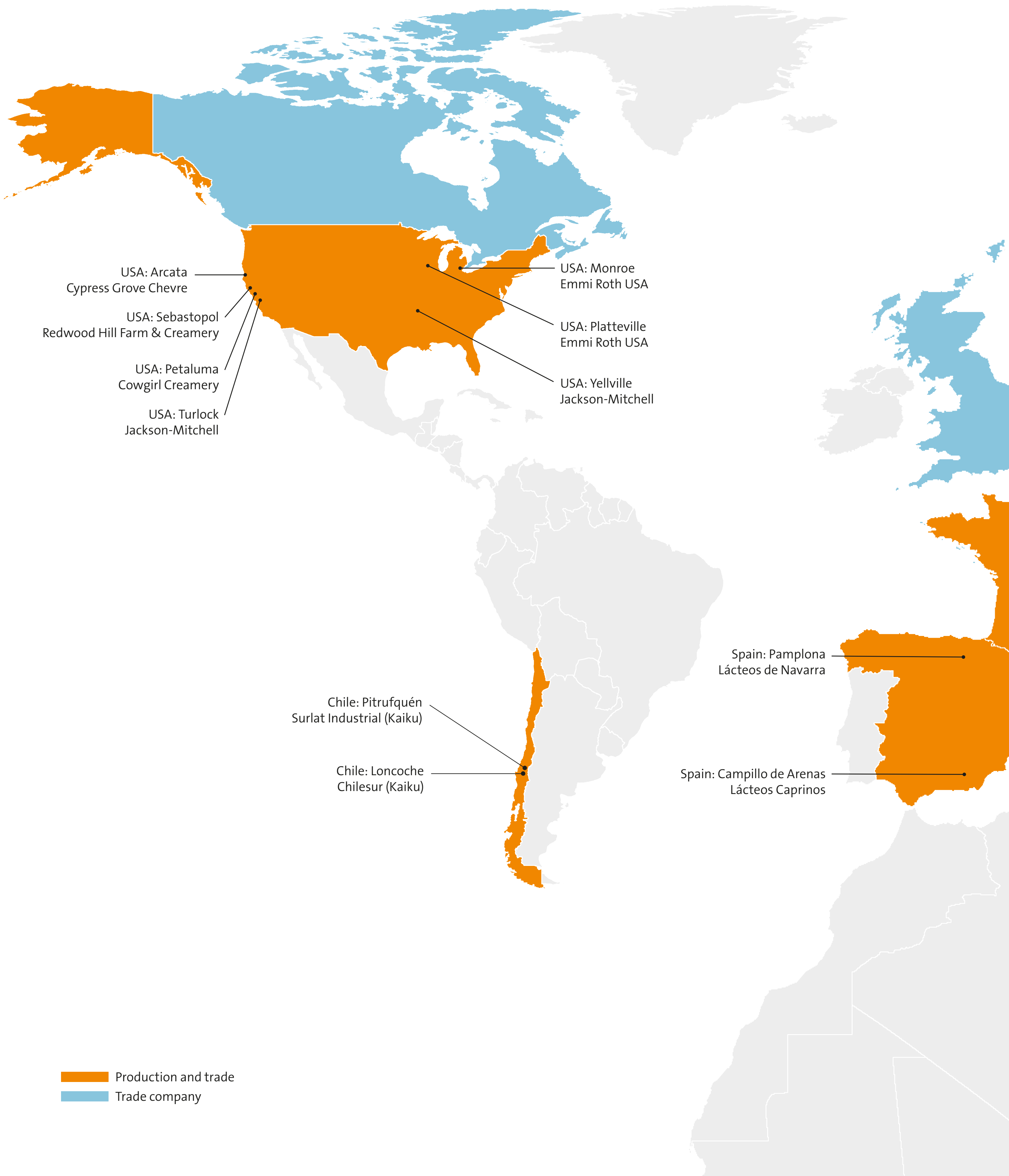
On 31 July 2017, Emmi communicated that it is selling its 24 % stake in Italian fresh cheese specialist Venchiaredo S.p.A., located in Ramuscello, to Granarolo S.p.A., headquartered in Bologna. Going forward, Emmi will also no longer be responsible for selling Venchiaredo products. As a result, these sales amounting to around EUR 20 million per year will no longer accrue to Emmi.

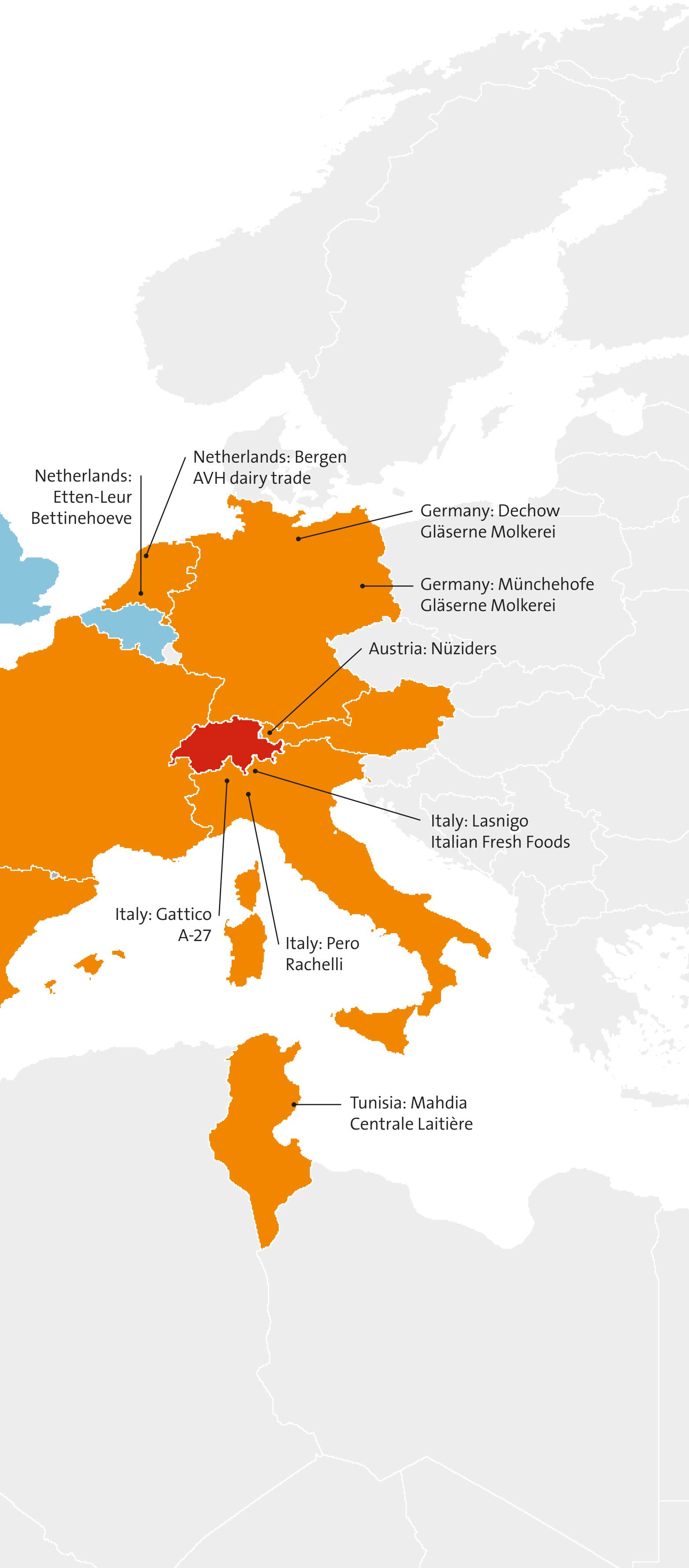
From the balance sheet date until the consolidated financial statements were approved by the Board of Directors on 21 August 2017, no other major events occurred which could adversely affect the validity of the interim financial statements for 2017.

Currency exchange rates in CHF

	First 6 months average rates		End rates	
	2017	2016	**30.06.2017**	31.12.2016
1 EUR	**1.08**	1.10	**1.09**	1.07
1 GBP	**1.25**	1.41	**1.25**	1.26
1 USD	**0.99**	0.98	**0.96**	1.02
1 CAD	**0.75**	0.74	**0.74**	0.76
1 TND	**0.42**	0.48	**0.39**	0.44
100 CLP	**0.15**	0.14	**0.14**	0.15
1 BRL	**0.31**	–	**0.29**	–

Geographical presence





Key production sites in Switzerland

Bever
Production of cheese, dairy and fresh products

Bischofszell
Production of organic dairy and fresh products

Dagmersellen
Production of milk powder and fresh cheese

Emmen
Development and production of fresh products, production and maturation of cheese

Frenkendorf
Production of cheese, dairy and fresh products

Hatswil
Production and maturation of cheese

Kaltbach
Production and maturation of cheese

Kirchberg
Pre-packing of cheese, export

Landquart
Production and maturation of cheese

Moudon
Maturation of Le Gruyère AOP

Langnau
Production of processed cheese and fondue

Ostermundigen
Production of fresh products and ice cream

Saignelégier
Production of Tête de Moine AOP

Suhr
Production of dairy products

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