

Alternative Performance Measures

The Annual Report, the Half-Year Report and other communication to investors and analysts contain alternative performance measures (APM), which management uses to assess the financial performance of the Group and which are not defined by Swiss GAAP FER, the recognized accounting standard Emmi applies. Such APM can be income statement, balance sheet or cash flow figures. Management believes that these non-Swiss GAAP FER performance measures provide useful information regarding the Group's financial performance. Such measures may not be comparable to similar measures presented by other companies. The APM used by Emmi are explained and/or reconciled to Swiss GAAP FER performance measures in this document.

Foreword

This edition is published together with the Annual Report 2020.

Organic Growth

Organic growth represents the net sales growth after excluding the impacts of (a) acquisitions and divestments of businesses (referred to as «acquisition effects» in Emmi's communication) and (b) movements in foreign currency exchange rates (referred to as «currency effects» in Emmi's communication).

(a) Acquisition effects: For calculating organic growth, the net sales of an acquired business are excluded for the twelve months following the business combination. Net sales of a divested business are removed from comparatives (previous year) for the twelve months prior to the divestment. Supply agreements related to the divested business are included in acquisitions and divestments during twelve months following the divestment.

(b) Currency effects: The effects of changes in foreign currency exchange rates are calculated as the difference between the current year net sales (including effects of acquired and divested businesses) converted into Swiss Francs at the current year's average exchange rates and the current year's net sales (including effects of acquired and divested businesses) converted at the prior year's average exchange rates.

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For Emmi Group, the reconciliation of organic growth to the sales development (in %) for the financial year 2020 is as follows:

	2020	2019
Organic Growth	1.9 %	2.2 %
Acquisition effects	8.7 %	0.4 %
Currency effects	-4.5 %	-1.5 %
Sales development in %	6.1 %	1.1 %
Net Sales in CHF Mio.	3,706.1	3,494.0

Similar reconciliations can be found in the media release for the business divisions Switzerland, Americas, Europe and Global Trade.

Earnings before interest and taxes (EBIT)

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

EBIT is commonly defined as Earnings before interest and taxes and EBITDA as Earnings before interest, taxes, depreciation and amortisation.

Emmi uses EBIT and EBITDA as important financial measures, where EBIT is defined as the operating profit and EBITDA is used as an operating cash flow indicator.

EBIT is defined as net profit before:

- Minority interests
- Income taxes
- Financial result
- Income from associates and joint ventures

EBITDA is defined as EBIT before:

- Depreciation (including impairment charges) on property plant and equipment
- Amortisation (including impairment charges) on intangible assets
- Write-back of negative goodwill

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A reconciliation table between net profit and EBITDA is presented below.

in KCHF	2020	2019 (restated)
Net profit	188,392	194,995
Minority interests	13,228	8,972
Income taxes	40,637	34,784
Financial result	13,384	6,754
Income from associates and joint ventures	966	-2,284
EBIT	256,607	243,221
Write-back of negative goodwill	-	-310
Amortisation on intangible assets	11,030	13,403
Depreciation on property, plant and equipment	108,702	96,598
EBITDA	376,339	352,912

EBIT margin is when EBIT is calculated as percentage of net sales:

in KCHF	2020	2019 (restated)
EBIT	256,607	243,221
Net sales	3,706,061	3,493,963
EBIT margin	6.9 %	7.0 %

EBITDA margin is when EBITDA is calculated as percentage of net sales:

in KCHF	2020	2019
EBITDA	376,339	352,912
Net sales	3,706,061	3,493,963
EBITDA margin	10.2 %	10.1%

Adjusted EBITDA, EBIT and net profit

EBITDA, EBIT and net profit are adjusted for material non-recurring effects. Examples for non-recurring effects are gains or losses made on the sale of non-current assets such as stakes in group companies, associates, joint ventures or on property, plant and equipment.

In 2020, the loss on sale of the majority stake in Lácteos Caprinos S.A. is considered as a non-recurring effect. In 2019, no such effects were noted. The income statement positions affected by this non-recurring effect are presented in the following tables.

in KCHF	2020	2019 (restated)
EBITDA	376,339	352,912
EBIT	256,607	243,221
Pre-tax loss from the sale of the majority stake in Lácteos Caprinos S.A. (included in the position "Other operating expenses" in the income statement and in Note 3 respectively)	14,545	-
Adjusted EBITDA	390,884	352,912
Adjusted EBIT	271,152	243,221

in KCHF	2020	2019 (restated)
Net profit	188,392	194,995
Pre-tax loss from the sale of the majority stake in Lácteos Caprinos S.A. (included in the position "Other operating expenses" in the income statement and in Note 3 respectively)	14,545	-
Income tax effect on the loss on sale of the majority stake in Lácteos Caprinos S.A.	-378	-
Adjusted net profit	202,559	194,995

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Adjusted EBITDA margin, EBIT margin and net profit margin is when adjusted EBITDA, EBIT and net profit is calculated as percentage of net sales:

in KCHF	2020	2019 (restated)
Adjusted EBITDA	390,884	352,912
Adjusted EBIT	271,152	243,221
Adjusted net profit	202,559	194,995
Net sales	3,706,061	3,493,963
Adjusted EBITDA margin	10.5 %	10.1 %
Adjusted EBIT margin	7.3 %	7.0 %
Adjusted net profit margin	5.5 %	5.6 %

Adjusted average tax rate

The reported average tax rate is adjusted for material non-recurring effects (for examples as well as non-recurring effects defined for the reporting year and the previous year, please refer to the information above).

in KCHF	2020	2019 (restated)
Earnings before taxes (EBT)	242,257	238,751
Pre-tax loss from the sale of the majority stake in Lácteos Caprinos S.A. (included in the position "Other operating expenses" in the income statement and in Note 3 respectively)	14,545	-
Adjusted earnings before taxes (EBT)	256,802	238,751

in KCHF	2020	2019
Income taxes	-40,637	-34,784
Income tax effect on the loss on sale of the majority stake in Lácteos Caprinos S.A.	-378	-
Adjusted income taxes	-41,015	-34,784

in KCHF	2020	2019 (restated)
Adjusted earnings before taxes (EBT)	256,802	238,751
Adjusted income taxes	-41,015	-34,784
Adjusted average tax rate	16.0 %	14.6 %

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Net debt

Net debt is a measure to show the level of financial debt with external parties after considering cash and cash equivalents, current securities readily convertible into cash and interest bearing loans and other receivables.

in KCHF	2020	2019
Bank overdrafts	34,761	44,614
Finance lease liabilities	1,431	796
Loans	1,303	1,540
Current financial liabilities	37,495	46,950
Bank overdrafts	131,300	132,634
Finance lease liabilities	916	751
Loans	2,116	3,099
Bonds	299,520	300,000
Non-current financial liabilities	433,852	436,484
Financial liabilities	471,347	483,434
Cash and cash equivalents	-294,671	-378,112
Current securities	-1,362	-4,743
Non-current loans and other receivables	-12,191	-11,532
Cash and cash equivalents, current securities and interest bearing loans and other receivables	-308,224	-394,387
Net debt	163,123	89,047

Net debt to EBITDA ratio is when net debt is divided by EBITDA.

in KCHF	2020	2019
Net debt	163,123	89,047
EBITDA	376,339	352,912
Net debt to EBITDA ratio	0.43	0.25

Cash flow before changes in net working capital, interest and taxes

This is a subtotal used in the determination of the cash flow from operating activities and is defined as cash flow from operating activities before changes in net working capital, interest paid and taxes paid. The positions included in this subtotal are visible directly in the consolidated cash flow statement.

Free cash flow

Free cash flow represents the cash generating capability of the Emmi Group to acquire companies, acquire stakes in associates and joint ventures, pay dividends or repay providers of capital.

As per the table below, Free Cash Flow therefore equals Cash Flow from operating activities plus Cash Flow from investing activities, adding back the cash outflows and inflows from the acquisition activity (consolidated companies, associates, joint ventures).

in KCHF	2020	2019
Cash flow from operating activities	342,570	303,300
Cash flow from investing activities	-326,780	-226,317
<i>Adding back:</i>		
Acquisition of consolidated companies	201,067	138,342
Purchase of shares in associates and joint ventures	-	727
Proceeds from sale of consolidated companies	901	-5,342
Proceeds from sale of shares in associates	-3,126	-879
Free cash flow	214,632	209,831

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Operating net working capital

Emmi Group monitors its operating net working capital in order to assess how efficient it is managing its operating cash conversion cycle. Operating net working capital is the sum of trade receivables and inventories minus trade payables.

in KCHF	2020	2019
Trade receivables	464,794	447,939
Inventories	390,126	371,879
Trade payables	-312,946	-301,449
Operating net working capital	541,974	518,369