

Annual Report 2018



Online report

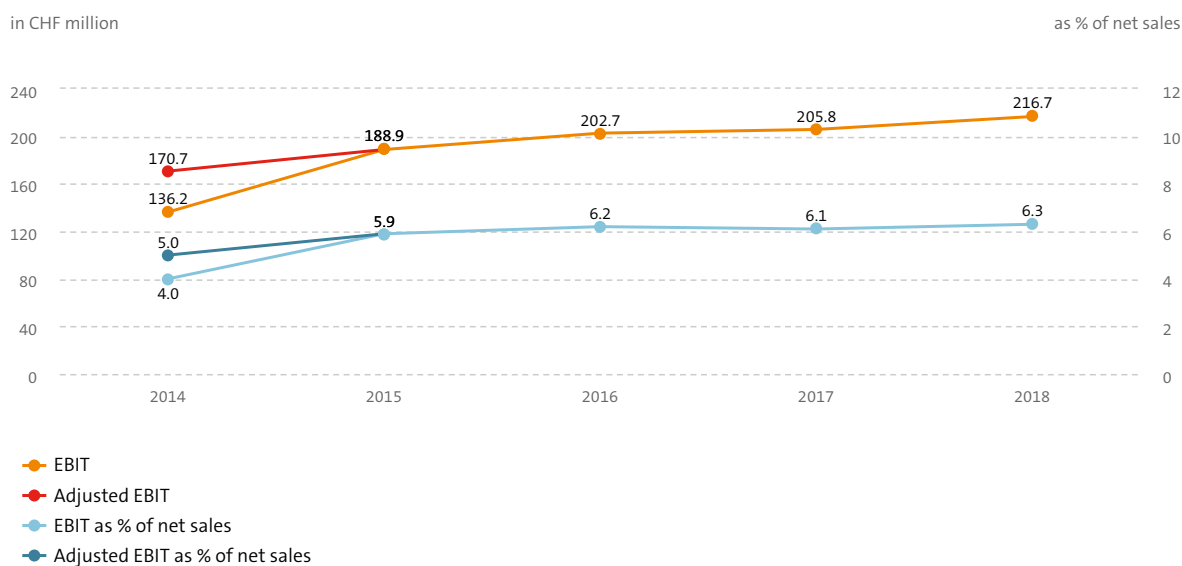
The online version of the annual report 2018 is available on:
emmi.com/annual-report

Key figures Emmi Group

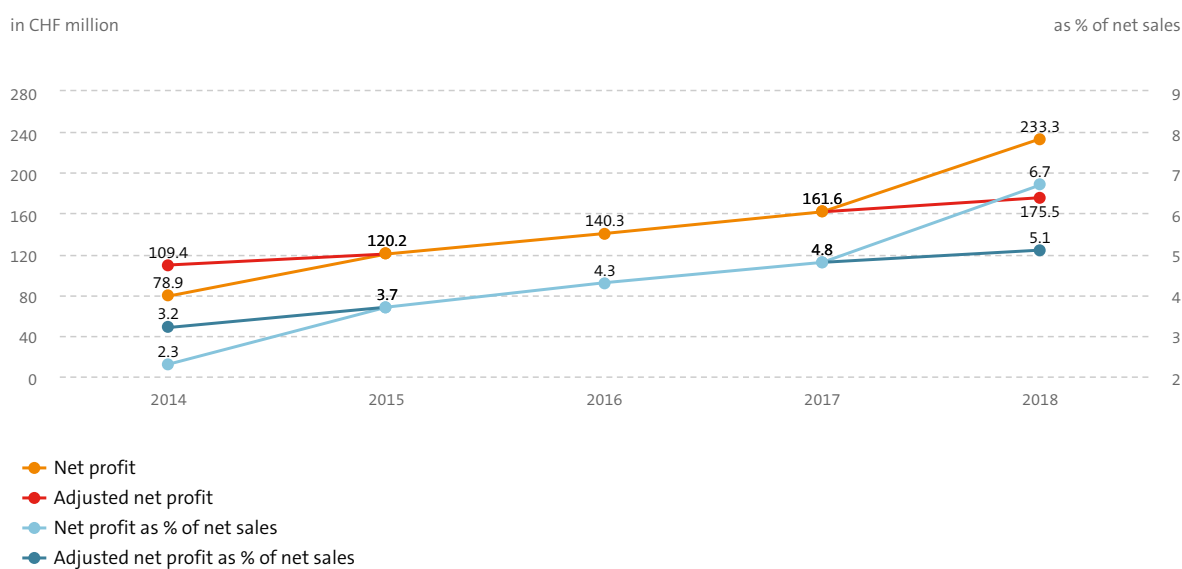
Amounts in CHF million	2018	2018 adjusted ¹⁾	2017
Net sales	3,457		3,364
Sales development in %	2.8		3.2
Acquisition effect in %	0.1		2.8
Currency effect in %	0.4		-0.1
Net sales increase in organic terms (in local currency) in %	2.3		0.5
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	352.8		340.7
as % of net sales	10.2		10.1
Earnings before interest and taxes (EBIT)	216.7		205.8
as % of net sales	6.3		6.1
Net profit	233.3	175.5	161.6
as % of net sales	6.7	5.1	4.8
Investment in fixed assets (excl. acquisitions)	88.0		99.1
as % of net sales	2.5		2.9
Headcount (full-time equivalents) as at 31.12.	6,151		6,147
Headcount (full-time equivalents) at yearly average	6,140		5,965
Net sales per employee in CHF 000s (average)	563		564
	31.12.2018		31.12.2017
Total assets	2,820		2,697
of which shareholders' equity incl. minority interests	1,657		1,521
as % of total assets	58.7		56.4
Market capitalisation	3,646		3,753

¹⁾ Adjusted for non-recurring effects. Non-recurring effects had an impact of CHF 57.8 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 "siggis". There were no significant non-recurring effects in the previous year.

EBIT

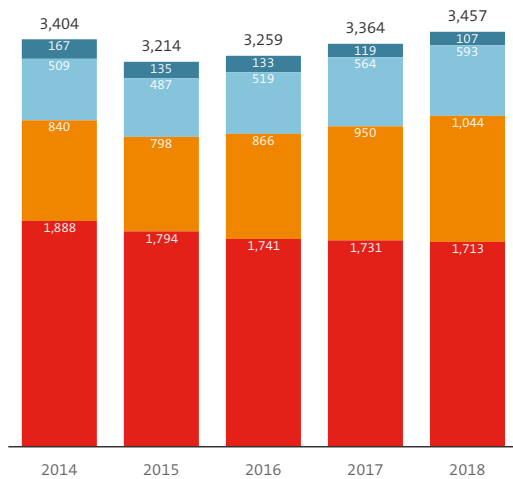


Net profit



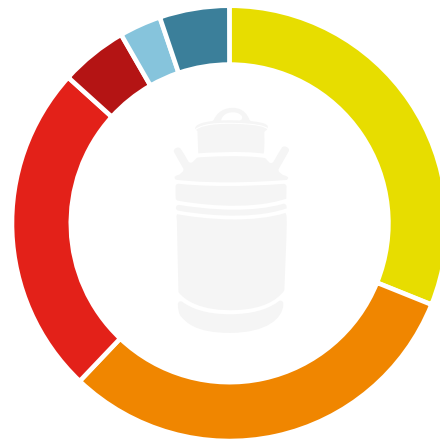
Net sales

in CHF million



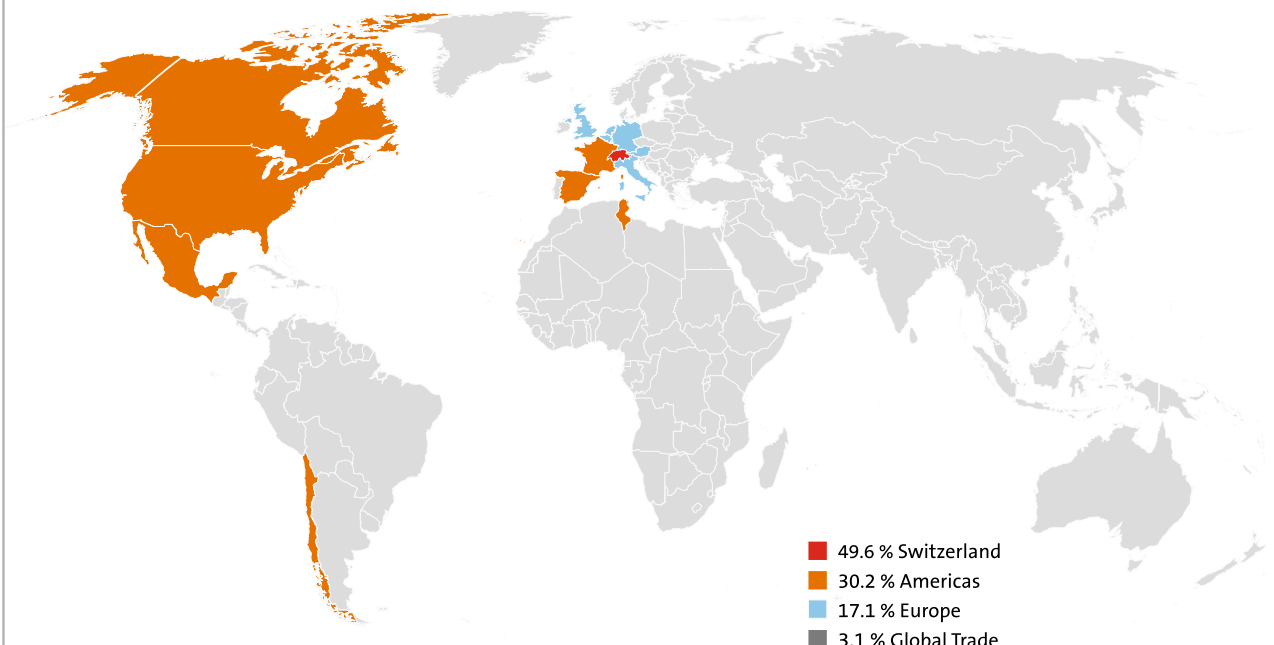
Global Trade
Europe
Americas
Switzerland

Net sales by product group



31.1 % Cheese
31.0 % Dairy products
24.6 % Fresh products
5.0 % Fresh cheese
3.1 % Powder/concentrates
5.2 % Other products/services

Net sales by business division



49.6 % Switzerland
30.2 % Americas
17.1 % Europe
3.1 % Global Trade

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The year at Emmi

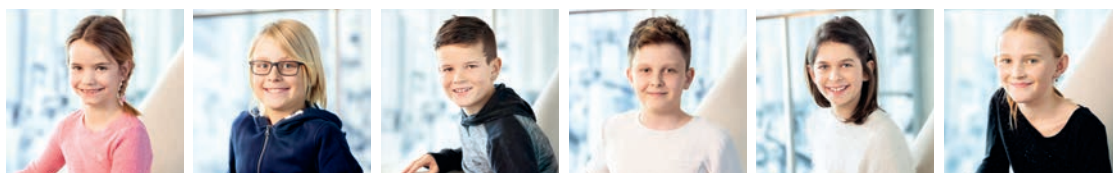
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There are many paths open to a company to promote its own sustainability. However, too much variety complicates management, control and communication. At Emmi, we are therefore focusing our sustainability commitment on four key areas, which have the greatest relevance and over which we can have the most influence.

The related focus topics affect all. Emmi knows the position of experts and incorporates them into the company's sustainability strategy. Today's decisions on sustainability will affect future generations first and foremost. Emmi therefore asked them what they found particularly important. The young generation is represented by six children whose fathers or mothers work for Emmi.

You can find detailed information on Emmi's sustainability commitment in the online sustainability report (emmi.com/sustainability).

Highest organic sales growth in four years


Dear Shareholders

Financial year 2018 proved to be robust despite a weakening of the global economy in the second half of the year and uncertainty caused by political issues such as Brexit. The Swiss retail business remained strong, while at the same time inflation rose on a broad scale both in Switzerland and internationally. The intense competitive pressure persisted.

Emmi performed very well throughout the year. The business divisions Switzerland and Europe exceeded our sales expectations, and the business division Americas was at the upper end of our forecast range. The Chilean market and Italian speciality desserts made considerable progress. The US cheese business including exports from Switzerland significantly increased sales. These are just a few of the success stories demonstrating the important role played by our international business, including for Switzerland as a production location.

Emmi generated net sales of CHF 3,457.4 million in 2018, corresponding to an increase of 2.8 %. Adjusted for currency and acquisition effects, this resulted in organic growth of 2.3 %.

Earnings were slightly above our forecast, which is pleasing and impressive considering the highly competitive environment. Contributing factors were the good performance of brand concepts such as Emmi Caffè Latte, Italian speciality desserts and international goat's milk products. Measures to reduce costs and improve efficiency through the Operational Excellence programme had a further positive impact. The increase in profit is largely attributable to the business division Europe. Further contribution comes from companies that Emmi has acquired in recent years.

A portrait of Konrad Graber, a middle-aged man with short grey hair, wearing a dark suit, white shirt, and a patterned tie. He is smiling and looking towards the camera. The background is a blurred office interior with large windows.

“Emmi’s international network is proving more and more effective.”

Konrad Graber



“Accelerated brand expansion and interesting niches such as the goat’s cheese business and speciality desserts will contribute to growth.”

Urs Riedener

EBIT amounted to CHF 216.7 million, up 5.3 % from the previous year. The EBIT margin was 6.3 % (previous year: 6.1 %).

Net profit was CHF 233.3 million compared with CHF 161.6 million in the previous year, an extraordinary increase mainly due to the sale of the minority stake in US yogurt producer “siggi’s”. Shareholders were already able to benefit from this non-recurring gain in the form of a special dividend last year. Adjusted for the “siggi’s” effect, net profit was CHF 175.5 million, corresponding to an increase of 8.6 %.

Increased regular dividend

Adjusted net earnings per share were CHF 32.80 (previous year: CHF 30.20). A proposal will be made to the General Meeting for a gross dividend of CHF 9.00 per registered share (previous year: CHF 7.00 + CHF 3.00 from non-recurring participation in “siggi’s” gain and 25th anniversary of Emmi). CHF 1.00 of this will be distributed from the capital contribution reserves (exempt from withholding tax) and CHF 8.00 from retained earnings (subject to withholding tax).

Subsidiaries move closer together

Emmi’s international network is proving more and more effective. With the creation of Emmi Dessert Italia, our three dessert companies were merged into a single organisation, allowing a better consolidation of resources and innovative strength. In California, we are also working on pooling more resources and further professionalising certain areas. In addition, various cross-border projects and programmes are being implemented to make broad use of the existing knowledge within the Group’s workforce of more than 6,000 people.

The focus on the ongoing development of all Emmi companies led to fewer acquisitions. However, further strengthening international diversification, including through acquisitions, continues to be our aim.

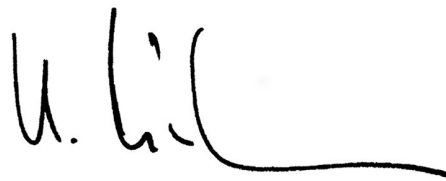
Steady organic growth

Emmi wants to grow organically in the long term. The conditions for this are in place, with accelerated brand expansion, interesting niches such as the goat's cheese business and speciality desserts set to play a key role. Furthermore, the innovation pipeline must be constantly filled and new markets established and strengthened. This is how we are constantly improving our market positions, for example in Tunisia, Chile and Mexico.

Emmi has opened up new niches and is well positioned. Today, we can count on a broadly diversified portfolio of companies and products. It is therefore not presumptuous to be optimistic about 2019. However, we also know that focused work and a good economic environment are needed in order to continue to operate successfully and sustainably. We will continue to drive Emmi forward by working in partnership with our customers, milk producers, suppliers, shareholders and employees.



Konrad Graber
Chairman of the Board of Directors



Urs Riedener
CEO

"Glass belongs in the glass collection"

Emma, aged 8



Packaging

It is important to use packaging made from renewable raw materials and to design it in such a way that it is just as stable and protective despite lower material consumption. At Emmi, however, we see the greatest potential in closing material cycles, especially for plastics. This can only be achieved through cooperation between businesses and policymakers, which we fully support.

Thomas Büeler, Coordinator of focus issue "Waste"



Kaiku, which is part of the Emmi Group, has held a stake in the second-largest Tunisian milk processor, Centrale Laitière de Mahdia SA ("Vitalait"), since 2012. Emmi and the other Kaiku shareholders decide to increase their stake in Vitalait from 45.4 % to 54.7 %, and then to 64.0 % in 2021.



The shareholders of The Icelandic Milk & Skyr Corporation ("siggi's") decide to sell the company to French milk processor Lactalis. As a result, Emmi and siggi's end their collaboration after six successful years.

Dairy products containing high-quality proteins are still very popular, leading Emmi to further expand its activities in this area. The new addition in the spring is lactose-free skimmed milk within the "good day" range. It contains 7% protein, twice as much as ordinary milk.





Christina Johansson and Alexandra Post Quillet, two proven managers with international experience, succeed Stephan Baer and Josef Schmidli, who do not stand for re-election to the Board.

Emmi has held a stake in Dutch goat's and sheep's milk product trader AVH dairy trade B.V. since 1 January 2013. The company plays an important role in Emmi's international goat's milk network. The stake is now being increased from 75 % to 90 %.

What began as a simple tidying-up operation has greatly influenced Emmi's working culture and economic success over the past decade: the Emmi Operational Excellence (EOE) optimisation programme. The importance of this programme is recognised with an anniversary celebration in Kirchberg.

The tree symbolises Emmi's sustainability efforts. As part of the "Company Challenge" sustainability competition, three apprentices develop a project dedicated to the tree. They motivate around 450 employees at the Ostermundigen site to plant a tree. Over 300 larches, Douglas firs and oaks are planted in the storm-damaged Bremgarten forest in Berne.



Emmi aims to reduce its global CO₂ emissions by 25 % by 2020. With the connection of the Mittelland Molkerei in Suhr to the local district heating network, it takes a major step towards achieving this target. The annual CO₂ emissions will thus be reduced by 80 % or 5,000 tonnes from 2020.



The people of Graubünden are rightly proud of their mountain cheese. There are many different varieties, mostly from small producers. One of the cheeses has made it to Kaltbach. Thirty farmers from across the region supply their milk to Lalaria Engiadinaisa in Bever – one of the highest dairies in Europe. There, the milk is made into mountain cheese according to a tried-and-tested recipe and stored for 70 days before being sent to the Kaltbach cave for refinement.

The milk in Emmi products comes from 6,000 farmers all over Switzerland – from Vaud to Grisons, from Schaffhausen to Uri. Each of these regions has its own characteristics, not least when it comes to language. The wide range of dialects are part of Swiss culture, and for many people form part of their personal identity. With milk packaging in twelve different dialects, Emmi brings this popular topic to the breakfast table in autumn 2018.



Over the past eight years, Emmi has acquired no less than three dessert manufacturers in the greater Milan area. They are now united under one roof: Emmi Dessert Italia. This is the first time that Emmi has carried out such a comprehensive merger of different companies out-side Switzerland. The bundling of know-how and innovative strength will support the continued successful development of the dessert business.



Emmi and dairy farmers belong together. This is demonstrated by the "Farmers as ambassadors" campaign. Some 60 Emmi milk suppliers are presented to the public, with everyone able to support their favourite by voting for them online. Brothers Aaron and Jonas Ruprecht, who run a dairy and arable farm with 95 Holstein cows, receive the most votes.

The easy-to-prepare Gerber fondue has been extremely popular since the 1960s. The recipe of this classic dish has now been adapted in line with the trend towards making products as natural as possible. It no longer contains emulsifiers, which were previously used to enhance the stability and shelf life of the product.

After a project to introduce SAP as the enterprise resource planning (ERP) system for all Emmi's Swiss sites, the systems at the foreign subsidiaries are to be integrated more closely with those of their parent company over the next few years. This will be made possible by a standardised, lean ERP system. The first go live at Emmi UK in London is a success.



"Cows need green grass, exercise and friends"

Janis, aged 8



Milk

Milk – our most important raw material – must be at the centre of our sustainability efforts. Not only does it have the greatest impact on the environment, it is also critical to the wellbeing and welfare of many farmers and countless animals. At Emmi, our aim is to initiate improvements in all aspects of sustainability that the market – our customers and consumers – can and wants to support.

Manuel Hauser, Coordinator of focus issue
"Sustainable milk"



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Guidelines

The following information complies with the Directive on Information Relating to Corporate Governance (DCG) issued by the SIX Swiss Exchange as well as the Articles of Association and Organisational Regulations of the Emmi Group. Unless otherwise indicated, all data relate to the balance sheet as at 31 December 2018.

Articles of Association: www.emmi.com > about Emmi > Corporate Governance > Articles of Association of Emmi AG (pdf)

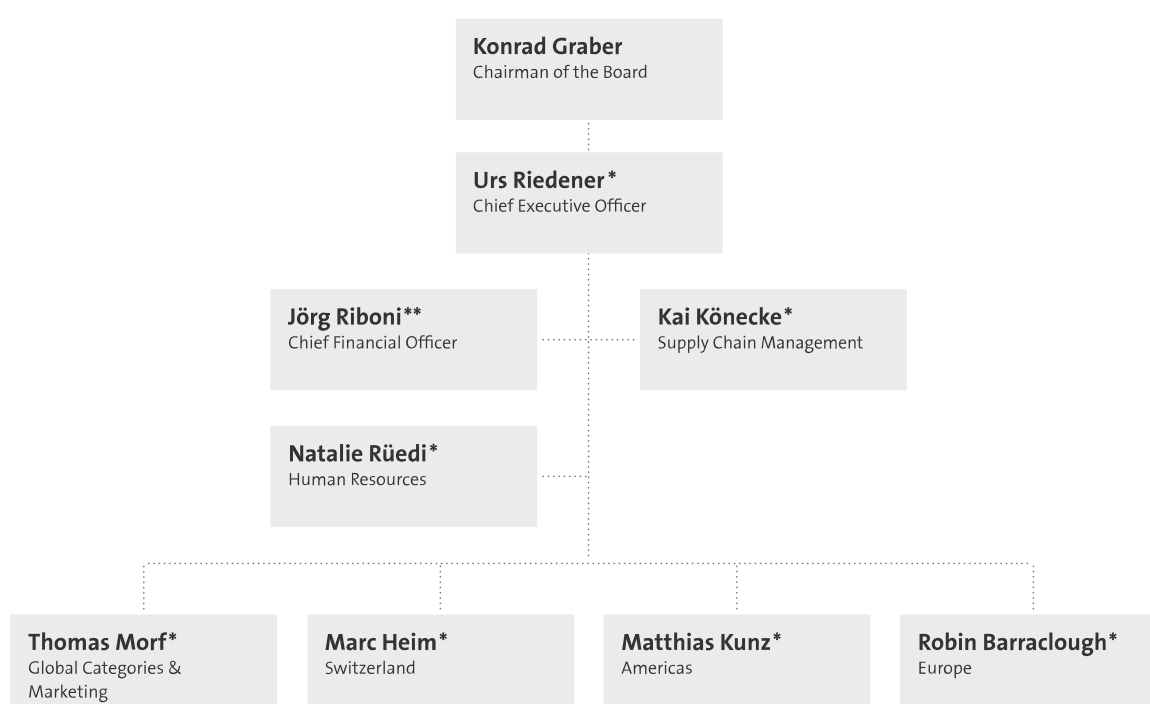
Organisational Regulations: www.emmi.com > about Emmi > Corporate Governance > Organisational Regulations (pdf)

1. Group structure and shareholders

1.1 Group structure

The Group structure is shown below.

Group structure Emmi Group
as at the balance sheet date



Member of the extended Group Management:

- Othmar Dubach: Dairy Products & Cheese Switzerland
- Max Peter**: Head of SCM Switzerland and interim Head of Operations at Emmi Dessert Italia
- Markus Willmann: Industry Switzerland

* Member of Group Management

** Jörg Riboni will step down from Group Management and leave the Emmi Group on 30 April 2019. Ricarda Demarmels, his successor, will join the Emmi Group on 1 June 2019. Max Peter will leave Emmi on 31 January 2019.

Group functions:

- Corporate Development
- Corporate Communications & IR
- Internal Audit
- Legal

The Emmi Group is listed on the SIX Swiss Exchange through the holding company Emmi AG (headquartered in Lucerne, hereinafter referred to as “Emmi”). The group of consolidated companies contains only non-listed companies.

Market capitalisation, securities number and ISIN number, see section Share information Emmi AG.

Consolidated companies, see Summary of consolidated companies, associates and joint ventures in the Notes to the consolidated financial statements.

1.2 Significant shareholders

Significant shareholders, see section 2.6 Share capital and significant shareholders in the Notes to the financial statements of Emmi AG.

ZMP Invest AG, Lucerne, the Zentralschweizerischer Milchkäuferverband, Willisau, and the MIBA Milchverband der Nordwestschweiz, Aesch (BL), form a group as defined by Art. 121 FinfraG, holding 60.8 % of the total voting rights. As at 7 June 2016, Capital Group Companies reported that it owned 268,500 registered shares (5.019 %). No further disclosure notifications have been made since.

1.3 Cross-shareholdings

There are no cross-shareholdings with other companies that exceed 5 % of capital or votes on both sides.

2. Capital structure

2.1 Share capital

Emmi's share capital amounts to KCHF 53,498.

2.2 Authorised and conditional capital

Emmi did not create any conditional or authorised capital in the reporting year, and there is no conditional or authorised capital from previous years.

2.3 Changes in capital

An overview of changes in capital for the years 2015 to 2018 can be found in the section Statement of changes in equity of the financial statements of Emmi AG.

2.4 Shares and participation certificates

The share capital of Emmi comprises 5,349,810 registered shares with a par value of CHF 10 per share. Only one category of registered share exists and no participation certificates exist. Each share carries the right to one vote. No preferential rights exist. The shares are fully paid up.

For further information on shares, see section Share information Emmi AG.

2.5 Dividend-right certificates

No dividend-right certificates exist.

2.6 Restrictions on transferability and nominee registrations

There are no restrictions on the transfer of registered shares of Emmi. The only precondition for entry in the share register and hence for the exercise of voting rights is a declaration on the part of the purchaser that the shares have been acquired in their own name and for their account. No other registration restrictions exist.

The registration of fiduciaries/nominees without voting rights is permitted. On request, the Board of Directors shall decide on the registration of fiduciaries/nominees with voting rights on a case-by-case basis. No fiduciaries/nominees with voting rights were entered during the year under review, nor did the Board of Directors approve any other exceptions for entry in the share register.

2.7 Convertible bonds and options

Emmi has no convertible bonds outstanding. Furthermore, neither Emmi nor other Group companies have issued options on ownership interests in Emmi.

3. Board of Directors

All nine members of the Emmi Board of Directors (see table in section 3.1 Members of the Board of Directors) are non-executive members who were not previously members of Emmi Group Management or the management team of one of the subsidiaries. The basis for nomination as a member of the Board of Directors is the fulfilment of a specific profile of requirements.

Christian Arnold-Fässler, Thomas Oehen-Bühlmann and Franz Steiger are members of the Board of the Central Switzerland Milk Producers Cooperative (ZMP), which supplies a large proportion of its milk to Emmi. ZMP, via its subsidiary ZMP Invest AG, Lucerne, holds a majority stake in Emmi.

Fritz Wyss (born 1944) has been Honorary Chairman of the Emmi Board of Directors since 2010. He was a Delegate of the Board of Directors from 1993 to 2003 and its Chairman from 2003 to 2009.



Members of the Emmi Board of Directors from right (as at the balance sheet date): Franz Steiger, Diana Strebel, Niklaus Meier, Monique Bourquin, Thomas Oehen-Bühlmann, Konrad Graber (Chairman of the Board of Directors), Alexandra Post Quillet, Christina Johansson, Christian Arnold-Fässler, Christa Wey (Secretary of the Board of Directors)

3.1 Members of the Board of Directors

	Year of birth	Nationality	Education	First elected
Konrad Graber Chairman of the Board of Directors	1958	Swiss	Business Administration HWV Swiss Certified Public Accountant	2006 2009 Chairman
Thomas Oehen-Bühlmann Vice-Chairman of the Board of Directors	1958	Swiss	Certified Master Farmer	2009
Christian Arnold-Fässler	1977	Swiss	Certified Master Farmer	2012
Monique Bourquin	1966	Swiss	Business Economist lic. oec. HSG	2013
Christina Johansson	1966	Swiss/ Swedish	Business Economist dipl. oec. Master of Science in Business Administration & Economics	2018
Niklaus Meier	1955	Swiss	Swiss certified expert in accounting and controlling	2012
Alexandra Post Quillet	1967	Swiss/ German	Business Economist lic. oec. HEC	2018
Franz Steiger	1959	Swiss	Certified Master Farmer	2015
Diana Strebel	1960	Swiss	Business Economist dipl. oec. Master of Science in Marketing GSBA and University of Wales	2012

3.2 Professional background and other activities and interests

Konrad Graber

Member of the Board of Directors since 2006, Chairman since 2009

Professional background

since 2009	BDO AG, Partner and Member of the Board of Directors
2005 – 2009	BDO AG, Head of Management Consultancy and IT service division, Member of the Swiss Executive Board
1999 – 2005	BDO AG, Head of Department for Public Administration and non-profit organisations, Partner
1983 – 1999	KPMG, auditor for national and international companies, latterly Partner and Director

Key mandates outside of Emmi

since 2007	Council of States, Member
2002 – 2017	CSS Versicherungen, Member of the Board of Directors
2000 – 2012	Verkehrsbetriebe Luzern AG, Chairman of the Board of Directors
1997 – 2001	Cantonal Parliament, canton of Berne, Auditor
1993 – 2004	SSBL (foundation for the severely disabled in Lucerne), President
1987 – 2007	Cantonal parliament, canton of Lucerne, Member

Thomas Oehen-Bühlmann

Member of the Board of Directors since 2009, Vice-Chairman since 2012

Professional background

since 2013	Member of the “Geissbühl” generational community farm
1985 — 2013	Management of the “Geissbühl” dairy and arable farm as an independent farmer

Other mandates

since 2012	Central Switzerland Milk Producers Cooperative (ZMP), Chairman
since 2011	Board of Swiss Milk Producers (SMP), Berne, Member of the Board
since 2009	Central Switzerland Milk Producers Cooperative (ZMP), Member of the Board, Chairman since 2012
2007 — 2012	Hohenrain, Municipal Councillor, Mayor from 2008
1995 — 2003	Agricultural training centres in the canton of Lucerne, Chairman of the Supervisory Committee
1985 — 2003	Technical expert for proficiency exams and master farmer exams

Christian Arnold-Fässler

Member of the Board of Directors since 2012

Professional background

since 2000	Management of a dairy farm as an independent farmer and training instructor
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Other mandates

since 2016	Caseificio del Gottardo, Member of the Board of Directors
since 2012	Uri Cantonal Parliament, Member
2015 — 2016	Uri Cantonal Parliament, President
since 2012	Swiss Milk Producers (SMP), Member of the Board
since 2009	Central Switzerland Milk Producers Cooperative (ZMP), Member of the Board
since 2009	Central Switzerland Farmers' Cooperative, Delegate
2006 — 2013	Seedorf, Deputy Mayor

Monique Bourquin

Member of the Board of Directors since 2013

Professional background

2012 — 2016	Unilever Germany, Austria and Switzerland (DACH), Chief Financial Officer
2008 — 2012	Unilever Switzerland, Country Managing Director
2002 — 2008	Unilever Switzerland, Customer Development Director
1999 — 2002	Mövenpick Foods Switzerland, latterly Director Switzerland for the Food division
1997 — 1999	Rivella AG, National Account Manager
1994 — 1997	Knorr Nahrungsmittel AG, Product Manager
1990 — 1994	PriceWaterhouseCoopers, various roles

Other mandates

since 2018	Swisscontact, Member of the Foundation Board
since 2017	Swiss Federal Institute of Technology (ETH), Zurich, Lecturer in Change Management
since 2017	Promarca (Swiss branded goods association), President
since 2017	Kambly AG, Member of the Board of Directors
since 2017	Straumann Group, Member of the Board of Directors
since 2009	GfM (Swiss Marketing Association), Member of the Board of Directors
2012 — 2016	Unilever Germany pension fund, Chairman of the Board for the employer side
2008 — 2016	Unilever Switzerland pension fund, Chairman of the Foundation Board

Christina Johansson

Member of the Board of Directors since April 2018

Professional background

since 2018	Bilfinger SE, Group CFO
2016 — 2018	Bucher Industries Group, Group CFO
2014 — 2016	SR Technics Group, Group CFO and Deputy Group CEO
2007 — 2014	Pöyry Energy Business Group and Management Consulting Business Group Switzerland, CFO
2005 — 2007	Zeag Group, CFO and Deputy CEO
1996 — 2005	Amcor Rentsch & Closures Group Switzerland/Germany/Canada, Group CFO, before Corporate Finance Controller
1993 — 1996	Securitas Group, Financial Controller and Treasury Manager for Germany and Austria

Other mandates

since 2017	Swiss CFO Association (VSF), Member of the Board
2013 — 2017	Municipal Council of Wangen, Member
since 2016	OptikArt AG, Member of the Board of Directors

Niklaus Meier

Member of the Board of Directors since 2012

Professional background

2011 — 2017	MEGlobal International FZE, Dubai, Chief Financial Officer
2009 — 2011	BASF Schweiz AG, integration of the financial organisation following acquisition of Ciba
1995 — 2009	Ciba AG, latterly CFO
1993 — 1995	ToniLait AG, Head of Finance
1976 — 1992	Association of Milk Producers of Northwestern Switzerland (MIBA), latterly Head of Finance and Administration

Other mandates

since 2017	Association CO13 (association supporting individuals in their professional integration), President
since 2010	Swiss Controlling Standards working group of the Swiss Association of Accounting and Controlling (VEB), Member
since 2000	Examination committee for finance and accounting specialists/Swiss certified experts for controlling and accounting, Member

Alexandra Post Quillet

Member of the Board of Directors since April 2018

Professional background

2004 — 2018	Crescendo Marketing, strategic brand and marketing consultancy, Managing Partner and Co-Founder
2000 — 2003	Unilever Poland, Managing Director Home and Personal Care
1998 — 1999	Unilever Poland, Marketing Manager Personal Care
1995 — 1998	Unilever Vietnam, Marketing Manager Home & Personal Care
1995	Unilever Switzerland, National Sales Account Manager
1994	Unilever Switzerland, Brand Manager
1992 — 1993	Unilever Switzerland, Assistant Brand Manager
1990 — 1992	Nestlé Switzerland, Controller Corporate Internal Audit

Other mandates

since 2018	Télé Villars-Gryon-Diablerets, Member of the Board of Directors
since 2017	SwissBoardForum, Member of the Board
since 2017	Landolt & Cie, Member of the Board of Directors
since 2016	Schenk SA, Vice-Chairman of the Board of Directors
since 2015	Hug AG, Member of the Board of Directors
since 2012	SBB AG, Member of the Board of Directors

Franz Steiger

Member of the Board of Directors since 2015

Professional background

since 1984	Management of a dairy and pig-breeding farm as an independent farmer and training instructor
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Other mandates

since 2009	Emmentaler Milk Producers' Organisation, Member of the Board
since 2008	Schlierbach, Mayor
since 2006	Swiss Farmers' Union, Delegate
2006 — 2015	Central Switzerland Milk Producers Cooperative (ZMP), Vice President
since 2000	Central Switzerland Milk Producers Cooperative (ZMP), Member of the Board
since 1991	Schlierbach-Krumbach Dairy Cooperative, Treasurer

Diana Strebel

Member of the Board of Directors since 2012

Professional background

since 2009	Strebel-Birt AG, Managing Director of this consultancy firm for branding, communications and agency management, which she co-founded
2005 — 2009	Interbrand Zintzmeyer & Lux AG, Managing Director
2005 — 2009	Interbrand Europa, Chief Operating Officer
1981 — 2003	Various advertising agencies, including as Deputy CEO at Publicis Group and CEO at Wunderman AG; founder and co-owner of Aebi, Strebel AG

Other mandates

since 2011	Globalance Bank AG, Member of the Board of Directors
since 2009	Ricola AG, Member of the Board of Directors
2006 — 2009	Interbrand Zintzmeyer & Lux AG, Member of the Board of Directors
2002 — 2005	Scholz & Friends AG, Member of the Board of Directors
2002 — 2004	Wundermann AG, Member of the Board of Directors

3.3 Permitted number of activities

The members of the Board of Directors may hold a maximum of five mandates in listed legal entities and 15 mandates in non-listed legal entities.

3.4 Election and term of office

The first election of members can be seen in the table in section 3.1 Members of the Board of Directors. The term of office of members of the Emmi Board of Directors is one year and lasts until the 2019 General Meeting accordingly. Reelection is permitted. There is no restriction on the number of terms of office. The members of the Board of Directors and the Personnel and Compensation Committee are elected by the General Meeting, with the period between one Ordinary General Meeting and the end of the next deemed to be one year. The Chairman is elected by the General Meeting from among the members of the Board of Directors. Elections to the Board of Directors are generally carried out as individual elections. All votes and elections are carried out by open ballot unless a majority requests a secret ballot.

3.5 Internal organisation

Allocation of duties within the Board of Directors

The following table shows the allocation of duties to all members.

	Audit Committee	Market Committee	Personnel and Compensation Committee	Agricultural Council
Konrad Graber Chairman of the Board of Directors	•	•	• (Chairman)	• (Chairman)
Thomas Oehen-Bühlmann Vice-Chairman of the Board of Directors		•	•	•
Christian Arnold-Fässler Member	•			•
Monique Bourquin Member		•	•	•
Christina Johansson Member	•			
Niklaus Meier Member	• (Chairman)			
Alexandra Post Quillet Member		•		
Franz Steiger Member				•
Diana Strebel Member		• (Chairman)		

Composition, duties and delimitation of responsibilities of the committees

The composition of the committees and the Agricultural Council (hereinafter the “committees”) is shown in the previous table. The committees perform a regular assessment of their performance (self-assessment).

The **Audit Committee** supports the Board of Directors in monitoring the management of the company, in particular from a financial perspective. It is entitled to view all documents necessary for the performance of its duties and to request comprehensive information from all areas of the Group, as well as the external auditors, at any time. It comprises at least three members of the Board of Directors, one of whom is the Chairman of the Board of Directors. Its meetings are attended by the CEO, CFO, Head of Group Controlling, Head of Internal Auditing and, on invitation, the external auditor in charge.

The Audit Committee deliberates on and approves:

- the auditing plan and the personnel budget of Internal Auditing
- the appointment and dismissal of the Head of Internal Auditing
- the auditing plan and the remuneration budget for the external auditors
- the auditors for consolidated subsidiaries where these differ from the Group auditors
- the list of counterparties and their credit limits for financial transactions

The Audit Committee assesses the following, in particular, for the Board of Directors in an advisory or preparatory capacity:

- the organisation of accounting, and the organisation and content of financial control including internal auditing
- the effectiveness and independence of the internal auditors
- the selection of the Group auditors
- the effectiveness and independence of the external auditors
- the results of internal and external auditing and the monitoring of action plans by management based on these results
- the Group and holding accounts and the results of subsidiaries
- the annual and investment budget
- the evaluation of risks and of the measures based on this
- financial and liquidity planning as well as business relations with financial institutions
- financial reporting to shareholders and the public
- legal proceedings and out-of-court settlement of disputes whose outcome may have implications for the financial situation of the Group
- the treasury guidelines

The **Market Committee** supports the Board of Directors in monitoring the management of the company, in particular from a medium and long-term perspective. It offers recommendations on the basic organisation of the brand, product and market strategy as preparation for the corporate strategy. It comprises at least three members of the Board of Directors, one of whom is the Chairman of the Board of Directors. Its meetings are attended by the CEO and, on invitation, other members of Group Management. The Market Committee has no approval power.

The Committee assesses or processes the following for the Board of Directors in an advisory or preparatory/follow-up capacity:

- the organisation based on the strategy
- merger and acquisition projects, brand projects, and product and marketing investments based on the strategy
- the strengthening of the Emmi brand portfolio and innovations based on the strategy
- the preparation of changes in strategy
- the development of key customers and markets as well as critical business units
- the controlling of major projects

The **Personnel and Compensation Committee** supports the Board of Directors in monitoring the management of the company, in particular from a personnel perspective and regarding compensation issues. It comprises at least three members of the Board of Directors, one of whom is the Chairman of the Board of Directors. Its meetings are attended by the CEO and the Chief Human Resources Officer on invitation.

The Personnel and Compensation Committee deliberates on and approves:

- the remuneration system for management and employees
- the remuneration for the Chairman of the Board of Directors, the members of the Agricultural Council, the CEO and the other members of Group Management (taking into account the ceiling amounts approved by the General Meeting)
- the employer representation in the Emmi Pension Foundation and the Emmi Welfare Foundation
- other mandates of the members of the Board of Directors and Group Management

It also elects the members of Group Management, excluding the CEO, as well as members of the extended Group Management.

The Personnel and Compensation Committee assesses or processes the following, in particular, for the Board of Directors in an advisory or preparatory capacity:

- the remuneration system for the compensation of the Board of Directors as well as the remuneration of the members of the Board of Directors
- the remuneration system for the compensation of Group Management
- the ceiling amounts for the remuneration of the Board of Directors, the Agricultural Council and Group Management for approval by the General Meeting (for approval model, see section Remuneration system)
- the total amount of salary adjustments and bonuses for employees and basic changes to the pension fund regulations and other retirement benefit plans
- the composition of Group Management
- succession planning and the evaluation of candidates for the Board of Directors according to the regulations governing election
- succession planning for the Chairman of Group Management and, at the request of the CEO, for members of Group Management
- the regular review of the organisational regulations

The **Agricultural Council**, which consists of members of the Board of Directors and specialists, supports the Board of Directors in monitoring the management of the company, in particular with regard to milk procurement and agricultural issues. It comprises at least four individuals, of whom at least three are members of the Board of Directors (the Chairman of the Board of Directors plus two further members). Internal and external experts inform the Agricultural Council about the latest developments and provide its members with advice where necessary. Members of the Emmi Group who attend meetings as internal experts include the CEO, the Executive Vice President Switzerland, the Head of Agricultural Policy and the Head of Procurement. The external experts are the Managing Directors of the regional milk producer organisation ZMP, which has a stake in Emmi, and the national milk producer organisation SMP. Other members are the President of the national milk sector organisation BOM and as of 2019 the President of the milk producer organisation Mittelland Milch and the President of the milk producer organisation mooh. The Agricultural Council has no approval power.

It assesses or processes the following, in particular, for the Board of Directors in an advisory or preparatory capacity:

- general political issues
- the development of the milk and cheese industry and its organisations
- the volume and price management of milk as a raw material
- milk and cheese procurement

Working methods of the Board of Directors and its committees

As a rule, the Emmi Board of Directors and its committees meet as often as business requirements dictate, but at least quarterly. The Personnel and Compensation Committee and the Agricultural Council generally meet twice a year. In 2018, the Board of Directors held eight half-day meetings and one all-day meeting. The Audit Committee met five times for three hours each, and the Market Committee three times for three hours each plus for one whole day. The Personnel and Compensation Committee met three times for one-and-a-half hours each, while the Agricultural Council met twice for two hours each (average times).

Meetings held by the Board of Directors are also attended by the CEO, the CFO and, depending on the topic, other members of Group Management. Individual items on the agenda are handled exclusively within the Board of Directors, i.e. excluding all participants who are not members of the Board of Directors. The entire Group Management participates in the strategy meeting held by the Board of Directors. The inclusion of members of Group Management in meetings held by the committees is shown for the individual committees. With the exception of the Agricultural Council and Audit Committee, the Emmi Board of Directors holds its meetings without any external experts. The Chairman of the Board of Directors is a member of all committees for the purposes of coordinating the various committees of the Board of Directors and integrating the Board of Directors as a whole.

The chairpersons of the committees report to the Board of Directors at every Board meeting regarding their activities and results, and record details of their consultations and decisions in minutes that are distributed to all members of the Board of Directors. If any important issues arise, the Board of Directors is informed immediately following the meeting.

Overall responsibility for the duties assigned to the committees remains with the Emmi Board of Directors. The decisions of the Board of Directors are made with an absolute majority of the votes cast. In the event of a tied vote, the Chairman has the casting vote.

3.6 Definition of responsibilities between the Board of Directors and Group Management

The **Board of Directors** is responsible for the overall management of the company and the Group, as well as for monitoring the management of the company in accordance with Art. 716a of the Swiss Code of Obligations. On this basis, it deliberates on and determines issues including:

- the annual and investment budget
- the annual and half-year results
- Group structure up to and including Group Management
- the salary policy, in particular the remuneration system for the compensation of the members of the Board of Directors, the remuneration system for the compensation of Group Management, the total amount of salary adjustments and bonuses for employees, the pension fund regulations and other retirement benefit plans
- ceiling amounts for remuneration of the Board of Directors, the Agricultural Council and Group Management for approval by the General Meeting (for approval model, see section 3.1 Approval model of the General Meeting in the Compensation report)
- the evaluation of the main risks
- multi-year financial and liquidity planning
- strategy-relevant cooperations and agreements, in particular the purchase and sale of participations, companies, etc.
- Group regulations
- the founding and closure of companies
- the approval of members of the Board of Directors of consolidated subsidiaries
- the proposal of candidates for the Board of Directors to the General Meeting

All other areas of management are delegated in full by the Board of Directors to the Chairman, the CEO and Group Management. The Board of Directors can, at any time, on a case-by-case basis or on the basis of general powers reserved, intervene in the duties and areas of competence of the corporate bodies that report to it and take over business carried out by these bodies.

The **CEO** is the Chairman of Group Management. He leads, supervises and coordinates the members of Group Management and – for Group tasks – of the extended Group Management, and grants them the necessary authority to perform their functions. In particular, he is responsible for implementing strategic objectives, defining operational thrusts and priorities, and providing the necessary material and personnel resources for this purpose. He communicates regularly with the Chairman of the Board of Directors and the Board of Directors as a whole regarding business developments.

The members of **Group Management** consistently ensure the implementation of strategic Group management. They manage the subsidiaries from a financial point of view and influence their strategic orientation. Their areas of competence and responsibility are determined, in particular, by instructions from the CEO and the budget approved by the Board of Directors, as well as by the agreed business strategy.

As members of the Executive Board Switzerland and long-standing former members of Group Management, the members of the **extended Group Management** undertake the selective Group duties assigned to them by the CEO.

3.7 Information and control instruments vis-à-vis Group Management

The Emmi Board of Directors is informed at every meeting by the Chairman, the chairpersons of the committees, the CEO, the CFO and – depending on the agenda item – by other members of Group Management about current business developments, the financial situation and key business events. Additional information is provided during committee meetings. In the case of significant acquisitions, the Market Committee or delegations from the Board of Directors visit the companies concerned to assess the situation first-hand. The Chairman of the Board of Directors meets with a local Executive Board twice a year on average.

In addition to the meetings, every member of the Board of Directors can, having first informed the Chairman of the Board of Directors accordingly, request information from the members of Group Management about business developments and, with the authorisation of the Chairman, about individual transactions. The Chairman is kept up to date by the CEO on a regular basis, at least once every fortnight, and receives the minutes of all Group Management meetings. He and the CEO ensure an appropriate flow of information between Group Management and the Board of Directors. Members of the Board of Directors are informed immediately of exceptional incidents by means of circular letter.

Additional information and control systems are:

- Management Information System (MIS): Members of the Board of Directors receive detailed sales statistics on a monthly basis. Consolidated financial statements together with a forecast for the year-end closing statement are prepared on a quarterly basis, and the Board of Directors is informed in detail about the financial situation of the company at the same interval. The members of the Audit Committee receive the Group financial statements as well as the accounts of all subsidiaries on a quarterly basis and are informed in detail in order to assess quarterly financial performance.
- Risk management process: At least once a year, the Board of Directors is informed by the CEO regarding the main risks and their assessment on the basis of relevance and likelihood of occurrence. The Board of Directors approves the risk management measures defined by Group Management for implementation and monitors their progress (see also Notes to the consolidated financial statements).
- External and Internal Audit: Details of the external auditor are provided in section 8 Auditors. Internal Audit is a management tool used by the Board of Directors and Group Management, and as such forms a fundamental part of the internal control system. It is directly associated with the Chairman of the Audit Committee, as well as the Audit Committee as a whole, through participation in its meetings, which are held at least quarterly (five meetings in the year under review). The Audit Committee approves the auditing programme and the annual planning; it also receives all auditors' reports and is kept informed at its meetings of all findings and the resulting measures. In addition, the Head of Internal Audit regularly meets with the Chairman of the Audit Committee.

The Internal Audit department works in accordance with standards defined in the Audit Manual and carries out audits in the entire Emmi Group. These audits involve assessing the risk potential in the company's corporate governance, business processes and information systems in terms of the reliability and integrity of accounting data and other fundamental information, the efficacy and efficiency of business processes, the securing of tangible and non-tangible business assets, and compliance with laws, ordinances and agreements. Internal Audit also works closely together with the external auditors and carries out special audits at the request of the Audit Committee. It evaluates the effectiveness of the internal and external control systems, as well as the risk management organisation and processes of the Emmi Group. Compliance is also supported and jointly monitored by the Legal department.

4. Group Management

4.1 Members of Group Management



Members of Emmi Group Management from left (as at the balance sheet date): Matthias Kunz, Jörg Riboni, Robin Barraclough, Urs Riedener (CEO), Natalie Rüedi, Thomas Morf, Kai Könecke, Marc Heim

	Year of birth	Nationality	Education	Current function
Urs Riedener	1965	Swiss	Business Economist lic. oec. HSG Stanford Executive Program	Chief Executive Officer (CEO)
Marc Heim	1967	Swiss	Business Economist lic. oec. HSG	Deputy CEO, Executive Vice President Switzerland
Robin Barraclough	1967	British/ Swiss	Economist	Executive Vice President Europe
Kai Könecke	1966	German	Dipl.-Ing. Mechanical Engineering	Chief Supply Chain Officer
Matthias Kunz	1960	Swiss	Certified Agronomics Engineer ETH MBA, Stanford Executive Program	Executive Vice President Americas
Thomas Morf	1974	Swiss	Business Economist lic. oec. HSG	Chief Marketing Officer
Jörg Riboni	1957	Swiss	Business Economist lic. oec. HSG Swiss Certified Public Accountant	Chief Financial Officer
Natalie Rüedi	1971	Swiss	Certified Primary School Teacher EMBA, Lucerne University of Applied Sciences and Arts	Chief Human Resources Officer

4.2 Professional background and other activities and interests

Urs Riedener

CEO and Chairman of Group Management since 2008

Professional background

2000 — 2008	Migros Cooperative (MGB), from 2002 Head of Marketing and Member of the Executive Board
1995 — 2000	Lindt & Sprüngli Group, both in Switzerland and abroad, various management positions, latterly National Sales Manager and Member of the Board of Management for Switzerland
1992 — 1995	Kraft Jacobs Suchard Group, various positions, latterly Group Brand Manager

Other mandates

since 2015	SMG (Swiss Management Association), Member of the Executive Committee
since 2014	Conzzeta AG, Member of the Board of Directors
since 2010	Promarca (Swiss branded goods association), Member of the Executive Committee
since 2007	GfM (Swiss Marketing Association), Member of the Executive Committee
since 2007	Institute of Marketing at the University of St. Gallen, Member of the Executive Committee

Marc Heim

Executive Vice President Switzerland and Deputy CEO since 2017, Member of Group Management since 2009

Professional background

2014 — 2016	Emmi Group, Executive Vice President Europe
2009 — 2013	Emmi Group, Head of Sales
2004 — 2009	Halter Bonbons AG, Managing Director
1999 — 2004	Kambly AG, various management roles
1992 — 1999	Effems AG (now Mars Schweiz AG), various positions

Robin Barraclough

Executive Vice President Europe since 2017, Member of Group Management since 2009

Professional background

2014 — 2016	Emmi Group, Chief Marketing Officer
2009 — 2014	Emmi Group, Head of Marketing
2008	Kraft Foods, in charge of the coffee business in German-speaking Europe
1991 — 2007	Mars Incorporated, various managerial marketing roles at national and international level, latterly Senior Member of the Marketing Leadership Team at the European Masterfoods headquarters in Bremen (Germany)

Kai Könecke

Chief Supply Chain Officer and Member of Group Management since 2017

Professional background

2012 — 2016	Unilever Germany-Austria-Switzerland, Managing Director Supply Chain G-A-S
2011 — 2012	Amazon, General Manager, Fulfillment Center Rheinberg (Germany)
2006 — 2011	Mars (Effems) Germany, Plant Director of the facility in Viersen (Germany)
1993 — 2006	Mars (Effems) Germany, various roles in Supply Chain, including Head of Logistics Germany and Head of Development of Supply Chain Management Europe

Matthias Kunz

Executive Vice President Americas since 2014, Member of Group Management since 2002

Professional background

2009 — 2013	Emmi Group, Head of International Division
2002 — 2009	Emmi Group, Head of International Cheese Division
1999 — 2002	Swiss Dairy Food, Member of Group Management
1997 — 1999	Toni International AG, Managing Director

Thomas Morf

Chief Marketing Officer and Member of Group Management since 2017

Professional background

2012 — 2017	Danone Johannesburg, latterly Managing Director of the Mayo Dairy business unit
2010 — 2012	Danone Paris, Global Marketing Director Innovations
2007 — 2010	Danone Munich, various executive marketing roles
2000 — 2007	Procter & Gamble, Belgium, various executive marketing roles

Jörg Riboni

CFO and Member of Group Management since 2013

Professional background

2005 — 2012	Forbo Group, Chief Financial Officer
1997 — 2005	Sarna Group, Chief Financial Officer
1995 — 1997	Jelmoli, Chief Financial Officer
1991 — 1995	Lacoray Group (Cosa Liebermann), Chief Financial and Administrative Officer
1985 — 1991	Peat, Marwick, Mitchell & Co and Deloitte & Touche, Auditor

Other mandates

since 2018	Heritage B Group, Member of the Board of Directors and Chairman of the Audit Committee
since 2012	Glas Trösch Group, Member of the Board of Directors
since 2000	Chairman or Member of the Board of Directors at several privately held companies

Natalie Rüedi

Chief Human Resources Officer since 2014, Member of Group Management since 2011

Professional background

2009 — 2013	Emmi Group, Head of Human Resources, Member of extended Group Management until 2010
2004 — 2009	Emmi Group, responsible for developing and heading up staff development
2000 — 2004	Emmi Group, Human Resources Specialist
1992 — 2000	Teacher and headmistress at a primary school

Members of the extended Group Management

Othmar Dubach

Head of Cheese and Dairy Products Switzerland, Member of the Executive Board Switzerland and of the extended Group Management since 2014

Professional background

1993 — 2013	Emmi Group, Head of the Cheese Division
1992 — 1993	Emmi Group, Head of Marketing
1983 — 1991	Central Switzerland Milk Association, various roles

Max Peter

Head of SCM Switzerland and interim Head of Operations at Emmi Dessert Italia, Member of the Executive Board Switzerland and of the extended Group Management since 2014

Professional background

2018	Emmi Group, Head of Supply Chain Management Switzerland and interim Head of Operations at Emmi Dessert Italia
2017	Emmi Group, Head of Supply Chain Management Switzerland and interim Managing Director at A-27
2005 — 2017	Emmi Group, Head of Trading & Supply Chain Management
2002 — 2005	Emmi Group, Head of Corporate Development
1999 — 2002	Bon Appetit Group, Member of Group Management, responsible for supply chain management and e-services
1988 — 1999	Coop, various roles
1977 — 1988	Suter & Suter, Nestlé and Organisation Zoller, various roles

Other mandates

since 2017	VIAC AG, Member of the Board of Directors
2009 — 2017	Foundation "Schweizer Sporthilfe", President
2008 — 2017	GS1 Switzerland, Member of the Board of Directors

Markus Willimann

Head of Industrial Business Switzerland, Member of the Executive Board Switzerland and of the extended Group Management since 2014

Professional background

seit 2004	Emmi Group, Head of Industrial Business and responsible for development coordination and agricultural policy
1998 — 2004	Emmi Group, Member of Group Management with responsibility for the Dairy Products Division
1990 — 1998	UFAG AG, Division Head, Member of the Executive Board
1987 — 1990	Jacobs Suchard AG, latterly Senior Project Manager Research & Development
1982 — 1987	Testing station, Schweizerische Brauereien, research assistant and doctoral student

Other mandates

since 2011	Advisory Committee for Agriculture and the Agriculture Research Council of the Swiss Confederation, Member
since 2009	Swiss Milk Sector Organisation (BOM), Vice president
since 2007	Federal Agriculture Research Council, Member
since 2004	Swiss Dairy Industry Association (VMI), Chairman
since 2004	Federation of Swiss Food Industries (fial), Member of the Board
since 1998	Swiss Butter Sector Organisation (BOB), Member

4.3 Permitted number of activities

The members of Group Management may hold a maximum of two mandates in listed and ten mandates in non-listed legal entities.

4.4 Management contracts

No management contracts exist.

5. Compensation, participations and loans

Information on remuneration, the definition process for compensation, statutory rules, participations, and loans and credits to members of the Board of Directors, Agricultural Council and Group Management can be found in the Compensation report (see Compensation report).

6. Shareholders' rights of co-determination

6.1 Restrictions on voting rights and proxies

Emmi's Articles of Association contain no restrictions on voting rights. A shareholder who has voting rights may only be represented at the General Meeting by a legal representative, another shareholder attending the General Meeting who has voting rights or the independent proxy. Power of attorney and instructions to the independent proxy may be issued electronically.

6.2 Statutory quorum

Unless the law stipulates otherwise, the General Meeting passes its resolutions and performs its elections by an absolute majority of the voting rights represented, not taking into account blank and invalid votes. In addition to the legal exceptions, the resolution concerning the amendment of the provision of the Articles of Association relating to the restrictions on registration (see section 2.6 Restrictions on transferability and nominee registration) also requires at least two-thirds of voting rights represented and the absolute majority of shares represented.

6.3 Convening of the General Meeting

The Ordinary General Meeting takes place annually, at the latest six months after the end of the financial year. It is convened by the Board of Directors. The procedure for convening Extraordinary General Meetings is governed by the applicable legal provisions.

6.4 Agenda

Shareholders who represent shares with a par value of CHF 1 million and above can request that an item be placed on the agenda at the General Meeting. Such requests must be submitted to the Board of Directors in writing at least 45 days before the General Meeting, citing the motions concerned.

6.5 Entries in the share register

The share register is usually closed ten days prior to the General Meeting. The Board of Directors may approve exceptional subsequent entries on request. The effective closing date is published in the invitation to the General Meeting and in good time in the financial calendar on the Emmi website at:

www.emmi.com > Media & IR > Dates

7. Change of control/defensive measures

7.1 Obligatory offer

Emmi's Articles of Association include neither an "opting up" clause pursuant to Art. 135(1) FinfraG nor an "opting out" clause pursuant to Art. 125(4) FinfraG regarding the legal obligation to make a takeover bid.

7.2 Change-of-control clauses

No contractual agreements exist either for members of the Board of Directors, members of Group Management or other management members in the event of a change in the controlling majority stake.

8. Auditors

8.1 Duration of the mandate and term of the Auditor in Charge

At the 2014 General Meeting, KPMG, Lucerne, were appointed as the new statutory auditors for the financial year. They have been reappointed annually since that time. According to the Articles of Association, their term ends with the approval of the financial statements for the relevant financial year. The Auditor in Charge, Thomas Affolter, has been in office since 2014. According to the provisions of the Swiss Code of Obligations, he may execute this mandate for a maximum of seven years. Thomas Affolter will therefore be responsible for the audit of the Emmi Group until the end of the 2020 financial year at the latest.

8.2 Audit fees

For the 2018 reporting year, the agreed audit fee for the performance of their mandate as statutory auditors (including the audit of the consolidated financial statements) amounted to KCHF 1,240.

8.3 Additional fees

During the year under review, KPMG charged a total of KCHF 133 for additional services beyond the scope of their statutory mandate. This fee includes KCHF 95 for tax advice and KCHF 38 for other consulting and audit-related services.

8.4 Information tools used by the external auditors

The supervision and monitoring of the auditors is exercised by the full Board of Directors. The Board of Directors' Audit Committee assesses the performance, invoicing and independence of the external auditors and provides the Board of Directors with corresponding recommendations. It also annually reviews the scope of the audit, the audit plans and the relevant procedures, and discusses the audit reports with the Auditor in Charge. Details of the term of the Auditor in Charge can be found in section 8.1. The report on the final audit of the annual accounts is also sent to all members of the Board of Directors for the final approval of the Annual Report. The Auditor in Charge attended three meetings of the Audit Committee in 2018. Details on Internal Audit are provided in section 3.7 Information and control instruments vis-à-vis Group Management.

9. Information policy

Investor Relations guidelines: Emmi strives to maintain open and ongoing communication with shareholders, existing and potential investors, and other stakeholder groups. Emmi's aim is to provide rapid, real-time and transparent information about the company, its strategy and business developments, and to offer a truthful picture of Emmi's performance in the past and the present, as well as its future prospects. This picture is intended to reflect the assessment of the current situation of the company by Group Management and the Board of Directors.

Methodology: Emmi publishes an extensive Annual Report every year that presents operating activities, corporate governance and financial reporting for the current year, drafted and audited in accordance with Swiss GAAP FER. A half-year report is also published.

Furthermore, media releases are published about events relevant to the share price, such as acquisitions, minority or majority shareholdings, joint ventures and alliances in accordance with guidelines relating to ad-hoc publicity. Important announcements, in particular half- and full-year results, are accompanied by presentations together with press and analyst conferences or analyst calls.

Emmi meets during the course of the year with institutional investors both in Switzerland and abroad, presents its published results on a regular basis, organises road shows and holds meetings with individual institutional investors and groups. The main point of contact for these meetings and presentations is the CFO. The meetings and presentations focus on Emmi's financial results, its strategic orientation and the current initiatives of the Group.

Emmi uses the Internet in order to ensure rapid, real-time and consistent distribution of information. The company's website features an electronic information tool that enables shareholders and other interested parties to add their names to an electronic distribution list:

www.emmi.com > Media & IR > News service

Media releases and investor information can be accessed via the following link:

www.emmi.com > Media & IR > Media releases

Notifications to SIX Exchange Regulation of participations that exceed the level at which notification becomes obligatory can be found via the following link:

www.six-swiss-exchange.com > Market data > Shares > Quotes > Company: Emmi AG

Contact for Investor Relations:

Emmi Management AG, Corporate Communications & IR, Landenbergstrasse 1, P.O. Box 2570, CH-6002 Lucerne, Phone +41 58 227 50 69, E-mail ir@emmi.com, www.emmi.com

The General Meeting will take place on 11 April 2019. All registered shareholders will receive an invitation to the General Meeting by post.

The next business results (2019 half-year results) will be published on 28 August 2019.

"I give old bread to the cows"

Yannick, aged 9



Food waste

Anyone looking for food waste at Emmi won't find it in the dustbin. Instead, it is produced in the form of unwanted by-products and residues that are left over in machines and pipes. Finding and eliminating this "food waste" requires a great deal of expertise and process knowledge. But it's worth the effort, as unsaleable by-products and residues in wastewater generate substantial costs.

André Zbinden, Head of Environmental Management



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1. Guidelines

Productive employees with integrity are the key factor in Emmi's success. They enable objectives to be met through their commitment, mutual respect and honest business practices. In so doing, they contribute to the sustainable growth of the Group. Remuneration is only one part of the overall reward: respect, meaningful work, responsible organisation of the working environment and opportunities for further development are just as important.

The Board of Directors supports employees and thus the corporate strategy with an appropriate remuneration policy, i.e. one that is performance-focused and in line with market conditions and that incorporates the company's commercial development. Basic remuneration should reflect the requirements, skills and responsibilities of the respective role, as well as the performance and conduct of the employee. In addition, it should provide income security. The variable remuneration component at management level strengthens the shared responsibility. It focuses performance and conduct on sustainable business development and provides the opportunity to share in the company's success.

The Board of Directors firmly believes that the aforementioned factors improve and reward job motivation while at the same time reflecting Emmi's corporate values. It therefore considers a share and option programme to be unnecessary, also in terms of a simple and transparent remuneration system.

With regard to the remuneration of the company's management, Article 29b of the Articles of Association Emmi AG states: Remuneration of members of the Board of Directors, Group Management and any advisory body should be adequate, competitive and performance-based. In addition, it should be determined in accordance with the strategic objectives and the success of the Emmi Group.

2. Remuneration system

2.1 Remuneration components

The remuneration of the Board of Directors and the Agricultural Council is fixed remuneration. The remuneration of Group Management comprises a fixed and a variable component. Variable means: depending on success and performance in the previous financial year in connection with defined objectives (“bonus”). The variable remuneration of a member of Group Management should not exceed 50 % of fixed remuneration. No long-term variable component has been implemented. For further information on this topic see section 2.3 Remuneration of Group Management.

According to Article 29b of the Articles of Association Emmi AG, the company can issue equity securities, conversion or option rights, or other rights to equity securities to members of the Board of Directors, the Agricultural Council and Group Management as part of their remuneration. Emmi currently intentionally forgoes share or option plans or other share ownership programmes. This is intended to ensure that the remuneration system remains straightforward and transparent.

2.2 Remuneration of the Board of Directors and the Agricultural Council

The remuneration of members of the Board of Directors and the Agricultural Council is not related to performance. It is therefore purely basic remuneration, which is paid in cash. It comprises a basic salary and compensation for attending meetings. The amount of the remuneration reflects the time and work which the members invest to fulfil their duties in the Board of Directors, the Agricultural Council and the committees, as well as in the two pension fund foundations. In particular, the members of the Board of Directors and the Agricultural Council do not receive any bonus payments or other financial benefits such as employee terms and conditions or discounted share options. They have no entitlement to services or non-cash benefits.

Once a year, the Personnel and Compensation Committee assesses the remuneration of the Board of Directors compared to listed (small cap) and private Swiss companies. In doing so, it takes into account companies from the consumer goods sector with a similar level of internationalisation, together with firms based in the region from various sectors and of different sizes. Approximately 20 companies meeting the criteria given above, primarily from the food, machinery, plastics and retail industries, served as the comparison group. In addition, the Committee has access to a recent external benchmark study from 2017 which compared the remuneration of the Emmi Board of Directors to external salaries and analysed whether the current remuneration and remuneration structure were in line with the market. In the year under review, no external advisor was consulted regarding the remuneration structure.

The basic remuneration, social security contributions and expenses are components of the fixed remuneration according to the table in section 6 Remuneration for the year under review. The General Meeting approves this fixed remuneration as a maximum ceiling amount for the current financial year.

2.3 Remuneration of Group Management

Remuneration of the members of Group Management comprises a fixed and a variable remuneration component (short-term bonus). Both components are paid in cash.

The basic remuneration reflects the experience, knowledge and continuing performance of members of Group Management as well as the competitiveness in external market comparisons based on function-related salary benchmarks. The Personnel and Compensation Committee has available to it a current external study from 2017 for the purpose of comparing the adequacy and competitiveness of the total remuneration. The same comparison group was used for the function-related salary benchmark and for the assessment of the remuneration of the Board of Directors. In the year under review, no external advisor was consulted regarding the remuneration structure.

The basic remuneration, non-cash benefits (company car), expense allowance, and relevant social security and pension benefits are part of the fixed remuneration according to the table in section 6 Remuneration for the year under review. The General Meeting approves this fixed remuneration prospectively as a maximum ceiling amount for the coming financial year.

The Personnel and Compensation Committee decides the fixed remuneration of the CEO and other members of Group Management for the following year, taking into account the maximum ceiling amount approved by the General Meeting.

Variable remuneration: Article 29b of the Articles of Association Emmi AG states that, in general, the variable remuneration paid to a member of Group Management must not exceed 50 % of fixed remuneration. This is a bonus based on achievement of performance targets, which is paid in cash. The amount reflects the result of the previous financial year and comprises the following three criteria:

- Group performance (weighting 50 %)
- Respective business area performance (weighting 30 %)
- Achievement of individual performance targets (weighting 20 %)

The measurement of business performance is based on the three pillars of sales, income and market share. For service areas, the relevant targets also relate to ongoing development with a view to providing the core business with continuously better support.

The non-achievement of targets may lead to this remuneration not being paid at all in extreme cases; in the event of over-achievement of targets, it can increase up to a maximum of 120 % of the target amount. The variable remuneration of the CEO and the other members of Group Management is agreed by the Personnel and Compensation Committee in connection with the business results. The General Meeting approves the total variable remuneration from the previous financial year.

3. Responsibilities and definition process

3.1 Approval model of the General Meeting

Article 29e of the Articles of Association Emmi AG defines the approval model. Each year, the General Meeting approves in a separate and binding manner the proposals put forward by the Board of Directors with regard to:

- the maximum total amount of remuneration of the Board of Directors and the Agricultural Council for the current financial year
- the maximum total amount of fixed remuneration for Group Management for the following financial year
- the total amount of variable remuneration for Group Management for the previous financial year

The following **approval model** clarifies which remuneration components and for which period the shareholders will vote on at the 2019 Ordinary General Meeting.

Approval model for the General Meeting 2019



3.2 Decision-making process

Remuneration system: The Board of Directors determines the principles of the remuneration system for the Board of Directors and Group Management as part of its general overall management. The Personnel and Compensation Committee undertakes its regular review and assessment. In this respect, it supports the Board of Directors in determining the remuneration system. External experts would only be involved at most in a fundamental restructuring of the remuneration system.

Remuneration amounts: The Personnel and Compensation Committee submits a proposal for the remuneration of the members of the Board of Directors to the Board of Directors. The Board of Directors decides annually on its remuneration and submits the maximum total remuneration to the General Meeting for approval.

The remuneration for the Chairman of the Board of Directors, the members of the Agricultural Council, the CEO and the other members of Group Management is decided annually by the Personnel and Compensation Committee. The Board of Directors proposes the total amounts of the relevant remuneration to the General Meeting for approval.

3.3 Personnel and Compensation Committee

With the exception of the remuneration of the members of the Board of Directors, the Personnel and Compensation Committee decides on remuneration. It defines the remuneration of the Chairman of the Board of Directors and CEO (associate member) in compliance with the rules on abstention.

Composition of the Personnel and Compensation Committee

Election by the 2018 General Meeting until the 2019 General Meeting.

Konrad Graber Chairman	Independent Member and Chairman of the Board of Directors
Monique Bourquin Member	Independent Member of the Board of Directors
Thomas Oehen-Bühlmann Member	Independent Member and Vice-Chairman of the Board of Directors

4. Loans and credits

Article 29c of the Articles of Association Emmi AG stipulates that the members of the Board of Directors, Agricultural Council and Group Management may be granted advance payments up to a maximum of KCHF 1,000, in particular in the form of advances on costs for litigation connected to the activity of the person concerned as a member of the Board of Directors, Agricultural Council or Group Management.

5. Proposals to the General Meeting

The proposed total amounts ensure the required level of entrepreneurial flexibility to be able to react to changes (additional members of the Board of Directors, Agricultural Council and Group Management; transfers in committees; extraordinary occurrences; general reserve). There is no intention to use up the full ceiling amounts. Article 29e of the Articles of Association Emmi AG provides for an additional amount of a maximum of 20 % if additional or replacement members are appointed to Group Management following approval of the fixed remuneration.

All amounts mentioned under point 5 are in KCHF.

5.1 Board of Directors

Approval of the total amount of fixed remuneration of the Board of Directors up to a maximum of KCHF 970 for financial year 2019.

Proposal to GM 2019 for full year 2019	Remuneration paid 2018 (see section 6)	Proposal to GM 2018 for full year 2018
970	917	940
(ceiling amount)		(ceiling amount)

5.2 Agricultural Council

Approval of the total amount of fixed remuneration of the Agricultural Council up to a maximum of KCHF 40 for financial year 2019.

Proposal to GM 2019 for full year 2019	Remuneration paid 2018 (see section 6)	Proposal to GM 2018 for full year 2018
40	25	36
(ceiling amount)		(ceiling amount)

5.3 Group Management fixed remuneration

Approval of the total amount of fixed remuneration of Group Management up to a maximum of KCHF 5,420 for financial year 2020.

Proposal to GM 2019 for full year 2020	Proposal to GM 2018 for full year 2019	Remuneration paid 2018 (see section 6)	Proposal to GM 2017 for full year 2018
5,420	5,400	4,661	4,980
(ceiling amount)	(ceiling amount)		(ceiling amount)

5.4 Group Management variable remuneration

Approval of the total amount of variable remuneration of Group Management of KCHF 1,040 for financial year 2018.

Proposal to GM 2019 for full year 2018 (see section 6)	Remuneration paid 2017	Proposal to GM 2018 for full year 2017
1,040	930	930

6. Remuneration for the year under review

	Fixed remuneration				Variable remuneration			Total previous year
	Basic remuneration ¹⁾	Non-cash benefits	Other remuneration ²⁾	Total fixed ³⁾	Bonus ¹⁾	Total variable	Total fixed and variable	
Board of Directors								
Konrad Graber								
Chairman	270	–	–	270	–	–	270	270
Thomas Oehen-Bühlmann								
Vice-Chairman	83	–	20	103	–	–	103	100
Christian Arnold-Fässler								
Member	57	–	15	72	–	–	72	61
Stephan Baer								
Member (until 12.4.2018)	34	–	–	34	–	–	34	75
Monique Bourquin								
Member	63	–	17	80	–	–	80	77
Christina Johansson								
Member (since 12.4.2018)	43	–	11	54	–	–	54	n.a.
Niklaus Meier								
Member	67	–	25	92	–	–	92	81
Alexandra Post Quillet								
Member (since 12.4.2018)	39	–	11	50	–	–	50	n.a.
Josef Schmidli								
Member (until 12.4.2018)	23	–	7	30	–	–	30	62
Franz Steiger								
Member	49	–	13	62	–	–	62	58
Diana Strebel								
Member	55	–	15	70	–	–	70	63
Total Board of Directors	783	–	134	917	–	–	917	847
Agricultural Council								
Christophe Eggenschwiler (until 30.9.2018)	4	–	1	5	–	–	5	6
Pirmin Furrer	6	–	1	7	–	–	7	7
Stephan Hagenbuch	6	–	–	6	–	–	6	7
Peter Hegglin (since 1.7.2017)	6	–	1	7	–	–	7	4
Markus Zemp (until 30.6.2017)	–	–	–	–	–	–	–	4
Total Agricultural Council	22	–	3	25	–	–	25	28
Group Management								
Urs Riedener, CEO	867	3	229	1,099	389	389	1,488	1,421
Other Members	2,687	25	850	3,562	651	651	4,213	3,749
Total Group Management	3,554	28	1,079	4,661	1,040	1,040⁴⁾	5,701	5,170

¹⁾ Basic remuneration and bonuses comprise payments already made or still to be made and social security and pension contributions made by the employee.

²⁾ In the case of members of the Board of Directors, other compensation includes expenses, social security contributions and pension contributions. For members of Group Management, it comprises all additional benefits, such as expenses, pensions, child allowances and mandatory social security contributions made by the employer that are currently paid to them directly or that will be paid to them at a later stage after the end of their employment.

³⁾ The remuneration of the Board of Directors also includes work in the committees, in the Agricultural Council (allocation of duties, see Corporate Governance report), in a subsidiary (until 2017) as well as in the two pension fund foundations. Emmi Group employees who are members of the Agricultural Council do not receive any compensation for their work on the Agricultural Council.

⁴⁾ Subject to approval by the General Meeting.

Loans and credits in the year under review

No loans or credits were granted or made to members of the Board of Directors, Agricultural Council or Group Management in the year under review, and none were outstanding as at 31 December 2018. In addition, no loans or credits have been granted to former members of the Board of Directors, Agricultural Council or Group Management, or related parties of current or former members of the Board of Directors, Agricultural Council or Group Management, and none were outstanding as at 31 December 2018.

7. Auditors' report



Report of the Statutory Auditor

To the General Meeting of Emmi AG, Lucerne

We have audited the accompanying remuneration report of Emmi AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the section 6 on page 60 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2018 of Emmi AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Manuel Odoni
Licensed Audit Expert

Lucerne, 27 February 2019

"I save energy by not leaving lights on"

Berin, aged 10



Energy

We are working hard to reduce our energy consumption. Considerable savings can be made, for example, by using LED lamps. Equally important to us is that our energy comes from sustainable sources. That's why we use hydroelectric power in Switzerland and at all of our European sites.

Martin Steiger, Coordinator of focus issue
"Greenhouse gases"



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Income statement

Operating section

Emmi generated net sales of CHF 3,457.4 million in 2018, a rise of 2.8 % compared with the previous year (CHF 3,364.3 million). In organic terms, i.e. adjusted for currency and acquisition effects, Group sales grew by 2.3 %.

This figure is within the target range of 1.5 % to 3.0 % confirmed by Emmi in August 2018. Sales drivers included Emmi Caffè Latte (Switzerland and international markets), Italian desserts, goat's milk products and dynamic development in the Tunisian and Chilean markets.

Acquisition effects are accounted for by the following factors:

Positive factors:

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

Negative factors:

- Sale of stake in Venchiaredo (Italy, 31 July 2017)
- Disposal of part of the trading goods business (Switzerland, 1 January 2018)

Sales development Switzerland

Sales by product group: Switzerland

in CHF million	Sales 2018	Sales 2017	Difference 2018/2017	Acquisition effect	Organic growth
Dairy products	676.4	662.0	2.2 %	–	2.2 %
Cheese	450.4	475.6	-5.3 %	-3.5 %	-1.8 %
Fresh products	341.7	343.9	-0.6 %	-0.4 %	-0.2 %
Fresh cheese	107.9	107.8	0.1 %	-6.0 %	6.1 %
Powder/concentrates	61.3	67.5	-9.2 %	–	-9.2 %
Other products/services	75.5	73.9	2.0 %	-4.9 %	6.9 %
Total Switzerland	1,713.2	1,730.7	-1.0 %	-1.6 %	0.6 %

Sales in the business division **Switzerland** were CHF 1,713.2 million, compared with CHF 1,730.7 million in the previous year. This corresponds to a decline of 1.0 %. Adjusted for divestment effects, sales grew by 0.6 %, slightly above the 0 % to 0.5 % forecasted by Emmi. In view of the continuing high price pressure on the customer side, this development is remarkable.

The divestment effect resulted from the sale of part of the trading goods business to Coop. Emmi took over the business in 1998 as part of its acquisition of the Coop cheese centre in Kirchberg in the canton of Berne. The part through which Coop maintains direct relationships with suppliers was sold back to Coop at the beginning of 2018. There were corresponding effects in the cheese, fresh products, fresh cheese and other products/services segments.

The good sales performance is due in part to the stronger Swiss retail business, which posted growth of around 2 % for the year as a whole (source: Nielsen). There was still considerable import and price pressure, however, impacting the cheese segment in particular. Around 2.9 % more cheese was imported from abroad in 2018 than in the previous year, with above-average rises in the fresh cheese and extra-hard cheese segments of 5.6 % and 8.7 % respectively (source: TSM Treuhand).

Dairy products (milk, cream, butter) posted significantly higher sales overall, primarily as a result of higher milk prices. In the **cheese** segment, Luzerner Rahmkäse and Le Petit Chevrier improved, while sales of fondue and AOP cheese fell. In **fresh products**, Emmi Caffè Latte and protein-enriched products saw sales increase, while Yoqua and private label products of retailers were down. **Fresh cheese** benefited from the warm summer, which boosted mozzarella sales.

The business division Switzerland accounted for 49.6 % of Group sales (previous year: 51.4 %).

Sales development Americas

Sales by product group: Americas

in CHF million	Sales 2018	Sales 2017	Difference 2018/2017	Acquisition effect	Currency effect	Organic growth
Cheese	444.9	404.0	10.1 %	5.5 %	-0.3 %	4.9 %
Dairy products	283.2	266.1	6.4 %	0.2 %	-2.2 %	8.4 %
Fresh products	206.1	196.8	4.7 %	0.2 %	-0.4 %	4.9 %
Fresh cheese	12.3	2.6	367.9 %	283.5 %	-10.0 %	94.4 %
Powder/concentrates	4.8	5.3	-9.6 %	0.1 %	-0.6 %	-9.1 %
Other products/services	93.0	75.0	24.0 %	24.8 %	0.4 %	-1.2 %
Total Americas	1,044.3	949.8	10.0 %	5.2 %	-0.8 %	5.6 %

The business division **Americas** comprises the following markets: US, Canada, Mexico, Chile, Tunisia, Spain (excluding Lácteos Caprinos) and France.

It generated sales of CHF 1,044.3 million, breaking the billion barrier for the first time. Sales in the previous year were CHF 949.8 million, corresponding to an increase of 10.0 %. In organic terms, i.e. adjusted for currency and acquisition effects, they rose by 5.6 %. This figure is at the upper end of the forecasted range of 4 % to 6 %.

The positive acquisition effect is attributable to the increased stake in premium food importer Mexideli, which had an impact on the scope of consolidation.

The main reasons for the good organic growth were the pleasing sales performances in Tunisia, Chile and the US. In Tunisia, the products marketed under the Vitalait brand (yogurts, desserts, milk and cream) reported significantly higher sales, which had a positive effect on the **dairy and fresh products** segments. These were further strengthened by the good performance of US goat's milk products (fresh products) and the Chilean market (dairy products). Last year's upward trend in Chile was thus continued. In **fresh products**, Emmi Caffè Latte in Spain also made a positive contribution.

In the **cheese** segment, the pleasing performance of locally produced cow's milk cheese in the US was a particular highlight. Cheese exports from Switzerland also recorded an increase. Sales of goat's cheese remained stable despite Emmi deliberately withdrawing from one particular channel.

The price war on private label yogurts in Spain and in the packaged cheese segment in France had an inhibiting effect on sales.

The business division Americas accounted for 30.2 % of Group sales (previous year: 28.2 %).

Sales development Europe

Sales by product group: Europe

in CHF million	Sales 2018	Sales 2017	Difference 2018/2017	Acquisition effect	Currency effect	Organic growth
Fresh products	264.5	227.5	16.2 %	1.7 %	4.1 %	10.4 %
Cheese	127.8	125.0	2.2 %	–	3.8 %	-1.6 %
Dairy products	109.0	108.1	0.7 %	–	3.8 %	-3.1 %
Fresh cheese	51.0	69.8	-27.0 %	-30.4 %	2.8 %	0.6 %
Powder/concentrates	32.2	26.5	21.8 %	–	4.6 %	17.2 %
Other products/services	8.8	7.2	23.2 %	–	4.5 %	18.7 %
Total Europe	593.3	564.1	5.2 %	-3.1 %	3.9 %	4.4 %

In the business division **Europe**, sales rose by 5.2 % from CHF 564.1 million to CHF 593.3 million. In organic terms, i.e. adjusted for currency and acquisition effects, this resulted in growth of 4.4 %, exceeding Emmi's expectations. The company had forecasted sales growth of 2 % to 4 %.

The positive acquisition effects are attributable to the acquisition of Italian Fresh Foods (fresh products), while the negative acquisition effects are due to the sale of the stake in Venchiaredo (fresh cheese).

Decisive growth factors included the higher sales of Emmi Caffè Latte and Italian speciality desserts, which had a positive impact on the **fresh products** segment. Emmi Caffè Latte grew in all European markets, most strongly in Germany and the UK. All three dessert companies reported rising sales of Italian speciality desserts, which is very pleasing. The **cheese** segment recorded a slightly negative organic performance overall, primarily due to lower sales of AOP cheese. By contrast, sales of speciality cheeses (Kaltbach, Der Scharfe Maxx) in Germany developed positively.

Sales of organic milk from Gläserne Molkerei were subdued, leading to an organic decline in the **dairy products** segment.

Dutch firm AVH dairy, a trading company that is strong in the field of goat's milk specialities, also performed very well. The good development is reflected in the **powder/concentrates** segment.

The business division Europe accounted for 17.1 % of Group sales (previous year: 16.8 %).

Sales development Global Trade

Sales by product group: Global Trade

in CHF million	Sales 2018	Sales 2017	Difference 2018/2017	Acquisition effect	Organic growth
Cheese	50.5	49.0	3.2 %	-1.2 %	4.4 %
Fresh products	39.2	42.8	-8.4 %	—	-8.4 %
Powder/concentrates	10.8	14.9	-27.4 %	—	-27.4 %
Dairy products	4.0	10.9	-63.3 %	—	-63.3 %
Fresh cheese	0.4	0.4	-14.0 %	—	-14.0 %
Other products/services	1.7	1.7	2.3 %	—	2.3 %
Total Global Trade	106.6	119.7	-10.9 %	-0.5 %	-10.4 %

The business division **Global Trade** primarily comprises direct sales from Switzerland to customers in countries where Emmi has no subsidiaries. These include the Asian and eastern European markets, most South American countries and the Arabian Peninsula.

Sales amounted to CHF 106.6 million, compared with CHF 119.7 million in the previous year, resulting in a decline of 10.9 % or 10.4 % in organic terms.

The negative performance is mainly attributable to declining exports of butter and milk powder. By contrast, various high-value exports, particularly cheese to Russia, increased, largely offsetting the declining sales in China (milk and fresh products).

Global Trade accounted for 3.1 % of Group sales (previous year: 3.6 %).

Gross profit

Gross profit increased by CHF 52.0 million to CHF 1,252.9 million in the year under review, compared with CHF 1,200.9 million in the previous year. This increase is primarily due to the good 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 also rose from 35.7 % to 36.2 %. This is attributable to the increasing importance of branded products within the product portfolio. The successful implementation of further rationalisation and productivity measures also helped to offset the negative effects of the persistently high price pressure.

Non-recurring effects in the consolidated financial statements

The sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s” had a significant impact on the income statement for the period under review. The sale resulted in a pre-tax gain of CHF 79.4 million or CHF 57.8 million after taxes. The gain from this sale is included in the position “Income from associates and joint ventures”. Accordingly, earnings before taxes (EBT) rose by CHF 79.4 million and net profit by CHF 57.8 million. This special effect was already taken into account in spring 2018 with the distribution of a special dividend.

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

Operating result

Operating expenses rose by CHF 39.5 million or 4.6 % in 2018 to CHF 905.4 million, compared with CHF 865.9 million in the previous year. As operating expenses grew more strongly than sales, they increased in comparison to sales from 25.8 % to 26.2 %, meaning that part of the margin gain at gross profit level was lost.

Personnel expenses were CHF 458.5 million in the period under review, compared with CHF 443.2 million in 2017. Since the increase of 3.4 % was slightly disproportionate to the development in sales, the ratio of personnel expenses to sales rose from 13.2 % to 13.3 % in the period under review.

Other operating expenses rose by CHF 24.3 million or 5.7 % in the period under review to CHF 446.9 million, compared with CHF 422.6 million in the previous year. In organic terms, i.e. adjusted for currency effects and acquisitions, expenses increased by CHF 16.5 million or 3.9 %. At CHF 12.0 million or 12.4 %, the most significant increase was in logistic expenses. The main reasons for this are higher volumes and the considerable rise in transport costs in individual countries (for example in the US). Accumulated marketing and sales-related expenses amounted to CHF 127.9 million, compared with CHF 126.0 million in the previous year, which corresponds to an increase of 1.5 %. While administrative expenses fell by a pleasing CHF 1.9 million or 4.7 %, expenses for occupancy, maintenance and repair rose by CHF 4.1 million or 6.3 %. Other operating expenses also increased substantially, due in part to a significantly reduced need for provisions for ongoing legal disputes in the previous year.

Other operating income fell by CHF 0.4 million year-on-year to CHF 5.3 million.

As a consequence of this development, **earnings before interest, taxes, depreciation and amortisation (EBITDA)** increased by CHF 12.1 million to CHF 352.8 million, from CHF 340.7 million in the previous year. As a result, the **EBITDA margin** increased from 10.1 % in 2017 to 10.2 %.

Depreciation and amortisation rose by CHF 1.2 million in the period under review, from CHF 135.2 million to CHF 136.4 million. The marginal increase is due to slightly higher amortisation of goodwill. Unlike the majority of listed firms applying Swiss GAAP FER, Emmi continues to amortise goodwill via the income statement. Depreciation on property, plant and equipment and amortisation of other intangible assets were virtually unchanged compared with the previous year.

Earnings before interest and taxes (EBIT) were CHF 216.7 million in the period under review, CHF 10.9 million or 5.3 % higher than the previous year's EBIT of CHF 205.8 million. The **EBIT margin** increased from 6.1 % in 2017 to 6.3 % in 2018.

Income from associates, financial result and income taxes

Income from associates and joint ventures totalling CHF 78.3 million includes the pre-tax gain made on the sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s” of CHF 79.4 million. Adjusted for this non-recurring effect, income from associates and joint ventures fell by CHF 4.7 million year-on-year. A major reason for this development is the loss of the profit share in “siggi’s” due to the sale of our minority stake.

The **financial result** (net financial expenses) was CHF 6.5 million and was thus significantly lower than in the previous year (CHF 10.4 million). This positive development is due to the significantly improved interest result, which in turn is mainly attributable to the successful refinancing of a bond in mid-2017.

Income taxes in the year under review amounted to CHF 50.2 million, of which CHF 21.6 million is attributable to the sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s”. Accordingly, income taxes adjusted for this non-recurring effect amounted to CHF 28.6 million, compared with CHF 30.3 million in the previous year. The adjusted tax rate was thus 13.7 % (previous year: 15.2 %), with the fall attributable to reductions in tax rates in a number of countries relevant to Emmi and a further increase in recognised deferred tax assets at companies with historical tax loss carryforwards.

Net profit

Profit including minority interests totalled CHF 238.3 million and was also affected significantly by the gain on the sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s”, which amounted to CHF 57.8 million after taxes. As a result, **adjusted profit including minority interests** amounted to CHF 180.5 million, up CHF 11.8 million from the previous year (CHF 168.7 million).

The reduction in **minority interests** from CHF 7.2 million in the previous year to CHF 5.0 million in the period under review is primarily attributable to the increased stakes in companies with minority interests in 2018.

Accordingly, net profit of CHF 233.3 million and **adjusted net profit** of CHF 175.5 million were reported for the period under review. This represents an increase of CHF 13.9 million or 8.6 % compared with the previous year’s net profit of CHF 161.6 million. The **adjusted net profit margin** rose from 4.8 % in 2017 to 5.1 %.

Assets, financing and cash flow

Total assets as at 31 December 2018 were up by 4.6 % or CHF 123.4 million compared with 31 December 2017 to CHF 2,820.5 million (previous year: CHF 2,697.1 million). This change is mainly due to the significant increase in cash and cash equivalents of CHF 238.8 million, which also benefited from the sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s”.

Operating net working capital (inventories as well as trade receivables and payables) was CHF 487.1 million, down slightly on the previous year (CHF 506.2 million) despite overall sales growth of 2.8 %. The instructed reduction in trade payables in 2017 to avoid negative interest rates also contributed to this.

By contrast, **non-current assets** declined substantially by CHF 105.2 million. The main reason for this was the low investments in the period under review. Both investments in intangible assets and investments in property, plant and equipment were significantly lower than amortisation and depreciation. With regard to intangible assets, it should be noted that no acquisitions were made in 2018 apart from a few purchases of minority interests, and that Emmi amortises goodwill in the income statement. We expect investing activities in property, plant and equipment to increase again in the coming year. Currency translation differences due to the strengthening of the Swiss franc against many of the currencies relevant to Emmi also made a significant contribution to the reduction in non-current assets.

With regard to financing, the reclassifications between short and long-term liabilities were primarily due to a bond issued in the amount of CHF 100 million, which will mature in June 2019. The **equity ratio** rose to 58.7 %, up from 56.4 % as at 31 December 2017. The main reason for this substantial increase is profit including minority interests, which at CHF 238.3 million more than compensated for dividend payments and negative currency effects. This development is also a consequence of the gain from the sale of the minority stake in Icelandic Milk and Skyr Corporation “siggi’s”. **Net debt** was significantly reduced in the period under review, from CHF 338.4 million at the end of 2017 to CHF 101.8 million as at 31 December 2018. The ratio of **net debt to EBITDA** was therefore low at 0.29 (previous year: 0.99).

Cash inflow from operating activities amounted to CHF 291.9 million in the period under review, a significant increase of CHF 40.2 million compared with the previous year (CHF 251.7 million). Cash flow before changes in net working capital, interest and taxes increased by CHF 16.4 million versus the previous year, essentially reflecting the operational improvement achieved at EBITDA level. The change in operating net working capital had a slightly positive impact on cash flow from operating activities overall in the period under review. This represents a significant improvement of CHF 49.5 million compared with the previous year. The instructed reduction in trade payables in 2017 to avoid negative interest rates was a major contributing factor. This effect will no longer occur in 2019. A further positive effect was visible in the change in trade receivables, which were neutral in 2018 following a significant increase in the previous year. Conversely, the change in other payables, accrued liabilities and deferred income had a negative impact. In addition, there was a significant increase in taxes paid, also as a result of the sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s”.

Cash outflow from investing activities amounted to CHF 5.7 million in the period under review, a significant reduction of CHF 468.6 million year-on-year (2017: CHF 474.3 million). The main reason for this was acquisition activities. Whereas the sale of the minority stake in The Icelandic Milk and Skyr Corporation “siggi’s” resulted in a net cash inflow from acquisition activities of CHF 62.6 million in the period under review, the previous year saw a cash outflow of CHF 398.1 million. Investments in property, plant and equipment were also lower in 2018. The cash outflow of CHF 80.3 million in the period under review corresponds to a reduction of CHF 16.0 million compared with the previous year.

Not including the cash flows resulting from acquisition activities, the level of **free cash flow** generated in 2018 thus amounted to CHF 223.6 million, compared with CHF 175.5 million in 2017.

Cash outflow from financing activities amounted to CHF 50.2 million in the period under review, compared with an inflow of CHF 26.6 million in the previous year. The cash outflow in the period under review resulted mainly from dividend payments of CHF 56.4 million (previous year: CHF 33.6 million), whereas in 2017 there was an overall positive cash flow from financing activities due to the refinancing in the middle of the year.

As a consequence of these cash flows, **cash and cash equivalents** rose from CHF 212.6 million to CHF 451.4 million in financial year 2018, a marked improvement of CHF 238.8 million.

Outlook 2019

The global economy lost considerable momentum in the second half of 2018. While the US economy continued to expand, the slowdown in growth in the EU was already clearly noticeable. Political issues such as the trade dispute between the US and China or Brexit are perceived as particular risks and could lead to greater uncertainty in the future. At the end of 2018 the European Central Bank forecasted weaker gross domestic product (GDP) growth of 1.7 % for the EU in 2019, down from 1.9 % in 2018.

In Switzerland, the State Secretariat for Economic Affairs (SECO) also revised its forecasts downwards at the end of 2018, but still anticipates moderate growth of 1.5 % for 2019. This is also expected to be achieved through rising consumption, especially in the food sector. Conditions in Switzerland remain challenging for Emmi, however. The competitive environment will continue to be tough, and some of the predicted increase in retail sales will be attributable to further growth in imports.

With regard to raw material prices, we expect milk to remain largely stable. The price level for the most important non-dairy raw materials (e.g. coffee and fruit) should be stable to slightly higher. We expect to see higher prices primarily for energy and transport and for packaging.

Markets

The considerable pressure exerted by imports and the price war in the retail trade will persist in Switzerland, and consumer tourism will remain a constant theme. Sales in the **business division Switzerland** will therefore remain under pressure, especially as the positive effect of a higher milk price will likely be eliminated in 2019. Emmi’s goal is to achieve stable to slightly higher organic sales in Switzerland through strong brand concepts.

Strong brands are also important success factors in the **business division Europe**. While it is currently very difficult to assess the impact of Brexit on Europe as a whole, we expect organic growth in the business division. The Italian dessert companies and goat’s milk products from the Netherlands are likely to play a key role here. Emmi is also hoping for a positive impact from exports of speciality cheeses and Emmi Caffè Latte from Switzerland.

In the **business division Americas**, we expect further significant growth in demand in Tunisia (milk, fresh products), the US (cheese, goat's milk specialties) and Chile (milk, fresh products) in 2019. Foreign currency effects in countries such as Chile, Mexico and Tunisia will remain an issue, however, as will the pressure in the business division's European markets Spain and France. The latter will again inhibit the business division's organic growth.

Sales and profit development

Emmi is robust and well diversified. Organic sales growth in line with medium-term forecasts should therefore be realistic for 2019.

To support earnings, Emmi will continue to pursue its efficiency programme and step this up in certain areas. The company therefore expects slightly higher profitability at Group level in 2019.

Emmi also confirms the medium-term sales growth forecast for the Group and the individual business divisions:

- Group 2 % to 3 %
- Switzerland 0 % to 1 %
- Americas 4 % to 6 %
- Europe 1 % to 3 %

Consolidated income statement

in CHF 000s

	Notes	2018	%	2017	%
Sales of products		3,432,739		3,338,561	
Sales of services		24,673		25,703	
Net sales	1	3,457,412	100.0	3,364,264	100.0
Change in inventories of semi-finished and finished products		-17,582	0.5	-12,263	0.4
Cost of materials and services		-2,186,974	63.3	-2,151,146	63.9
Gross operating profit		1,252,856	36.2	1,200,855	35.7
Other operating income	2	5,338	0.2	5,692	0.2
Personnel expenses		-458,463	13.3	-443,232	13.2
Other operating expenses	3	-446,889	12.9	-422,631	12.6
Operating expenses		-905,352	26.2	-865,863	25.8
Earnings before interest¹⁾, taxes, depreciation and amortisation (EBITDA)		352,842	10.2	340,684	10.1
Depreciation on property, plant and equipment	4	-96,973	2.8	-97,140	2.9
Amortisation on intangible assets	4	-39,456	1.1	-38,027	1.1
Write-back of negative goodwill		311		310	
Earnings before interest¹⁾ and taxes (EBIT)		216,724	6.3	205,827	6.1
Income from associates and joint ventures	5	78,343		3,613	
Financial result	6	-6,497		-10,387	
Earnings before taxes (EBT)		288,570	8.3	199,053	5.9
Income taxes	7	-50,221		-30,305	
Profit incl. minority interests		238,349	6.9	168,748	5.0
Minority interests		-5,073		-7,174	
Net profit		233,276	6.7	161,574	4.8
Earnings per share (diluted/basic in CHF)	8	43.60		30.20	

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

	Notes	31.12.2018	%	31.12.2017	%
Cash and cash equivalents		451,399		212,605	
Securities		2,500		1,661	
Trade receivables	9	424,112		432,729	
Other receivables	10	37,675		31,066	
Inventories	11	357,006		362,109	
Prepayments and accrued income	12	26,062		29,915	
Current assets		1,298,754	46.0	1,070,085	39.7
Investments in associates and joint ventures	31	63,853		71,539	
Loans and other receivables	13	52,366		59,018	
Securities		2,390		2,222	
Employer contribution reserves	21	2,048		2,048	
Deferred tax assets	7	10,443		10,908	
Total financial assets		131,100		145,735	
Prepayments and accrued income	12	6,225		5,869	
Property, plant and equipment	14	899,484		930,439	
Intangible assets	15	484,917		544,931	
Non-current assets		1,521,726	54.0	1,626,974	60.3
Total assets		2,820,480	100.0	2,697,059	100.0

Liabilities and shareholders' equity

Bank overdrafts	19	21,526		33,403	
Finance lease liabilities	19	966		1,331	
Bonds	19	100,000		–	
Loans	19	2,790		5,609	
Trade payables	16	294,045		288,659	
Other payables	17	23,376		23,301	
Accrued liabilities and deferred income	18	149,293		165,423	
Provisions	20	10,245		6,750	
Current liabilities		602,241	21.4	524,476	19.4
Bank overdrafts	19	129,948		120,306	
Finance lease liabilities	19	1,092		1,407	
Loans	19	51,729		49,647	
Bonds	19	300,000		400,000	
Accrued liabilities and deferred income	18	1,329		3,098	
Provisions	20	77,570		76,888	
Non-current liabilities		561,668	19.9	651,346	24.2
Liabilities		1,163,909	41.3	1,175,822	43.6
Share capital		53,498		53,498	
Capital reserves		7,438		44,887	
Retained earnings		1,537,715		1,357,833	
Shareholders' equity excl. minority interests		1,598,651	56.6	1,456,218	54.0
Minority interests		57,920	2.1	65,019	2.4
Shareholders' equity incl. minority interests		1,656,571	58.7	1,521,237	56.4
Total liabilities and shareholders' equity		2,820,480	100.0	2,697,059	100.0

Consolidated cash flow statement

in CHF 000s

	2018	2017
Profit incl. minority interests	238,349	168,748
Net interest expense	4,824	8,062
Income taxes	50,221	30,305
Result from sale of fixed assets	-1,371	-831
Result from sale of investments/businesses	-79,425	-397
Depreciation and amortisation	134,871	133,223
Impairment charges	1,558	1,944
Write-back of negative goodwill	-311	-310
Change in provisions	2,499	-2,130
Income from associates and joint ventures	1,082	-3,216
Other non-cash adjustments	-405	132
Cash flow before changes in net working capital, interest and taxes	351,892	335,530
Change in inventories	-205	-880
Change in trade receivables	-444	-23,042
Change in other receivables, prepayments and accrued income	-5,688	-3,302
Change in trade payables	10,398	-15,803
Change in other payables, accrued liabilities and deferred income	-7,609	10,353
Interest paid	-7,928	-11,359
Taxes paid	-48,512	-39,807
Cash flow from operating activities	291,904	251,690
Investments in property, plant and equipment	-80,251	-96,260
Proceeds from disposal of property, plant and equipment	6,535	5,875
Sale of securities	640	3,899
Investments in intangible assets	-4,540	-2,872
Purchase of shares in associates and joint ventures	—	-149,744
Proceeds from sale of shares in associates	81,114	2,056
Acquisition of consolidated companies	-18,514	-250,417
Repayment of loans receivable	5,651	7,930
Dividend received	847	3,492
Interest received	2,837	1,749
Cash flow from investing activities	-5,681	-474,292
Change in other current financial liabilities	-9,836	23,093
Change in other non-current financial liabilities	16,027	86,494
Repayments of bonds	—	-250,000
Proceeds from bond-issuance	—	200,613
Dividend paid to shareholders	-53,498	-31,564
Dividend paid to minority interests	-2,923	-1,998
Cash flow from financing activities	-50,230	26,638
Currency translation	2,801	1,687
Net change in cash and cash equivalents	238,794	-194,277
Cash and cash equivalents at beginning of period	212,605	406,882
Cash and cash equivalents at end of period	451,399	212,605

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 as at 1 Jan. 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	–	–	–	–	–	–	7,947	7,947
Acquisition of minority interests	–	–	–	–	–	–	-131,927	-131,927
Profit incl. minority interests	–	–	161,574	–	161,574	161,574	7,174	168,748
Currency translation differences	–	–	–	4,654	4,654	4,654	-642	4,012
Dividend	–	-31,564	–	–	–	-31,564	-1,998	-33,562
Shareholders' equity as at 31 Dec. 2017	53,498	44,887	1,421,162	-63,329	1,357,833	1,456,218	65,019	1,521,237
Capital increase of a group company	–	–	–	–	–	–	2,171	2,171
Acquisition of minority interests	–	–	–	–	–	–	-6,076	-6,076
Profit incl. minority interests	–	–	233,276	–	233,276	233,276	5,073	238,349
Currency translation differences	–	–	–	-37,345	-37,345	-37,345	-5,344	-42,689
Dividend	–	-37,449	-16,049	–	-16,049	-53,498	-2,923	-56,421
Shareholders' equity as at 31 Dec. 2018	53,498	7,438	1,638,389	-100,674	1,537,715	1,598,651	57,920	1,656,571

As at 31 December 2018, 5,349,810 registered shares with a par value of CHF 10 were issued (unchanged on the previous year). With regard to the rights associated with the shares, we refer to note 2 in the Corporate Governance report.

The accumulated non-distributable reserves amounted to CHF 37.0 million (previous year: CHF 36.9 million).

Notes to the financial statements

Principles of consolidation

General information

The Board of Directors of Emmi AG approved the Group financial statements on 27 February 2019. They are subject to the approval of the Annual General Meeting.

Accounting principles

The consolidated financial statements are based on the annual accounts of the Group companies for the year ending 31 December 2018, prepared on a uniform basis. The Group prepares its accounts in compliance with all existing guidelines of Swiss GAAP FER (Swiss Accounting and Reporting Recommendations) and the provisions of Swiss law.

Valuation is based on historical cost (acquisition cost or production cost) or actual value. The section "Principles of valuation" contains the valuation principles of specific balance sheet items. The income statement is presented using the classification of expenses based on their nature. The consolidated financial statements are based on economic values and present a true and fair view of the company's assets, financial position and results of operations. They are prepared under the assumption of going concern.

The consolidated financial statements are presented in Swiss francs (CHF). Except where stated otherwise, all amounts in the Financial Report are presented in thousands of Swiss francs.

Scope of consolidation

The consolidated financial statements include the annual accounts of Emmi AG as well as the Group companies in which Emmi AG directly or indirectly holds more than 50 % of the voting rights or where Emmi has a controlling influence over the financial and business policy of a company by contractual agreement. Investments in joint ventures and investments in associates where Emmi has significant influence (this is usually assumed when the Group owns 20 % to 50 % of the voting rights in the company) are accounted for using the equity method. Accounts based on or reconciliations to Swiss GAAP FER are used to calculate Emmi's proportionate share in shareholders' equity. Minority holdings in companies where Emmi does not have a significant influence are carried in the balance sheet at acquisition cost less any necessary adjustments for impairment. The consolidated companies are listed in the Notes to the Consolidated Financial Statements (note 31).

Changes to the scope of consolidation

The following changes to the scope of consolidation took place in the year under review. For changes of the capital share without impact on the scope of consolidation or on the consolidation method, please refer to note 31.

Consolidated companies		Currency	Capital in thousands	Capital share 31.12.2018	Capital share 31.12.2017
Servicios Logísticos Jundiz, S.L., Vitoria, Spain	Founded on 24.1.2018	EUR	102	73 %	—
Kaiku Internacional, S.L. Agencia en Chile, Santiago, Chile	Liquidated on 28.6.2018	CLP	—	—	73 %
Emmi Resume LLC, Delaware, US	Founded on 21.12.2018	USD	p.m.	100 %	—

Associates and joint ventures

The Icelandic Milk and Skyr Corporation, New York, US	Sale on 1.2.2018	USD	—	—	22 %
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Consolidation method

Capital is consolidated using the purchase method.

Assets and liabilities as well as expenses and income of the fully consolidated companies are included in their entirety.

Minority interests in consolidated shareholders' equity and in net profit are shown separately. All intercompany transactions and relations between the consolidated companies are offset against each other and eliminated. Profits on intercompany transactions are eliminated.

Companies and businesses acquired during the course of the year are consolidated as from the date of acquisition. The net assets acquired are revalued on the acquisition date at actual value. With the exception of goodwill, the fixed assets acquired are recognised on a gross basis. As part of the purchase price allocation, intangible assets are only recognised and revalued at actual value if they were already recognised in the balance sheet at the acquisition date. The difference between the purchase price and the interest in revalued net assets is recognised as goodwill in the balance sheet and amortised on a straight-line basis in the income statement over its useful life of 5 to 20 years. At Emmi, most of the goodwill positions have a useful life of 20 years, which is explained particularly by the long-term-oriented expansion of the international business. Any negative goodwill is recognised as a provision and is released in the income statement over a five-year period. In a business acquisition achieved in stages (step acquisition), the goodwill of each separate transaction is determined. Accordingly, the goodwill at the acquisition date consists of the sum of the goodwill generated on each separate transaction less goodwill amortisation. Companies sold during the year are excluded from the consolidated financial statements from the date of sale.

Minority interests acquired are likewise measured using the purchase method. Accordingly, the difference between the purchase price and the proportionate equity on the basis of Swiss GAAP FER is recognised as goodwill or negative goodwill.

When acquiring investments in associates and joint ventures, no purchase price allocation is performed. As a consequence, the difference between purchase price and proportionate equity in accordance with Swiss GAAP FER is recognised as goodwill or negative goodwill.

Where interests in fully consolidated companies or companies accounted for using the equity method are sold, the difference between the proceeds of the sale and the proportionate book value including goodwill is presented as a gain or loss in the income statement.

Translation of foreign currencies¹⁾

Foreign currency transactions in Group companies

The foreign currency transactions and items contained in the individual financial statements of the consolidated companies are translated as follows: foreign currency transactions are translated into the functional currency at the exchange rate valid on the transaction date (current rate). At year-end, monetary assets and liabilities in foreign currency are measured using the exchange rate valid at the balance sheet date, with any profit or loss from such valuation taken to the income statement. Foreign exchange gains and losses resulting from the measurement of intercompany loans that are part of the net investment in a subsidiary are recognised in equity.

Exchange differences resulting from the revaluation of shares in associates are recognised in equity.

Translation of financial statements to be consolidated

Group financial statements are presented in Swiss francs. Assets and liabilities of Group companies with a functional currency other than the Swiss franc are translated at year-end rates (rates on balance sheet date); equity is translated at historical rates, while the income statement and cash flow statement are translated using average rates for the year. Any resulting exchange differences are recognised in shareholders' equity.

Accumulated exchange differences of foreign companies recognised in equity resulting from the translation of annual statements and loans between Group companies that are part of the net investment in a subsidiary are derecognised upon sale of the company and repatriated in the income statement as part of the gain or loss resulting from the sale.

¹⁾ Currency exchange rates in CHF

	Annual average rates		Year-end rates	
	2018	2017	31.12.2018	31.12.2017
1 EUR	1.16	1.11	1.13	1.17
1 USD	0.98	0.98	0.98	0.98
1 GBP	1.31	1.27	1.25	1.32
1 CAD	0.76	0.76	0.72	0.78
1 TND	0.37	0.41	0.33	0.40
1 MXN	0.05	0.05	0.05	0.05
100 CLP	0.15	0.15	0.14	0.16
1 BRL	0.27	0.30	0.25	0.29

Cash flow statement

Cash and cash equivalents form the basis for the presentation of the cash flow statement. Cash flow from operating activities is presented using the indirect method.

Principles of valuation

Cash and cash equivalents

Cash and cash equivalents include cash, balances in postal giro and bank accounts, and short-term time deposits with a residual term of less than three months. They are valued at their nominal value.

Securities (current)

Listed securities (incl. OTC securities with a market price) are valued at the market values prevailing on the balance sheet date. Unlisted securities are valued at acquisition cost less any necessary adjustments for impairment.

Trade receivables

Trade receivables include short-term receivables with a residual term of up to one year arising from ordinary operating activities. These receivables are valued at their nominal values. Credit default risks are accounted for by specific and general allowances. General allowances are recognised for items that have not yet been considered with a specific allowance. The general allowance is based on the assumption that the default risk increases as the debt becomes increasingly overdue.

Inventories

Goods manufactured by the company itself are valued at production cost. Any lower net market value is taken into account (lower of cost or market principle). Merchandise and other stocks of goods are valued at the lower of average cost or net market price. Discounts are treated as purchase value reductions.

Financial assets

Financial assets include alongside non-consolidated investments securities held as long-term investments, long-term loans, employer contribution reserves and deferred tax assets. Securities held as long-term investments and loans are valued at cost less any necessary impairment. Employer contribution reserves are recognised at nominal value. For a description of the valuation principles of investments, refer to the consolidation principles, whereas for the valuation principles of deferred taxes, refer to the separate description within the valuation principles.

Property, plant and equipment

Property, plant and equipment are valued at purchase cost less depreciation and any necessary impairment. Company-produced additions to plant and equipment are only recognised if they are clearly identifiable and the costs reliably determinable, and they bring a measurable benefit to the company over the course of several years. Depreciation is calculated on a straight-line basis over the useful life of the fixed asset.

The useful lives of assets have been determined as follows:

Land	no depreciation
Administrative buildings and residential buildings	40 years
Industrial buildings, rock caves	25 to 40 years
Installations and fittings	15 years
Machinery and equipment	10 to 15 years
Business infrastructure	5 to 10 years
Vehicles	4 to 7 years
Company-produced additions to plant and equipment	5 years

Intangible assets

This item includes mainly EDP software, trademarks and goodwill from acquisitions. Intangible assets are recognised if they are clearly identifiable and the costs reliably determinable, and they bring a measurable benefit to the company over the course of several years. Intangible assets are valued at purchase cost less amortisation and any necessary impairment. Amortisation is calculated on a straight-line basis over the useful life and recognised in the income statement. The useful life of EDP software is 2 to 5 years. Goodwill from acquisitions and trademarks are amortised over 5 to 20 years. At Emmi, most goodwill has a useful life of 20 years, which is explained particularly by the long-term oriented expansion of the international business. The expected useful life of other intangible assets is determined on a case-by-case basis. The useful life is usually 5 years and in justified cases up to 20 years.

Impairment

The value of non-current assets is assessed on the balance sheet date for indicators of impairment. If there is evidence of any lasting reduction in value, the recoverable amount is calculated (impairment test). If the book value exceeds the recoverable amount, the difference is recognised in the income statement as an impairment charge.

Major goodwill items are tested for impairment annually, based on a value-in-use calculation. The value-in-use calculation is based on future cash flows for the next five years and the extrapolated values as of the sixth year. The figures used are part of the multi-year financial planning approved by the Board of Directors.

Government grants

Government grants relating to investments in property, plant and equipment are deducted from the carrying value of the assets once the conditions to receive the grant are fully met. Consequently, as of the date when the conditions are met, government grants are released to the consolidated income statement on a straight-line basis over the expected lives of the related assets. Government grants that are received as a compensation of costs are credited to the income statement in the period when the costs are recognised. Grants received for which the conditions are not fully met are recognised as liabilities.

Liabilities

Group liabilities are recognised at their nominal values.

Leasing

Leasing transactions are divided into finance leases and operating leases. A lease is classified as a finance lease if it essentially transfers all the risks and rewards of an asset incidental to ownership. The assets and liabilities arising out of finance leases are recognised in the balance sheet. Leasing liabilities arising out of operating leases that cannot be cancelled within one year are disclosed in note 25.

Provisions

Provisions are recognised if an event in the past gives rise to a justified, likely obligation which is of uncertain timing and amount, but which can be estimated reliably. Provisions are measured on the basis of the estimated amount of money required to satisfy the obligation.

Negative goodwill

After the values of the individual net assets acquired have been adjusted and all necessary restructuring provisions created, any remaining negative goodwill is recognised as a provision and released in the income statement over a five-year period. Negative goodwill is reported under current and non-current provisions depending on the expected release date.

Employee benefit plan liabilities

Employees and former employees receive various employee benefits and old age pensions which are provided in accordance with the laws of the countries in question.

The Swiss companies of Emmi Group are affiliated to the “Emmi Vorsorgestiftung” (legally independent pension scheme) or are members of collective occupational pension foundations provided by banks or insurance companies, which do not carry risk themselves. These pension schemes are financed by employer and employee contributions.

The economic impact of existing pension schemes on the Emmi Group is reviewed each year. An economic benefit is recognised if it is permitted and intended to use the surplus to decrease the future pension expenses of the company. An economic obligation is recognised if the conditions for recognising a provision are met. The employer contribution reserves available are recognised as assets. Similar to pension contributions, changes of economic benefits or economic obligations are recognised in the income statement under personnel expenses.

Deferred income taxes

The annual accrual of deferred income taxes is based on a balance-sheet oriented approach and takes all future income tax effects into account. The future tax rate valid on the balance sheet date for the tax subject in question is used for the deferred income tax calculation. Deferred income tax assets and deferred income tax liabilities are offset, provided they relate to the same tax subject and are levied by the same tax authority. Deferred income tax assets on temporary differences and on tax losses carried forward are only recognised if it is probable that they can be realised in future through sufficient taxable profits.

Derivative financial instruments

Emmi uses derivative financial instruments to hedge its currency, interest rate and commodity risks. Recognition of derivative financial instruments depends on the underlyings hedged. Derivatives used to hedge changes in the value of an underlying transaction already recognised in the financial statements are accounted for using the same valuation principle used for the underlying transaction hedged. Instruments for hedging future cash flows are not recognised in the balance sheet but disclosed in the Notes until the future cash flow is realised. Upon the occurrence of the future transaction or the disposal of the derivative instrument, the current value of the derivative financial instrument is recognised in the balance sheet and recorded in the income statement at the same time as the cash flow hedged. Any derivative financial instruments which are open as at the balance sheet date are disclosed in note 23 of the consolidated financial statements.

Net sales and revenue recognition

Net sales represent amounts received and receivable for goods supplied and for services rendered. Revenue from the sale of goods is recognised in the income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, generally upon shipment. Revenue from services is recognised in the period when the services were rendered. Net sales consist of the amounts invoiced for products and services less credits, deductions and sales tax.

Research and development

Research and development costs are fully charged to the income statement. These costs are included under "Personnel expenses" and "Other operating expenses".

Contingent liabilities

The probability and the potential economic impact of contingent liabilities are assessed at each balance sheet date. Based on that assessment, contingent liabilities are evaluated and disclosed in the Notes.

Notes to the consolidated financial statements

in CHF 000s

1. Segment reporting

Net sales by product groups and divisions	Switzerland		Americas		Europe		Global Trade		Group	
	2018	2017	2018	2017	2018	2017	2018	2017		
Milk	263,103	254,830	238,622	231,128	76,732	77,440	2,768	2,881	581,225	566,279
Butter and margarine	244,882	239,560	1,471	1,160	27,987	27,001	949	6,856	275,289	274,577
Cream	168,382	167,564	43,068	33,771	4,215	3,689	282	1,144	215,947	206,168
Dairy products	676,367	661,954	283,161	266,059	108,934	108,130	3,999	10,881	1,072,461	1,047,024
As % of net sales	39.5	38.2	27.1	28.0	18.4	19.2	3.7	9.1	31.0	31.1
Fresh products	341,736	343,883	206,126	196,776	264,509	227,513	39,169	42,768	851,540	810,940
As % of net sales	19.9	19.9	19.7	20.7	44.6	40.3	36.7	35.7	24.6	24.1
Natural cheese	397,531	421,954	424,986	384,896	109,971	107,524	43,901	41,761	976,389	956,135
Processed cheese	52,915	53,676	19,947	19,094	17,799	17,492	6,632	7,250	97,293	97,512
Cheese	450,446	475,630	444,933	403,990	127,770	125,016	50,533	49,011	1,073,682	1,053,647
As % of net sales	26.3	27.5	42.6	42.5	21.5	22.1	47.4	40.9	31.1	31.3
Fresh cheese	107,867	107,767	12,330	2,636	50,989	69,826	375	436	171,561	180,665
As % of net sales	6.3	6.2	1.2	0.3	8.6	12.4	0.4	0.4	5.0	5.4
Powder/ concentrates	61,337	67,532	4,819	5,330	32,220	26,459	10,825	14,910	109,201	114,231
As % of net sales	3.6	3.9	0.5	0.6	5.4	4.7	10.2	12.5	3.1	3.4
Other products	56,008	53,575	89,053	71,695	7,907	5,516	1,326	1,268	154,294	132,054
Sales of services	19,450	20,378	3,913	3,269	925	1,651	385	405	24,673	25,703
Other products and services	75,458	73,953	92,966	74,964	8,832	7,167	1,711	1,673	178,967	157,757
As % of net sales	4.4	4.3	8.9	7.9	1.5	1.3	1.6	1.4	5.2	4.7
Net sales	1,713,211	1,730,719	1,044,335	949,755	593,254	564,111	106,612	119,679	3,457,412	3,364,264
As % of Group	49.6	51.4	30.2	28.2	17.1	16.8	3.1	3.6	100.0	100.0

Net sales by country group	2018	in %	2017	in %
Switzerland	1,713,211	49.6	1,730,719	51.4
Europe excl. Switzerland	897,904	26.0	887,049	26.4
North and South America	650,678	18.8	559,862	16.6
Africa	146,617	4.2	140,338	4.2
Asia/Pacific	49,002	1.4	46,296	1.4
Total	3,457,412	100.0	3,364,264	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.

2. Other operating income

	2018	2017
Gain on disposal of fixed assets	1,446	1,097
Miscellaneous operating income	3,892	4,595
Total	5,338	5,692

3. Other operating expenses

	2018	2017
Marketing and sales related expenses	127,874	126,005
Occupancy expense, maintenance and repair, leasing	69,525	65,413
Insurance, fees and HGV road tax	17,256	16,715
Energy, operating material and supplies	66,168	65,117
Administrative expenses	37,357	39,210
Logistic expenses	108,001	96,045
Other operating expenses	20,708	14,126
Total	446,889	422,631

4. Depreciation and amortisation

	2018	2017
Depreciation of property, plant and equipment	96,025	95,196
Impairment of property, plant and equipment	948	1,944
Amortisation of goodwill	23,369	22,508
Impairment of goodwill	610	—
Amortisation of other intangible assets	15,477	15,519
Total	136,429	135,167

Amortisation of goodwill related to investments which are accounted for using the equity method is included in the position “Income from associates and joint ventures” of the income statement.

5. Income from associates and joint ventures

Income from associates and joint ventures totalling CHF 78.3 million mainly includes the (pre-tax) gain made on the sale of the minority stake in “siggi’s” of CHF 79.4 million. Adjusted for this effect, income from associates and joint ventures amounted to CHF -1.1 million (previous year: CHF 3.6 million). A major reason for this development is the loss of the profit share in “siggi’s” due to the sale of our minority stake. Please refer to note 7 for the tax effect of the “siggi’s” transaction.

6. Financial result

	2018	2017
Interest income	2,899	1,740
Other financial income	786	262
Total financial income	3,685	2,002
Interest expense	-7,723	-9,802
Bank charges and fees	-791	-831
Total financial expenses	-8,514	-10,633
Total excl. currency result	-4,829	-8,631
Currency result	-1,668	-1,756
Financial result	-6,497	-10,387

7. Income taxes

	2018	2017
Current income taxes	46,456	39,681
Deferred income taxes	3,765	-9,376
Total	50,221	30,305
Average tax rate	17.4 %	15.2 %

The average tax rate adjusted for the tax effect on the sale of the minority stake in “siggi’s” amounted to 13.7% in the reporting year.

Net accruals for current income taxes decreased from CHF 23.7 million in 2017 to CHF 22.6 million in 2018. Deferred income taxes are calculated for every company using the effective applicable tax rate. As at 31 December 2018, the resulting weighted average tax rate was 19.9 %. Adjusted for the above-mentioned non-recurring effect, the weighted average tax rate was 18.0 % (previous year: 18.1 %). Deferred income taxes include recognised tax claims from tax loss carryforwards amounting to CHF 8.5 million (previous year: CHF 13.0 million).

Details on change of tax claims from tax loss carryforwards	2018	2017
Recognised tax claims from tax loss carryforwards	8,518	12,969
Unrecognised tax claims from tax loss carryforwards	9,178	11,573
Total tax claims from tax loss carryforwards	17,696	24,542
Recognised tax claims from tax loss carryforwards at 1.1.	12,969	6,010
Additions	331	442
Utilisation	-7,375	-1,001
Reassessment	2,868	6,893
Other adjustments	-275	625
Recognised tax claims from tax loss carryforwards at 31.12.	8,518	12,969

The net change of recognised tax claims from tax loss carryforwards increased the income taxes of the current period by CHF 4.5 million.

8. Earnings per share

	2018	2017
Number of shares at 1.1.	5,349,810	5,349,810
Number of shares at 31.12.	5,349,810	5,349,810
Average number of shares	5,349,810	5,349,810
Net profit in CHF 000s	233,276	161,574
Earnings per share (in CHF)	43.60	30.20

Earnings per share is calculated by dividing the net profit attributable to the shareholders of Emmi AG by the average number of shares outstanding. Treasury shares (if any) are not included in the average number of shares outstanding.

Earnings per share of CHF 43.60 include the gain on the sale of the minority stake in Icelandic Milk and Skyr Corporation ("siggi's"). By excluding this non-recurring effect, earnings per share amount to CHF 32.80.

9. Trade receivables

	2018	2017
Third parties	421,790	426,424
Associates	7,461	10,569
Shareholders	384	344
Allowance for doubtful accounts	-5,523	-4,608
Total	424,112	432,729

10. Other receivables

	2018	2017
Third parties	31,187	27,838
Associates	6,488	3,228
Total	37,675	31,066

11. Inventories

	2018	2017
Finished products	99,245	89,695
Merchandise	30,777	30,518
Raw materials, semi-finished products and packaging material	245,946	250,406
Other inventories	2,093	2,013
Allowances for inventories	-21,055	-10,523
Total	357,006	362,109

12. Prepayments and accrued income

	2018	2017
Income taxes	2,604	4,421
Other – third parties	29,497	30,952
Other – associates	168	156
Other – shareholders	18	21
Other – related parties	–	234
Total	32,287	35,784
Thereof current prepayments and accrued income	26,062	29,915
Thereof non-current prepayments and accrued income	6,225	5,869

Other prepayments and accrued income consist mainly of various refunds, accrued promotion costs and prepayments for milk and insurance premiums.

13. Loans and other receivables

	2018	2017
Third parties	43,240	45,121
Associates	9,126	13,897
Total	52,366	59,018

The carrying amount of loans and other receivables from third parties includes impaired loans in the amount of CHF 1.7 million (previous year: CHF 3.6 million). Due to payments received for loans which were already impaired and reclassifications to current assets, the total impairment on loans has been reduced by CHF 1.9 million in comparison with the previous year's reduction of CHF 0.6 million.

14. Property, plant and equipment

	Undeveloped land	Properties/ buildings	Machinery/ equipment	Tangible fixed assets under construction	Other tangible assets	Total
2018						
Purchase value at 1.1.2018	5,018	704,798	1,510,985	49,099	67,406	2,337,306
Additions	4,094	8,847	12,976	55,078	2,595	83,590
Disposals	—	-1,423	-53,386	—	-2,802	-57,611
Reclassification	1,921	5,883	52,249	-63,535	4,652	1,170
Currency translation differences	-123	-6,044	-17,812	-912	-1,591	-26,482
As at 31 December 2018	10,910	712,061	1,505,012	39,730	70,260	2,337,973
Accumulated depreciation at 1.1.2018	1,062	323,275	1,039,951	—	42,579	1,406,867
Depreciation	—	16,129	73,450	—	6,446	96,025
Impairment charges	—	389	544	—	15	948
Disposals	—	-1,051	-48,825	—	-2,570	-52,446
Reclassification	—	-238	1,190	—	218	1,170
Currency translation differences	-2	-2,287	-10,763	—	-1,023	-14,075
As at 31 December 2018	1,060	336,217	1,055,547	—	45,665	1,438,489
Net book value at 31 December 2018	9,850	375,844	449,465	39,730	24,595	899,484
Thereof finance leases	—	—	604	—	1,800	2,404

	Undeveloped land	Properties/ buildings	Machinery/ equipment	Tangible fixed assets under construction	Other tangible assets	Total
2017						
Purchase value at 1.1.2017	4,505	701,702	1,411,830	51,164	61,068	2,230,269
Change in scope of consolidation	363	6,147	6,931	6	2,465	15,912
Additions	—	6,106	15,325	68,456	6,373	96,260
Disposals	—	-11,139	-13,293	—	-7,289	-31,721
Reclassification	121	-4,329	82,330	-70,799	4,858	12,181
Currency translation differences	29	6,311	7,862	272	-69	14,405
As at 31 December 2017	5,018	704,798	1,510,985	49,099	67,406	2,337,306
Accumulated depreciation at 1.1.2017	1,058	316,278	949,901	—	43,014	1,310,251
Change in scope of consolidation	—	598	2,774	—	1,513	4,885
Depreciation	—	16,496	72,423	—	6,277	95,196
Impairment charges	—	39	1,696	—	209	1,944
Disposals	—	-6,777	-12,897	—	-7,003	-26,677
Reclassification	—	-6,164	19,904	—	-1,559	12,181
Currency translation differences	4	2,805	6,150	—	128	9,087
As at 31 December 2017	1,062	323,275	1,039,951	—	42,579	1,406,867
Net book value at 31 December 2017	3,956	381,523	471,034	49,099	24,827	930,439
Thereof finance leases	—	—	2,772	—	—	2,772

15. Intangible assets

2018	Trademarks	Software	Goodwill fully consolidated	Goodwill equity consolidated	Total goodwill	Other intangible assets	Total
Purchase value at 1.1.2018	83,145	72,365	507,194	111,002	618,196	17,035	790,741
Change in scope of consolidation	—	—	6,233	-3,753	2,480	—	2,480
Additions	—	4,380	—	—	—	28	4,408
Disposals	—	-1,654	—	—	—	-6,290	-7,944
Reclassification	-65	-404	—	—	—	-68	-537
Currency translation differences	-5,055	-661	-11,229	-12,395	-23,624	-396	-29,736
As at 31 December 2018	78,025	74,026	502,198	94,854	597,052	10,309	759,412
Accumulated amortisation at 1.1.2018	25,519	47,032	142,737	16,320	159,057	14,202	245,810
Change in scope of consolidation	—	—	—	-918	-918	—	-918
Amortisation	4,242	10,756	23,369	4,692	28,061	479	43,538
Impairment charges	—	—	610	—	610	—	610
Disposals	—	-1,654	—	—	—	-6,290	-7,944
Reclassification	-65	-404	—	—	—	-68	-537
Currency translation differences	-1,705	-416	-2,926	-826	-3,752	-191	-6,064
As at 31 December 2018	27,991	55,314	163,790	19,268	183,058	8,132	274,495
Net book value at 31 December 2018	50,034	18,712	338,408	75,586	413,994	2,177	484,917

All intangible assets were acquired. Amortisation of goodwill related to investments which are accounted for using the equity method is included in the position “Income from associates and joint ventures” of the income statement.

2017	Trademarks	Software	Goodwill fully consolidated	Goodwill equity consolidated	Total goodwill	Other intangible assets	Total
Purchase value at 1.1.2017	89,019	68,438	350,894	28,086	378,980	10,015	546,452
Change in scope of consolidation	93	—	143,059	88,739	231,798	352	232,243
Additions	5	2,703	—	—	—	164	2,872
Reclassification	-9,932	660	3,126	-3,126	—	6,646	-2,626
Currency translation differences	3,960	564	10,115	-2,697	7,418	-142	11,800
As at 31 December 2017	83,145	72,365	507,194	111,002	618,196	17,035	790,741
Accumulated amortisation at 1.1.2017	30,033	35,268	116,125	13,633	129,758	7,034	202,093
Change in scope of consolidation	53	—	—	—	—	125	178
Amortisation	4,153	10,810	22,508	3,340	25,848	556	41,367
Reclassification	-9,932	660	586	-586	—	6,646	-2,626
Currency translation differences	1,212	294	3,518	-67	3,451	-159	4,798
As at 31 December 2017	25,519	47,032	142,737	16,320	159,057	14,202	245,810
Net book value at 31 December 2017	57,626	25,333	364,457	94,682	459,139	2,833	544,931

16. Trade payables

	2018	2017
Third parties	271,703	267,309
Associates	5,265	4,012
Shareholders	17,077	17,170
Other related parties	–	168
Total	294,045	288,659

17. Other payables

	2018	2017
Third parties	20,278	20,391
Associates	–	36
Other related parties	3,098	2,874
Total	23,376	23,301

18. Accrued liabilities and deferred income

	2018	2017
Interest	2,726	2,931
Income taxes	25,163	28,083
Liabilities to employees and social security accruals	33,855	32,627
Contractual discounts	48,724	55,434
Other – third parties	38,930	48,333
Other – associates	1,224	1,113
Total	150,622	168,521
Thereof current accrued liabilities and deferred income	149,293	165,423
Thereof non-current accrued liabilities and deferred income	1,329	3,098

Other accrued liabilities and deferred income of the current and previous period comprise in particular contributions to cheese brand organisations, energy, advertising costs, HGV road tax and various services.

19. Financial liabilities

19.1 Bonds

Bond type	Bond with reopening option
Nominal amount	CHF 100 million
Securities number	36869774 / ISIN CH0368697741
Interest rate	Variable (CHF 3-month LIBOR plus 0.5 %, with floor at 0.00 % and cap at 0.05 %)
Term	21 June 2017 to 21 June 2019
Maturity	21 June 2019 at par value

The CHF 0.2 million expenses incurred in connection with the issuance of the bond were capitalised under prepayments and accrued income on 21 June 2017. This accrual will be released over the term of the bond. The issue price at 100.8 % led to an agio-revenue of CHF 0.8 million. The realisation of the capitalised agio resulted in an effective interest rate of -0.29 % on the bond.

Bond type	Bond with reopening option
Nominal amount	CHF 200 million
Securities number	21492608 / ISIN CH021492608
Interest rate	1.625 %
Term	12 July 2013 to 12 July 2023
Maturity	12 July 2023 at par value

The CHF 2.1 million expenses incurred in connection with the issuance of the bond were capitalised under prepayments and accrued income on 12 July 2013. This accrual will be released over the term of the bond. The actual interest rate on the bond is thereby increased from 1.625 % to 1.72 % per year.

Bond type	Bond with reopening option
Nominal amount	CHF 100 million
Securities number	36869775 / ISIN CH0368697758
Interest rate	0.5 %
Term	21 June 2017 to 21 June 2029
Maturity	21 June 2029 at par value

The CHF 0.4 million expenses incurred in connection with the issuance of the bond were capitalised under prepayments and accrued income on 21 June 2017. This accrual will be released over the term of the bond. The issue price at 100.4 % led to an agio-revenue of CHF 0.4 million. The actual interest rate on the bond is thereby increased from 0.50 % to 0.51 % per year.

19.2 Maturing structure of financial liabilities

	Residual terms up to 1 year	Residual terms 1 to 5 years	Residual terms over 5 years	Total	Thereof secured by real property liens	Interest rate in %
2018						
Bank overdrafts	21,526	93,453	36,495	151,474	7,339	0.5 – 9.4
Finance lease liabilities	966	1,092	–	2,058	–	2.5 – 8.7
Loans from third parties	1,909	15,978	35,751	53,638	47,312	0.0 – 2.0
Loans from associates	881	–	–	881	–	2.0
Bonds	100,000	200,000	100,000	400,000	–	0.0 – 1.6
Total	125,282	310,523	172,246	608,051	54,651	–

Bank loans with residual terms of up to one year are usually set at variable interest rates. Bonds and the major part of the long-term financial debts are set at fixed terms. The bank loans linked to financial covenants such as net equity ratio and net-debt-to-EBITDA ratio were repayed in the year under review.

In the year under review, financial liabilities decreased by CHF 3.7 million. Additional financing was raised in Mexico, Spain and Tunisia. Emmi AG could repay the last Schuldscheine (promissory notes) of the 2011 issue in the amount of EUR 10 million. 67.0 % (previous year: 65.7 %) of the financing is denominated in Swiss francs, mainly through the three bonds in the amount of CHF 400.0 million. 20.1 % (previous year: 22.8 %) of the financial liabilities is denominated in Euro, 7.8 % (previous year: 7.8 %) in US dollars and 5.1 % (previous year: 3.7 %) in other currencies such as Chilean and Mexican peso or Tunisian dinar.

	Residual terms up to 1 year	Residual terms 1 to 5 years	Residual terms over 5 years	Total	Thereof secured by real property liens	Interest rate in %
2017						
Bank overdrafts	33,403	83,586	36,720	153,709	6,190	0.0 – 10.0
Finance lease liabilities	1,331	1,407	–	2,738	–	2.5 – 9.0
Loans from third parties	876	11,269	38,378	50,523	47,526	0.0 – 5.4
Loans from associates	4,733	–	–	4,733	–	2.0
Bonds	–	100,000	300,000	400,000	–	0.0 – 1.6
Total	40,343	196,262	375,098	611,703	53,716	–

20. Provisions

	Ongoing restructuring	Negative goodwill	Other provisions	Deferred income taxes	Total provisions
As at 1 January 2018	3,940	621	18,285	60,792	83,638
Additions	–	–	12,122	9,996	22,118
Utilisation	-1,403	–	-4,856	–	-6,259
Release	–	-311	-3,365	-7,042	-10,718
Currency translation differences	–	–	-661	-303	-964
As at 31 December 2018	2,537	310	21,525	63,443	87,815
Thereof current provisions	1,523	310	8,412	–	10,245
Thereof non-current provisions	1,014	–	13,113	63,443	77,570

The restructuring provisions relate in particular to anticipated costs in connection with the decision to reorganise business activities.

Other provisions include amongst other things liabilities for staff expenses in foreign countries as required by law (2018: CHF 6.8 million, 2017: CHF 5.1 million) and provisions for pending legal matters and business disputes (2018: CHF 2.9 million, 2017: CHF 4.4 million). In all cases, the likelihood of such events occurring has been assessed at above 50 %.

	Ongoing restructuring	Negative goodwill	Other provisions	Deferred income taxes	Total provisions
As at 1 January 2017	2,901	931	21,001	65,890	90,723
Change in scope of consolidation	–	–	233	1,015	1,248
Additions	3,067	–	3,977	2,217	9,261
Utilisation	-2,028	–	-5,726	–	-7,754
Release	–	-310	-1,419	-8,556	-10,285
Currency translation differences	–	–	219	226	445
As at 31 December 2017	3,940	621	18,285	60,792	83,638
Thereof current provisions	404	310	6,036	–	6,750
Thereof non-current provisions	3,536	311	12,249	60,792	76,888

21. Employee benefit schemes

	Nominal value ECR	Waiver of usage	Other value adjustments	Balance sheet	Balance sheet	Result from ECR in personnel expenses	
Employer contribution reserve (ECR)	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2017	2018	2017
Pension schemes without excess/ insufficient cover (domestic)	1,489	—	—	1,489	2,048	—	—
Pension schemes with excess cover (domestic)	559	—	—	559	—	—	—
Total	2,048	—	—	2,048	2,048	—	—

	Excess/ insufficient cover as per Swiss GAAP FER 26		Economic benefit/obligation for the company	Change vs. previous year or taken to the income statement in the FY	Contributions limited to the period ¹⁾	Pension expenses in personnel expenses	
Economic benefit/economic obligation and pension expenses	31.12.2018	31.12.2018	31.12.2017			2018	2017
Welfare funds	32,500	—	—	—	—	—	—
Pension schemes without excess/insufficient cover (domestic)	—	—	—	—	19,784	19,784	19,370
Pension schemes without excess/insufficient cover (abroad)	—	—	—	—	2,586	2,586	1,788
Pension schemes with excess cover (domestic)	90	—	—	—	94	94	—
Total	32,590	—	—	—	22,464	22,464	21,158

¹⁾ Including result from employer contribution reserves or comparable items in connection with pension schemes abroad.

Breakdown of pension expenses 2018	Domestic	Abroad	Total
Contributions to pension plans at cost to the companies	19,878	2,586	22,464
Contributions to pension plans from employer contribution reserves	—	—	—
Total contributions	19,878	2,586	22,464
Change in ECR due to asset performance, value adjustments, etc.	—	—	—
Contributions and change to employer contribution reserves	19,878	2,586	22,464
Increase in economic benefit to the company due to excess cover	—	—	—
Reduction in economic obligations of the company due to insufficient cover	—	—	—
Total change in economic impact arising from excess/insufficient cover	—	—	—
Pension expenses in personnel expenses for the period	19,878	2,586	22,464

Breakdown of pension expenses 2017	Domestic	Abroad	Total
Contributions to pension plans at cost to the companies	19,370	1,788	21,158
Contributions to pension plans from employer contribution reserves	—	—	—
Total contributions	19,370	1,788	21,158
Change in ECR due to asset performance, value adjustments, etc.	—	—	—
Contributions and change to employer contribution reserves	19,370	1,788	21,158
Increase in economic benefit to the company due to excess cover	—	—	—
Reduction in economic obligations of the company due to insufficient cover	—	—	—
Total change in economic impact arising from excess/insufficient cover	—	—	—
Pension expenses in personnel expenses for the period	19,370	1,788	21,158

22. Acquisitions

In the year under review, Emmi did not acquire new companies. In 2017, the acquired companies reported the following main balance sheet items at the date of acquisition:

	2017			
	Jackson-Mitchell, Inc.	Lácteos Caprinos S.A.	Italian Fresh Foods S.p.A.	Mexideli
Cash and securities	3,912	2,265	1,202	4,197
Trade receivables	2,713	452	3,729	6,108
Inventories	2,590	837	1,898	8,103
Other current assets	62	267	717	694
Non-current assets	2,594	2,598	5,077	1,025
Trade payables	566	579	1,975	5,948
Other current liabilities	1,182	607	1,688	980
Non-current liabilities	807	648	2,290	–
Shareholders' equity	9,316	4,585	6,670	13,199
Balance sheet total	11,871	6,419	12,623	20,127

On 4 January 2017, Emmi fully acquired the American family company Jackson-Mitchell, Inc., based in Turlock (US). This firm is a leading supplier of goat's milk and evaporated and powdered goat's milk in the US.

On 12 January 2017, Emmi acquired a stake of 80 % in Lácteos Caprinos S.A., based in Campillo de Arenas (Spain). This firm is specialised in the manufacture of semi-finished products (curd) for goat's cheese manufacturers.

On 1 March 2017, Emmi fully acquired Italian dessert specialist Italian Fresh Foods S.p.A., based in Lasnigo/Como (Italy).

On 8 October 2017, Emmi increased its stake in Mexideli 2000 Holding S.A. de C.V., based in Mexico City (Mexico), from 50 % to 51 % and consequently obtained control over it. Mexideli is Mexico's leading importer of premium food products – e.g. speciality cheese.

23. Unsettled derivative financial instruments

	31.12.2018			31.12.2017		
	Positive value	Negative value	Purpose	Positive value	Negative value	Purpose
Forward currency transactions	1,878	31	Hedging	757	2,016	Hedging
Other forward transactions	–	36	Hedging	–	189	Hedging
Total forward transactions	1,878	67	–	757	2,205	–
Thereof to hedge future cash flows	758	67	–	130	992	–
Total recognised in the balance sheet	1,120	–	–	627	1,213	–

Similar to the underlying transactions, currency forwards used to hedge future cash flows are not recognised in the balance sheet. The result of these derivative instruments is recognised in the income statement upon occurrence of the transaction hedged. Derivative financial instruments used to hedge balance sheet positions in foreign currencies are recognised as securities in the current assets or other payables in the current liabilities respectively. Corresponding changes in value are recognised in the financial result.

Emmi also has options to acquire additional shares in associates and joint ventures. At the same time, rights to sell their shares were granted to some counterparties. For these purchase and selling rights, the prices agreed are generally based on fair market value at the time of exercise. Currently, these options cannot be reliably measured and are therefore not recognised in the balance sheet.

24. Contingent assets and 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 significant negative impact on the operating activities or on the Group's financial situation. Expected outgoing payments are provided for accordingly. Emmi is committed, in relation to the application for a government grant, to indemnify a third-party investor for damages up to a maximum of CHF 18.4 million (previous year: CHF 18.3 million) in case Emmi does not comply with the conditions attached to the grant. As at the date of the financial statements, the Group had no major contingent assets.

25. Pledged assets and off-balance sheet leasing/rental obligations

Pledged assets	31.12.2018	31.12.2017
Pledges on property, nominal values	286,426	281,287
Thereof used as security for own liabilities	54,651	53,634
Off-balance sheet leasing/rental obligations		
1 to 2 years	18,657	19,830
3 to 5 years	19,195	19,028
over 5 years	24,407	28,191
Total	62,259	67,049

26. Investment obligations and other off-balance sheet liabilities

	31.12.2018	31.12.2017
Investment obligations in connection with previously concluded agreements	18,523	5,916
Long-term commodity contracts	1,117	515
Cooperation agreements with suppliers/customers	p.m.	p.m.

Furthermore, there are milk purchase agreements which are not quantifiable.

The long-term commodity contracts are purchase agreements for coffee which will be settled at the market price valid in the period of delivery.

27. Transactions with related parties

Business transactions with related parties are based on arm's length conditions. All transactions are reported in the consolidated financial statements for 2018 and 2017, and consist of deliveries of products and raw materials, loans, and services to and from related parties. The corresponding receivable and payable balances are reported separately in these financial statements (see notes 9, 10, 12, 13, 16, 17, 18 and 19).

Transactions with associates	2018	2017
Net sales	23,051	25,321
Cost of materials and services	35,111	61,703
Other expenses	2,483	2,655
Financial income	259	474
Financial expense	–	86

Transactions with shareholders	2018	2017
Net sales	4,613	4,187
Cost of materials and services	190,583	187,397
Other expenses	30	17

Transactions with other related parties	2018	2017
Net sales	1,048	3,850
Cost of materials and services	1,288	3,035
Other expenses	293	162

Milk purchases from the main shareholder are included in cost of materials under transactions with shareholders. These are made at arm's length conditions. Emmi Group is jointly and severally liable within the scope of VAT Group taxation for the associated liabilities of the Genossenschaft Zentralschweizer Milchproduzenten ZMP and ZMP Invest AG.

Part of the purchase price for the minority interest in Mittelland Molkerei AG acquired in the previous year was paid to the seller, AZM Verwaltungs AG, in the form of shares in Emmi AG. For this purpose, Emmi purchased 61,132 shares at market value from its main shareholder, ZMP Invest AG.

Other transactions

The compensation paid to members of the Board of Directors and Group Management is disclosed in the compensation report of Emmi AG.

28. Shareholders

Nominal capital	31.12.2018	%	31.12.2017	%
ZMP Invest AG , Lucerne ¹⁾	28,488	53.2	28,476	53.2
Zentralschweizer Milchkäuferverband, Willisau ¹⁾	2,250	4.2	2,250	4.2
MIBA Milchverband der Nordwestschweiz, Aesch (BL) ¹⁾	1,810	3.4	1,811	3.4
Other	20,950	39.2	20,961	39.2
Total	53,498	100.0	53,498	100.0

¹⁾ ZMP Invest AG , Lucerne, the Zentralschweizer Milchkäuferverband, Willisau, and the MIBA Milchverband der Nordwestschweiz, Aesch (BL), form a group in the sense of Article 121 of the FMIA. The Group owns 60.8 % (previous year: 60.8 %) of the total voting rights.

As at 7 June 2016, Capital Group Companies Inc. informed us that it owned 268,500 shares of Emmi AG (5.019 %). No further disclosure notifications have been made since.

As at 31 December 2018, Emmi Wohlfahrtsfonds (welfare fund) owned a total of 6,000 shares of Emmi AG (unchanged to previous year).

29. Risk management and internal controls

The Board of Directors of Emmi AG has the ultimate responsibility for risk management, while implementation is delegated to Group Management. Irrespective of the type of risk, there is a generally applicable risk management process. As part of a formal process, significant business risks are assessed in workshops and individual interviews according to the extent of the potential damage and their likelihood of occurrence. This process is divided into two sub-processes: risk analysis and definition of measures. The first sub-process includes risk identification, assessment and classification. Risks are classified according to whether they are strategic, operational, financial or compliance-related. The second sub-process, definition of measures, covers how to deal with risks and the creation of a catalogue of measures per risk, as well as risk reporting.

The Board of Directors of Emmi AG approved the risk assessment in the year under review and monitors implementation of the measures defined by Group Management. No exceptional risks that went beyond normal limits were identified during the assessment. The process is repeated annually. The following risks, among others, were identified as significant risks to the Emmi Group:

- Milk price difference internationally: The milk price difference between Switzerland and other countries continues to have a negative impact on the sales of domestically produced products both in Switzerland, as the volume of imported milk products increases, and abroad. Although full liberalization of the Swiss milk market remains a long-term risk, this is absorbed through targeted and sustainable growth abroad. Any risks related to the international growth of the Emmi Group are minimized by strictly focusing on the strategy and its implementation.
- Currency risk: Although currency movements are currently less volatile than in previous years, in particular uncertainties related to Brexit and the corresponding impact on the British pound continue to be a risk for the Group. We aim to achieve natural hedges with purchases in foreign currencies. Furthermore, in-line with the Emmi strategy, expenditure and production in foreign currency zones are being increased through capital expenditures and acquisitions.
- Price pressure: National and international product tenders, as well as a potentially successful market launch of milk alternatives, threaten to result in price erosion, which could lead to a loss of margin mainly for generic products. If the prices of Emmi products remain stable in foreign currency, this may lead to a margin loss. If prices increase, market shares might be lost. However, the successfully established Emmi brands offer long-term value creation potential.

- Trade agreements: The drafting of trade agreements in countries in which Emmi operates presents both opportunities and risks for the company. Switzerland is currently engaged in various talks aimed at negotiating new trade agreements or renegotiating existing ones, but progress is slow. As a result, the Swiss dairy industry is increasingly lagging behind its competitors – especially those from the European Union – on the international market in terms of market access conditions. Negotiations that are unfavourable for Emmi could potentially also lead to heavy import pressure in Switzerland. A suspension of the bilateral agreements with the European Union would make it harder for Swiss export products to gain access to the market (e.g. due to the reintroduction of customs duties on cheese), posing a considerable risk. Meanwhile, the future structure of trade agreements between the European Union and the UK could also have significant ramifications for Emmi.

The Emmi Group is exposed to various financial risks through its business activities, including credit, liquidity and other market risks. Credit risks are managed by means of continual monitoring of day-to-day business and appropriate risk assessment when closing a transaction. Liquidity risk is managed by means of central cash management, which ensures that the planned liquidity requirement is covered by corresponding financing agreements. Other market risks, such as currency and interest rate risks, are partially hedged using derivative instruments. The non-hedged part is consciously borne as a risk. The currencies which are of particular relevance to the Emmi Group are the Euro, the US dollar and the British pound.

To ensure that the consolidated financial statements comply with the applicable accounting standards and are reported accurately, the Emmi Group has set up effective internal control and management systems, which are reviewed regularly. The accounting and valuation include estimates and assumptions regarding the future. These are based on the knowledge possessed by the respective employees and are regularly examined with a critical eye. Where a financial position includes a major valuation uncertainty that could lead to a significant change in the carrying amount, this uncertainty is disclosed accordingly in the Notes. However, no risks that could lead to a significant correction to the company's assets, financial position or results of operations as reported in the annual accounts were identified as at the balance sheet date.

30. Subsequent events

Acquisition of a blue cheese production site in the US

On 4 January 2019, Emmi announced the purchase of a blue cheese production site from the Great Lakes Cheese Company in the US. Emmi is thus gaining capacity and know-how for the production of blue cheese in the US and at the same time extending its value chain. The transaction includes the factory, the related land and the production facilities in Seymour, Wisconsin. The 50 employees at the production site currently produce almost 3.5 million kilograms of cheese. The transaction is expected to be completed in the first quarter of 2019.

Sale of Emmi Frisch-Service AG

On 31 January 2019, Emmi announced that it will sell its Swiss trading and supply company Emmi Frisch-Service AG to the Transgourmet Group. The sales of this company amount to approximately CHF 110 million on a full-year basis. In addition, around 160 employees will join the Transgourmet Group. Emmi does not expect this transaction to have a significant impact on the Group's results in the following year. The completion of the transaction is subject to the approval of the Swiss Competition Commission.

From the balance sheet date until the consolidated financial statements were approved by the Board of Directors on 27 February 2019, no other major events occurred which could have adversely affected the validity of the financial statements for 2018 or which would have to be disclosed.

31. Summary of consolidated companies, associates and joint ventures

Consolidated companies	Head office	Function	Currency	Capital in 000s 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
Switzerland						
Emmi AG	Lucerne	Holding	CHF	53,498	100 %	100 %
Baumann Käse AG	Zollikofen	Trade	CHF	100	100 %	100 %
Emmi Finanz AG	Lucerne	Service	CHF	100	100 %	100 %
Emmi Fondue AG	Langnau i.E.	Production	CHF	15,000	100 %	100 %
Emmi Frisch-Service AG	Schlieren	Trade	CHF	1,000	100 %	100 %
Emmi International AG	Lucerne	Service	CHF	5,000	100 %	100 %
Emmi Management AG	Lucerne	Service	CHF	500	100 %	100 %
Emmi Schweiz AG	Lucerne	Prod. and trade	CHF	5,700	100 %	100 %
FDS Fromagerie de Saignelégier SA	Saignelégier	Production	CHF	1,050	86 %	86 %
Fromco S.A. Moudon	Moudon	Production	CHF	2,100	60 %	60 %
Holding der Schweizerischen Milchproduzenten AG	Münchenbuchsee	Service	CHF	100	100 %	100 %
Käserei Studer AG ¹⁾	Hefenhofen	Prod. and trade	CHF	720	100 %	100 %
Lesà Lataria Engiadinaisa SA	Bever	Prod. and trade	CHF	1,500	80 %	80 %
Mittelland Molkerei AG	Suhr	Production	CHF	20,000	100 %	100 %
Molkerei Biedermann AG	Bischofszell	Prod. and trade	CHF	1,010	100 %	100 %
MOPRO Luzern AG	Lucerne	Service	CHF	120	100 %	100 %
Regio Molkerei beider Basel AG	Frenkendorf	Production	CHF	3,000	80 %	80 %
Studer Holding AG ¹⁾	Hefenhofen	Service	CHF	–	–	100 %
Studer Käsemarketing AG ¹⁾	Hefenhofen	Service	CHF	–	–	100 %
Sweet Port Services SA	Lugano	Trade	CHF	250	100 %	100 %
Swissexport, Aktiengesellschaft Schweizerischer Käseexporteure	Berne	Service	CHF	100	79 %	79 %
Spain						
Admilac Servicios Profesionales, S.L.	San Sebastian	Service	EUR	3	73 %	73 %
Altamira Alimentaria, S.L.	Renado	Trade	EUR	3	73 %	73 %
Kaiku Corporación Alimentaria, S.L.	San Sebastian	Service and trade	EUR	82,110	73 %	73 %
Kaiku Internacional, S.L.	San Sebastian	Service and trade	EUR	61,632	73 %	73 %
Lácteos Caprinos S.A.	Campillo de Arenas	Prod. and trade	EUR	600	80 %	80 %
Lácteos de Navarra, S.L.	Pamplona	Production	EUR	9,647	73 %	73 %
Llet Nostra Alimentaria, S.L.	Barcelona	Trade	EUR	2,764	33 %	36 %
SDA Bilbao, S.L.	Bilbao	Service	EUR	3	73 %	73 %
SDA Catalunya	Barcelona	Trade	EUR	3	53 %	55 %
SDA Guipuzcoa, S.L.	Bilbao	Service	EUR	3	73 %	73 %
Servicios Logísticos Jundiz, S.L. ²⁾	Vitoria	Service	EUR	102	73 %	–
Kaiku Km0, S.L.	Bilbao	Service and trade	EUR	625	73 %	73 %
Soc. Servicios Logísticos SDA Central, S.L.	Bilbao	Service	EUR	3	73 %	73 %
Tecnología y Calidad Láctea, S.L.	San Sebastian	Service	EUR	3	73 %	73 %

¹⁾ Käserei Studer AG and Studer Käsemarketing AG were merged into Studer Holding AG on 20 June 2018, retroactive to 1 January 2018. Afterwards, Studer Holding AG was renamed to Käserei Studer AG.

²⁾ Servicios Logísticos Jundiz, S.L. was founded on 24 January 2018.

Consolidated companies	Head office	Function	Currency	Capital in 000s 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
Netherlands						
AVH dairy trade B.V.	Bergen	Prod. and trade	EUR	18	90 %	75 %
Bettinehoeve B.V.	Etten-Leur	Prod. and trade	EUR	18	60 %	60 %
Emmi Benelux B.V.	Tiel	Trade	EUR	523	100 %	100 %
Emmi Finance Netherlands B.V.	Tiel	Service	EUR	p.m.	100 %	100 %
Goat Milk Powder B.V.	Etten-Leur	Production	EUR	1	54 %	45 %
Rachelli International B.V.	Amsterdam	Trade	EUR	18	100 %	100 %
Germany						
Emmi Deutschland GmbH	Essen	Trade	EUR	75	100 %	100 %
Gläserne Molkerei GmbH ³⁾	Dechow	Prod. and trade	EUR	375	100 %	100 %
Gläserne Molkerei Münchehofe GmbH ³⁾	Münchehofe	Prod. and trade	EUR	100	100 %	100 %
Hofmolkerei Münchehofe GmbH	Münchehofe	Trade	EUR	25	100 %	100 %
Meierei Mecklenburg GmbH ³⁾	Dechow	Trade	EUR	—	—	100 %
Molkerei Biedermann GmbH	Constance	Trade	EUR	25	100 %	100 %
Rutz Käse GmbH	Constance	Trade	EUR	25	100 %	100 %
Italy						
A-27 S.p.A.	Rancio Valcuvia	Prod. and trade	EUR	1,000	100 %	100 %
Emmi Dessert Italia S.p.A. ⁴⁾	Milan	Trade	EUR	1,000	100 %	100 %
Emmi Holding Italia S.r.l.	Milan	Service	EUR	1,714	100 %	100 %
Emmi Italia S.p.A.	Milan	Trade	EUR	500	100 %	100 %
Italian Fresh Foods S.p.A.	Lasnigo	Prod. and trade	EUR	202	100 %	100 %
Rachelli Italia S.r.l.	Pero	Production	EUR	52	100 %	100 %
France						
Distribution Frais Disfrais SAS ⁵⁾	Avignon	Trade	EUR	192	85 %	51 %
EAF Immo 84 SCI ⁵⁾	Nice	Service	EUR	270	85 %	51 %
Emmi France SAS	Rungis	Trade	EUR	40	100 %	100 %
Ets Schoepfer SAS ⁵⁾	Avignon	Trade	EUR	1,252	85 %	51 %
SAS Emmi Ambrosi France E.A.F. ⁵⁾	Nice	Service	EUR	3,927	85 %	51 %
Belgium						
Emmi Belux SA	Brussels	Trade	EUR	62	100 %	100 %
United Kingdom						
Emmi UK Limited	London	Trade	GBP	4,717	100 %	100 %
Austria						
Emmi Österreich GmbH	Nüziders	Trade	EUR	2,800	100 %	100 %
Tunisia						
Centrale Laitière de Mahdia, S.A.	Mahdia	Production	TND	33,000	40 %	33 %
Société tunisienne d'engraissement des veaux S.A.R.L.	Mahdia	Production	TND	140	36 %	30 %

³⁾ Meierei Mecklenburg GmbH was merged into Gläserne Molkerei GmbH on 7 August 2018, retroactive to 1 January 2018. Afterwards, Gläserne Meierei GmbH and Gläserne Molkerei GmbH were renamed to Gläserne Molkerei GmbH, respectively Gläserne Molkerei Münchehofe GmbH.

⁴⁾ Eurogel S.r.l. was renamed to Emmi Dessert Italia S.p.A. on 1 November 2018.

⁵⁾ 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. As the share that is held indirectly by associates is no longer considered, the total share in the prior year has been adjusted.

Consolidated companies	Head office	Function	Currency	Capital in 000s 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
United States						
Cowgirl Creamery Corporation ⁶⁾	Petaluma	Prod. and trade	USD	–	–	100 %
Cypress Grove Chèvre, Inc.	Arcata	Prod. and trade	USD	202	100 %	100 %
Emmental Cheese Corp.	Orangeburg	Trade	USD	6	100 %	100 %
Emmi Holding (USA), Inc.	Orangeburg	Service	USD	1	100 %	100 %
Emmi Penn Yan LLC	Penn Yan	Production	USD	2,390	100 %	100 %
Emmi Platteville, Inc.	Delaware	Service	USD	p.m.	100 %	100 %
Emmi Resume LLC ⁷⁾	Delaware	Service	USD	p.m.	100 %	–
Emmi Roth USA, Inc.	Monroe	Prod. and trade	USD	2	100 %	100 %
Emmi USA Inc.	Orangeburg	Trade	USD	800	100 %	100 %
Jackson-Mitchell, Inc.	Turlock	Prod. and trade	USD	50	100 %	100 %
Redwood Hill Farm & Creamery, Inc.	Sebastopol	Prod. and trade	USD	p.m.	100 %	100 %
Switzerland Cheese Marketing (USA) Inc.	Orangeburg	Trade	USD	1	79 %	79 %
Tomales Bay Foods, Inc.	Petaluma	Prod. and trade	USD	p.m.	100 %	100 %
Zingg + Co. Inc.	Orangeburg	Trade	USD	1	100 %	100 %
Mexico						
Alimentos Finos del Sureste, S.A. de C.V.	Cancun, Qroo	Trade	MXN	100	38 %	38 %
Comalca 2000, S.A. de C.V.	Cancun, Qroo	Trade	MXN	14,960	38 %	38 %
Comalca Gourmet, S.A. de C.V.	Cancun, Qroo	Trade	MXN	12,623	38 %	38 %
Distribuidora Internacional de Lacteos, S.A. de C.V.	Mexico City	Trade	MXN	50	38 %	38 %
Distribuidora Mexideli, S.A. de C.V.	Mexico City	Service	MXN	100	51 %	51 %
Mexideli 2000 Holding S.A. de C.V.	Mexico City	Trade	MXN	101,759	51 %	51 %
Mexideli, S.A. de C.V.	Mexico City	Trade	MXN	68,350	51 %	51 %
Tecnologias Narcisco, S.A. de C.V.	Mexico City	Trade	MXN	60	51 %	51 %
Chile						
Eurolac Chile, S.A.	Santiago	Service	CLP	29,020,654	73 %	73 %
Kaiku Internacional, S.L. Agencia en Chile ⁸⁾	Santiago	Service	CLP	–	–	73 %
SDA Chile, S.A.	Santiago	Trade	CLP	798,271	72 %	72 %
Surlat Comercial, S.A.	Santiago	Trade	CLP	7,934,483	72 %	72 %
Surlat Corporación, S.A.	Santiago	Service	CLP	28,624,995	72 %	72 %
Surlat Industrial, S.A.	Pitrufoquen	Production	CLP	20,310,389	72 %	72 %
Canada						
Emmi Canada Inc.	Saint-Laurent	Trade	CAD	27,152	100 %	100 %
Switzerland Cheese Marketing Inc.	Saint-Laurent	Trade	CAD	1	79 %	79 %
9314 – 8591 Québec Inc.	Boucherville	Trade	CAD	3,137	100 %	100 %
Brazil						
Emmi do Brasil Holding Ltda.	Sao Paulo	Service	BRL	481,000	100 %	100 %

⁶⁾ Cowgirl Creamery Corporation was merged into Tomales Bay Foods, Inc. on 1 January 2018.

⁷⁾ Emmi Resume LLC was founded on 21 December 2018.

⁸⁾ Kaiku Internacional, S.L. Agencia en Chile was liquidated on 28 June 2018.

The percentage of voting rights controlled by the Emmi Group in the subsidiaries of Kaiku Corporación Alimentaria, S.L. and the subsidiaries of Mexideli 2000 Holding S.A. de C.V. differs from the capital share since Emmi controls these subsidiaries through its control of the parent companies.

Associates and joint ventures	Head office	Function	Currency	Capital in 000s 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
Switzerland						
BO Butter GmbH	Berne	Service	CHF	500	33 %	33 %
Cetra Holding SA	Lugano	Trade	CHF	250	34 %	34 %
FDC Fromagerie de Courgenay SA	Courgenay	Service	CHF	990	25 %	25 %
Sbrinz Käse GmbH	Sursee	Service	CHF	180	24 %	24 %
Switzerland Cheese Marketing AG	Berne	Service	CHF	290	23 %	23 %
Thurgauische Käse-Reifungs AG	Weinfelden	Service	CHF	2,000	25 %	25 %
Vermo Tiefkühl Pool AG	Lucerne	Trade	CHF	2,500	35 %	35 %
Italy						
Ambrosi S.p.A.	Brescia	Prod. and trade	EUR	10,000	25 %	25 %
Sepa S.r.l.	Pieve Porto Morone	Prod. and trade	EUR	100	40 %	40 %
Germany						
Carl Fr. Scheer GmbH + Co. KG	Willstätt	Trade	EUR	500	25 %	25 %
Scheer Verwaltungs u. Beteiligungs GmbH	Willstätt	Service	EUR	26	25 %	25 %
Spain						
Batiovo I.A.E.	Madrid	Trade	EUR	12	37 %	37 %
Serkolat Bide, S.L.	San Sebastian	Service	EUR	8	37 %	37 %
United States						
Big Red Cheese Company LLC	Monroe	Trade	USD	p.m.	50 %	50 %
EB Snacks LLC	Delaware	Production	USD	2	50 %	50 %
Emmi Meister LLC	Fitchburg	Production	USD	2	50 %	50 %
Kindred Creamery LLC	Fitchburg	Trade	USD	1	30 %	30 %
The Icelandic Milk and Skyr Corporation ¹⁾	New York	Production	USD	–	–	22 %
White Hill Cheese Company LLC	Shullsburg	Production	USD	7,000	50 %	50 %
Brazil						
Laticínios Porto Alegre Indústria e Comércio S.A.	Ponte Nova	Prod. and trade	BRL	344,637	40 %	40 %

¹⁾ The minority stake in The Icelandic Milk and Skyr Corporation was sold on 1 February 2018.

Auditors' report



Statutory Auditor's Report

To the General Meeting of Emmi AG, Lucerne

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion the consolidated financial statements (pages 75 to 109) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Valuation of goodwill



Valuation of inventories, in particular the cheese inventory

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



Valuation of goodwill

Key Audit Matter

Intangible assets, including particularly goodwill, is a significant balance sheet caption of Emmi Group, and their recoverability depends on the achievement of expected future returns.

These non-current assets are assessed annually for their recoverability. In this context, management makes significant assumptions concerning the future development. If there is any indication of a decline in value, the Group performs a calculation of the recoverable amount.

Major goodwill positions are tested for impairment on the basis of the cash generating units to which they are allocated. These tests are based on estimates concerning the future cash flows, the underlying growth and the applied discount rates. The results are therefore subject to uncertainty.

For further information on goodwill refer to the following:

- Principles of valuation, page 83
- Note 15 Intangible assets

Our response

We mainly performed the following audit procedures:

We challenged management's assumptions and judgments with regards to the recoverability of goodwill. We analyzed whether management's assessments are based on current forecasts approved by the Board of Directors.

We evaluated the calculations of the recoverable amounts with respect to consistency and methodical adequacy and performed recalculations on a sample basis. We assessed the appropriateness of the estimated future cash flows and the growth rates among others by comparing these against external market expectations regarding consumer behavior, based on industry information and economic data. For testing the discount rates, we involved one of our valuation specialists, benchmarked the input factors against market data and re-performed the calculations. In addition, we also carried out sensitivity analyses with different growth scenarios.



Valuation of inventories, in particular the cheese inventory

Key Audit Matter

Inventories is a significant caption in the consolidated balance sheet of Emmi AG. Goods manufactured by the Group are recognized at manufacturing costs, which are validated regularly. In addition, there is a periodic assessment about whether goods can be sold without realizing a loss.

Regarding cheese, which is included in semi-finished and finished products, this valuation and assessment requires know-how with respect to its production and maturation. This includes considering the utilization of manufacturing plants and equipment, the natural weight loss in relation to maturation, the costs of cheese handling as well as the expected sales volumes and prices.

Our response

We mainly performed the following audit procedures:

We obtained an understanding of the process from initiating purchase orders to payment of invoices. Based on this we assessed whether transactions are completely and accurately recorded in the accounts. Considering the diverse design of internal control systems of individual subsidiaries, we tested the operating effectiveness of key controls relating to acquisition and manufacturing costs.

We analyzed the consistency of the valuation method used for cheese inventories by a prior year comparison. We assessed the appropriateness of the cheese inventory valuation by testing acquisition costs and the calculation of manufacturing costs on a sample basis. To test the valuation at lower of cost or net realizable



value, we compared costs and sales prices by reference to a sample.

For further information on Valuation of inventories refer to the following:

- Principles of valuation, page 82
- Note 11 Inventories

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

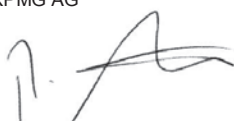
From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG


 Thomas Affolter
 Licensed Audit Expert
 Auditor in Charge


 Manuel Odoni
 Licensed Audit Expert

Lucerne, 27 February 2019

"Cars and factories make the climate warmer"

Jil, aged 9



Greenhouse gases

Here at Emmi, we are committed to reducing our global CO₂ emissions by 25 % by 2020. One of the ways we can achieve this is by avoiding the use of fossil fuels such as crude oil wherever possible. This is why we are using solar energy at more and more locations, for example in Saignelégier (Switzerland), Platteville (USA) and Nüziders (Austria).

Martin Steiger, Coordinator of focus issue
"Greenhouse gases"



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131	Share information of Emmi AG
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Income statement

in CHF 000s

	Notes	2018	2017
Income from investments	2.1	87,675	436,448
Other financial income	2.2	20,300	20,105
Other operating income		6,379	6,289
Total income		114,354	462,842
Financial expenses	2.3	-19,988	-18,007
Personnel expenses		-1,035	-937
Other operating expenses		-6,384	-5,780
Direct taxes		-341	-1,631
Total expenses		-27,748	-26,355
Net profit		86,606	436,487

Balance sheet

in CHF 000s

Assets	Notes	31.12.2018	%	31.12.2017	%
Cash and cash equivalents		8,365		3,809	
Other short-term receivables from third parties		32		18	
Other short-term receivables from companies in which the entity holds an investment		72,395		53,368	
Prepayments and accrued income		64		1,623	
Current assets		80,856	6.0	58,818	4.4
Loans to companies in which the entity holds an investment	2.4	182,556		186,945	
Investments in subsidiaries and associates	2.5	1,076,437		1,078,723	
Financial assets		1,258,993		1,265,668	
Prepayments and accrued income		122		164	
Non-current assets		1,259,115	94.0	1,265,832	95.6
Total assets		1,339,971	100.0	1,324,650	100.0
Liabilities and shareholders' equity					
Other current payables due to third parties		145		11,854	
Accrued liabilities and deferred income		2,775		4,464	
Current liabilities		2,920	0.2	16,318	1.2
Non-current interest-bearing debts due to third parties		112,556		116,945	
Non-current liabilities		112,556	8.4	116,945	8.8
Liabilities		115,476	8.6	133,263	10.0
Share capital	2.6	53,498		53,498	
Legal capital reserves					
– Reserves from capital contributions	2.7	13,644		51,093	
Legal retained earnings		2,886		2,886	
Voluntary retained earnings					
– Free reserves		1,065,000		645,000	
– Available earnings					
– Profit brought forward		2,861		2,423	
– Net profit		86,606		436,487	
Shareholders' equity		1,224,495	91.4	1,191,387	90.0
Total liabilities and shareholders' equity		1,339,971	100.0	1,324,650	100.0

Statement of changes in equity

in CHF 000s

	Share capital	Legal capital reserves	Legal retained earnings	Free reserves	Available earnings	Total
Shareholders' equity as at 1 January 2015	53,498	129,200	2,886	445,000	81,158	711,742
Allocation	—	—	—	80,000	-80,000	—
Dividend	—	-20,329	—	—	—	-20,329
Net profit for the year	—	—	—	—	53,605	53,605
Shareholders' equity as at 31 December 2015	53,498	108,871	2,886	525,000	54,763	745,018
Allocation	—	—	—	50,000	-50,000	—
Dividend	—	-26,214	—	—	—	-26,214
Net profit for the year	—	—	—	—	67,660	67,660
Shareholders' equity as at 31 December 2016	53,498	82,657	2,886	575,000	72,423	786,464
Allocation	—	—	—	70,000	-70,000	—
Dividend	—	-31,564	—	—	—	-31,564
Net profit for the year	—	—	—	—	436,487	436,487
Shareholders' equity as at 31 December 2017	53,498	51,093	2,886	645,000	438,910	1,191,387
Allocation	—	—	—	420,000	-420,000	—
Dividend	—	-37,449	—	—	-16,049	-53,498
Net profit for the year	—	—	—	—	86,606	86,606
Shareholders' equity as at 31 December 2018	53,498	13,644	2,886	1,065,000	89,467	1,224,495

Notes to the financial statements

in CHF 000s

1. Principles

1.1 General aspects

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations).

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

1.2 Securities listed on a stock exchange

Securities with a short-term holding period are valued at their quoted market price as at the balance sheet date. A valuation adjustment reserve has not been accounted for.

1.3 Financial assets

Financial assets include long-term loans and investments. Loans granted in foreign currencies are translated at the rate at the balance sheet date, whereby unrealised losses are recorded but unrealised profits are not recognised (impairment principle).

1.4 Non-current interest-bearing debts

Interest-bearing debts are recognised in the balance sheet at nominal value.

1.5 Foregoing a cash flow statement and additional disclosures in the Notes

As Emmi AG has prepared its consolidated financial statements in accordance with a recognised accounting standard (Swiss GAAP FER), it has decided to forego presenting additional information on interest-bearing liabilities and audit fees in the notes as well as a cash flow statement, in accordance with the law.

2. Information on balance sheet and income statement items

2.1 Income from investments

This position includes dividend income from investments. In financial year 2017, the financing of the Swiss group entities was reorganised and simplified. In this process, high extraordinary dividends were distributed to Emmi AG. With these funds, Emmi AG carried out capital increases at other group companies and acquired intragroup investments.

2.2 Other financial income

Other financial income mainly comprises foreign currency gains and interest income on loans granted to companies in which the entity holds an investment.

2.3 Financial expenses

Financial expenses mainly comprise foreign currency losses and interest expenses.

2.4 Loans to companies in which the entity holds an investment

Loans to companies in which the entity holds an investment include subordinated loans in the amount of CHF 40.0 million. The subordinated loans were cancelled in 2018.

2.5 Investments

	Function	Currency	Capital in 000s 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
Switzerland					
Baumann Käse AG , Zollikofen	Trade	CHF	100	100 %	100 %
Cetra Holding SA, Lugano	Trade	CHF	250	34 %	34 %
Emmi Finanz AG, Lucerne	Service	CHF	100	100 %	100 %
Emmi Fondue AG , Langnau i.E.	Production	CHF	15,000	100 %	100 %
Emmi Frisch-Service AG, Schlieren	Trade	CHF	1,000	100 %	100 %
Emmi International AG , Lucerne	Service	CHF	5,000	100 %	100 %
Emmi Management AG, Lucerne	Service	CHF	500	100 %	100 %
Emmi Schweiz AG , Lucerne	Production and trade	CHF	5,700	100 %	100 %
Fromco S.A. Moudon, Moudon	Production	CHF	2,100	60 %	60 %
Holding der Schweizerischen Milchproduzenten AG, Münchenbuchsee	Service	CHF	100	100 %	100 %
Käserei Studer AG, Hefenhofen ¹⁾	Production and trade	CHF	720	100 %	100 %
Mittelland Molkerei AG , Suhr	Production	CHF	20,000	100 %	100 %
Molkerei Biedermann AG , Bischofszell	Production and trade	CHF	1,010	100 %	100 %
MOPRO Luzern AG , Lucerne	Service	CHF	120	100 %	100 %
Switzerland Cheese Marketing AG, Berne	Service	CHF	290	23 %	23 %
Vermo Tiefkühl Pool AG , Lucerne	Trade	CHF	2,500	35 %	35 %
Spain					
Kaiku Corporación Alimentaria, S.L., San Sebastián	Service and trade	EUR	82,110	73 %	73 %
Lácteos Caprinos S.A.	Production and trade	EUR	600	80 %	80 %
Germany					
Emmi Deutschland GmbH, Essen	Trade	EUR	75	100 %	100 %
Netherlands					
Emmi Finance Netherlands B.V., Tiel	Service	EUR	p.m.	100 %	100 %
Italy					
Emmi Holding Italia S.r.l., Milan	Service	EUR	1,714	70 %	70 %
United Kingdom					
Emmi UK Limited, London	Trade	GBP	4,717	100 %	100 %
Canada					
Emmi Canada Inc.	Trade	CAD	27,152	100 %	100 %
United States					
Emmi Holding (USA), Inc.	Service	USD	1	100 %	100 %

¹⁾ Studer Holding AG was renamed to Käserei Studer AG on 20 June 2018.

The above-mentioned investments are directly held by Emmi AG. Investments which are indirectly held by Emmi AG are mentioned in note 31 of the consolidated financial statements.

2.6 Share capital and significant shareholders

The share capital of KCHF 53,498 as at 31 December 2018 consists of 5,349,810 registered shares with a nominal value of CHF 10 (unchanged on the previous year).

Nominal capital	31.12.2018	%	31.12.2017	%
ZMP Invest AG, Lucerne ¹⁾	28,488	53.2	28,476	53.2
Zentralschweizer Milchkäuferverband, Willisau ¹⁾	2,250	4.2	2,250	4.2
MIBA Milchverband der Nordwestschweiz, Aesch (BL) ¹⁾	1,810	3.4	1,811	3.4
Other	20,950	39.2	20,961	39.2
Total	53,498	100.0	53,498	100.0

¹⁾ ZMP Invest AG, Lucerne, the Zentralschweizer Milchkäuferverband, Willisau, and the MIBA Milchverband der Nordwestschweiz, Aesch (BL), from a Group in the sense of Article 121 of the FMIA. The Group owns 60.8 % (previous year: 60.8 %) of the total voting rights.

As at 7 June 2016, Capital Group Companies Inc. informed us that it owned 268,500 shares of Emmi AG (5.019 %). No further disclosure notifications have been made since.

As at 31 December 2018, Emmi Wohlfahrtsfonds (welfare fund) owned a total of 6,000 shares of Emmi AG (unchanged on the previous year).

2.7 Capital contribution reserve

	31.12.2018	31.12.2017
Confirmed by the tax authorities	7,872	45,321
Not confirmed by the tax authorities	5,772	5,772
Total	13,644	51,093

The capital contribution reserve results from capital contribution payments above the nominal amount during past years.

3. Other disclosures

3.1 Full-time equivalents

In 2018 and in the previous year, Emmi AG employed fewer than 10 employees on average.

3.2 Collateral provided for liabilities of third parties

	31.12.2018	31.12.2017
Guarantees and joint liability for loans of Group companies	521,758	512,144
Of which used by Group companies	419,548	408,856
Other guarantees for Group companies	293,891	344,185

3.3 Contingent liabilities

Emmi AG is jointly and severally liable for the VAT liabilities of the other Swiss-domiciled Emmi companies and of the Genossenschaft Zentralschweizer Milchproduzenten ZMP and ZMP Invest AG.

3.4 Net release of hidden reserves

In the year under review and in 2017, there were no releases of hidden reserves.

3.5 Participations of members of the Board of Directors, the Council and Group Management

As at 31 December 2018, individual members of the Board of Directors, the Agricultural Council and Group Management (including affiliated persons) held the following number of shares in the company:

	No. of shares 31.12.2018	No. of shares 31.12.2017
Board of Directors		
Konrad Graber, Chairman	950	950
Thomas Oehen-Bühlmann, Vice-Chairman	615	615
Christian Arnold-Fässler, Member	30	30
Stephan Baer, Member (until 12.4.2018)	n.a.	34,500
Monique Bourquin, Member	—	—
Christina Johansson, Member (since 12.4.2018)	—	n.a.
Niklaus Meier, Member	200	200
Alexandra Post Quillet, Member (since 12.4.2018)	—	n.a.
Josef Schmidli, Member (until 12.4.2018)	n.a.	74
Franz Steiger, Member	400	400
Diana Strebel, Member	—	—
Agricultural Council		
Christophe Eggenschwiler (until 30.9.2018)	n.a.	—
Pirmin Furrer	—	—
Stephan Hagenbuch	50	50
Peter Hegglin	—	—
Group Management		
Urs Riedener, CEO	—	—
Marc Heim, Deputy CEO	150	150
Robin Barraclough, Member	20	20
Kai Könecke, Member	—	—
Matthias Kunz, Member	27	27
Thomas Morf, Member	—	—
Jörg Riboni, Member	—	—
Natalie Rüedi, Member	—	—

The members of the Board of Directors, the Agricultural Council and Group Management own a total of 2,442 shares (previous year: 37,016 shares) and thus hold 0.05 % of the voting rights (previous year: 0.69 %).

3.6 Significant events after the balance sheet date

Sale of Emmi Frisch-Service AG

On 31 January 2019, Emmi announced that it will sell its Swiss trading and supply company Emmi Frisch-Service AG, a direct subsidiary of Emmi AG, to the Transgourmet Group. Emmi does not expect this transaction to have a significant impact on Emmi AG's results in the following year. The completion of the transaction is subject to the approval of the Swiss Competition Commission.

From the balance sheet date until the financial statements were approved by the Board of Directors on 27 February 2019, no other major events occurred which could have adversely affected the validity of the financial statements for 2018 or which would have to be disclosed.

Proposed appropriation of available earnings

in CHF 000s

Available earnings	31.12.2018	31.12.2017
Retained earnings carried forward	2,861	2,423
Net profit	86,606	436,487
Available for distribution by the General Meeting	89,467	438,910

Appropriation of available earnings

The Board of Directors proposes that the General Meeting approve the distribution of a dividend of CHF 9.00 (previous year: CHF 10.00) gross per registered share for the 2018 financial year on 5,349,810 shares entitled to dividends. The Board of Directors likewise proposes that the distribution of CHF 1.00 per share be paid out of the capital contribution reserve (exempt from withholding tax) and CHF 8.00 per share be paid out of retained earnings (subject to withholding tax).

Earnings available for distribution by the General Meeting	89,467	438,910
Allocation from confirmed capital contribution reserve	5,350	37,449
Dividend	-48,148	-53,498
Allocation to free reserves	-40,000	-420,000
Carried forward to new account	6,669	2,861
Total distribution	48,148	53,498
Of which from confirmed capital contribution reserve (exempt from withholding tax)	-5,350	-37,449
Of which from other available earnings	-42,798	-16,049

Auditors' report



Statutory Auditor's Report

To the General Meeting of Emmi AG, Lucerne

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Emmi AG, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 118 to 127) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Manuel Odoni
Licensed Audit Expert

Lucerne, 27 February 2019

KPMG AG, Pilatusstrasse 41, CH-6003 Lucerne

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Share information Emmi AG

Stock exchange information		2018	2017	2016	2015	2014
Share price at 31.12.	in CHF	681.50	701.50	616.50	450.25	351.00
Year's high (end-of-day position)	in CHF	868.00	764.00	677.50	452.25	375.00
Year's low (end-of-day position)	in CHF	671.00	608.00	429.25	288.75	271.00
Market capitalization at 31.12.	in CHF million	3,646	3,753	3,298	2,409	1,878
Average trading volume	Units	4,842	5,377	4,355	5,518	3,286

Key share data		2018	2017	2016	2015	2014
Earnings per share	in CHF	43.60	30.20	26.23	22.46	14.75
Adjusted earnings per share	in CHF	32.80	30.20	26.23	22.46	20.45
Shareholders' equity per share	in CHF	298.82	272.20	247.03	225.76	212.78
Return on shareholders' equity ¹⁾	in %	-1.43	14.74	38.01	29.36	29.73
Distribution	in CHF	9.00	10.00	5.90	4.90	3.80
Distribution rate ²⁾	in %	20.64	33.11	22.49	21.81	25.76
Adjusted distribution rate ³⁾	in %	27.44	23.18 ⁴⁾	22.49	21.81	18.58
Dividend return ⁵⁾	in %	1.32	1.43	0.96	1.09	1.08

¹⁾ (Share price gain per share + distribution per share)/share price at the beginning of the year

²⁾ Distribution per share/earnings per share

³⁾ Distribution per share/adjusted earnings per share

⁴⁾ Based on the regular dividend of CHF 7.00 (without special dividend "siggi's" and anniversary dividend)

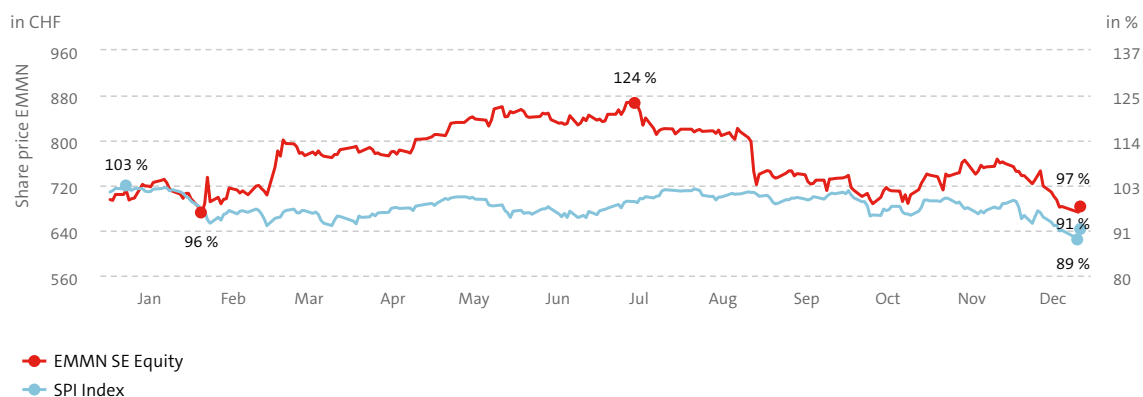
⁵⁾ Distribution per share/year-end closing price

Capital structure at 31.12.

Share capital	CHF 000s	53,498	53,498	53,498	53,498	53,498
divided into number of registered shares	Units	5,349,810	5,349,810	5,349,810	5,349,810	5,349,810
Par value per registered share	in CHF	10	10	10	10	10

Share ranking for dividends	All
Voting rights	All registered shareholders have full voting rights
Securities number	1.282.989
ISIN code	CH0012829898
Ticker	EMMN
Common code	20,592,664
Traded	in the SIX Local Caps segment on the SIX Swiss Exchange
Index inclusion	SPI, SPI Extra, SPI ex SLI, Swiss All Share Index

Share price 2018



"School teaches me
the things I need to
know in real life"

Jael, aged 9



Employees

Employee development at Emmi is not assessed in terms of how much we spend on courses and further training. We believe that regardless of country and role, all employees need personal goals in their daily work. Development goals are particularly valuable because they convey appreciation and trust.

Michael Lötscher, Coordinator of focus issue
"Employee development"



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