Hügli Holding AG

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Hügli achieves in 2010 best ever results in earnings and profitability Strong Swiss Franc affects sales growth

Hügli has once again been able to increase its profitability by focusing on increasing earnings. Organic revenue growth in 2010 was moderate at +3.2% in the consolidation phase. The unfavourable exchange rates as a result of the strong Swiss Franc depressed revenues in particular, which fell by a total of -4.7% to CHF 372.2 million. Thanks to an improved product mix and further improvements in efficiency and cost management we were able to increase our EBIT by +7.1% to CHF 37.8 million, and consolidated profits lifted due to extraordinary sales income by +18.1% to CHF 27.4 million. The return on the operating net assets invested increased to a very good 14.3%. These are the best ever results for Hügli – in absolute figures and also in terms of profitability. The Board of Directors is proposing a dividend of CHF 15.50 per bearer shares – up CHF 2.00 or 15% compared to the previous year.

The first quarter of 2011 showed weak results, just as we had expected, due to a reduction of sales by -2.6% in the ongoing business activities. The slowdown was caused mainly by comparing the results to those achieved in the same period in 2010, in which sales had soared by +9.5%. For the entire year 2011, we nevertheless expect moderate organic sales growth of +3 to +5% as well as EBIT comparable to the previous year's level.

There was organic growth in **consolidated revenues** 2010 of +3.2%, however this figure in the amount of CHF 372.2 million was lower than in the previous year due to currency translation. As was the case in the previous year, the increase is lower than the medium-term target, however it is part of the consolidation phase which links it to the prior period of strong growth when revenues increased from CHF 233 million in 2004 to CHF 401 million in 2008. This growth period includes average organic growth of 7.4% per year as well as the integration of four companies acquired in four countries, which resulted in revenues increasing by an average of +14.5% per year. The aim was to return a profit on this strong growth, which has reinforced the Hügli Group's market position. We succeeded in doing this with our first double-digit EBIT margin in 2010 of 10.2%.
In view of the poor underlying conditions and the strategic adjustments to our product range, we believe that the organic sales growth of +3.2% in 2010 is a good result, in particular because our own production resulted in additional revenues of +4.6%.
The negative currency translation effect of -6.4% resulting from the translation of revenues in foreign currencies into CHF, the company's reporting currency, and which reduced the revenues recorded by -4.7%, no longer adequately reflects the economic performance of an international company. This is additionally so, as the bulk of our expenses is also incurred in the respective foreign currencies as a result of our national companies. This means that these expenses, when translated to CHF are also significantly lower, with the result that their impact on earnings from operating activities

is painful, however it was possible to restrict this to a significant extent as a result of these so-called natural hedges.

All of the **group's geographic segments** enjoyed positive growth. Eastern Europe recorded the highest growth rate of +8.7% in local currencies without the disinvestment effect from the "chocolate-containing spreads" product line, however this figure was lower than the excellent result in the previous year of +16.8%. The Czech Republic, Slovakia and Hungary made above-average contributions. However, performance in Poland is still not satisfactory yet.
Germany is the largest segment, and grew again, up +3.5% in local currency. As was already the case in the previous year, 2010 was a year of consolidation. We sacrificed lower margin sales in the interests of increasing earnings.
The segment Switzerland/Rest of Western Europe grew by just 0.9% in local currencies, however there were major differences from country to country. Switzerland recorded excellent growth. Austria suffered perceptibly from the poor economic environment. Italy was marred by the closure of a non-profitable sales channel and the corresponding lost revenues, however on the other hand we were able to reap the first fruits from new, innovative products for which we believe there is excellent potential on the market. The UK company suffered from a very high cyclical impact during the fiscal year. Revenues slumped by -25% after soaring by around 40% in the previous year. However, the well-filled project pipeline means that we are confident that we will soon be able to expect positive figures again.

Revenues in the international **Sales Division** exhibited non-uniform growth. The Private Label division made the largest contribution to sales. This division sells to large retail companies using their own brands, and enjoyed organic revenue growth of +11.8%, growing at a good pace in the Czech Republic and with successful entry to the UK market. Demand for products with an excellent cost/benefits ratio, which increasingly receive top ratings compared to market products in tests by independent consumer protection organizations is continuing to grow.
The Food Service Division, which sells to companies on the out-of-home market – continued to suffer from stagnating revenues for restaurants and hotels, in particular in the tourism sector, with growth of just +1.5%. The national organization in Austria was not able to generate any additional revenues; however Germany once again recorded above-average growth - in particular thanks to the growth in canteens. The smaller countries Hungary and Slovakia also recorded pleasing increases.
The Industrial Foods division, which sells finished and semi-finished products to the food industry – suffered from the fact that cyclical revenues in the UK did not materialize. On the other hand, key account business in Switzerland was very strong thanks to new orders. However, it is clear that the total growth of +1.0% does not meet our expectations.
The Health and Natural Food Division – which sells organic products to specialist retailers – felt the effects of the reserved purchasing behaviour for higher-priced organic products, in the health-food sector in particular, associated with the tense economic situation with revenues in local currencies stagnating by -0.7%. However, the animal feed scandal in Germany showed the value of organically produced food, which also justifies higher prices.

The consolidated **income statement** includes a further pleasing increase in EBIT from CHF 2.5 million or +7.1% despite a currency-related downturn in revenues of -4.7%. This is thanks to a product mix which increases the gross margin with a larger proportion of Hügli's own production, and further improvements in efficiency and cost management. EBIT totalled CHF 37.8 million or 10.2% of sales. This is Hügli's best-ever result in both absolute and relative terms. Profits increased by an above average +18.1% to CHF 27.4 million or 7.3% of sales, mostly due to the one-off profit from the sale of a product line and lower interest expenses. Taken together with the ROIC, which lifted from 12.6% to 14.3%, this shows the Hügli Group's increased profitability. The return on equity (ROE) totalled 25.0% - a highly attractive return on the capital employed. Our **balance sheet** is also stronger, with equity up +5.6% to CHF 111.7 million and net debt down by -20.7% to CHF 68.8 million. The equity ratio of 48.2% of total assets and the ratio of net debt / EBITDA of 1.4 also underscores Hügli's solid, well-balanced financing.

With regard to **dividends,** we are sticking to our income-related dividend policy, paying 25-30% of our profits to our shareholders. In view of the excellent consolidated earnings, the Board of Directors will make a proposal to the General Meeting on 11 May 2011, to pay a dividend of CHF 15.50 per bearer share (up CHF 2.00 or +15% compared to CHF 13.50 in the previous year). This corresponds to 27% of the earnings per share. Based on the closing price of Hügli's shares on 31 December 2010 of CHF 689, this is a dividend return of 2.2%.

As already announced last year, there were some key changes to the **Board of Director's and Group Executive Management**. Dr. Alexander Stoffel, who held executive positions with Hügli since 1956, resigned as President of the Board of Directors as of 31 December 2010, however he remains a Board member. The Board of Directors appointed Dr. Jean Gérard Villot as its new President as of 1 January 2011. Dr. Villot has been with Hügli since 1990 and – as Dr. Stoffel's successor – has managed the group very successfully as Vice President of the Board of Directors and CEO since 2003. Thomas Bodenmann was appointed as President of the Group Executive Management and Hügli's CEO as of 1 January 2011. Mr. Bodenmann joined Hügli in 1995 and has been a member of the Group Executive Management since 2001, where he has been highly successful as Head of the Food Service Division and Country Manager for Switzerland and Austria.
In addition, Sven Matthisson, Head of the Private Label division and Dirk Balzer, Head of Manufacturing, were elected to the Group Executive Management from 1 January 2011. Manfred Jablowski, Head of the Food Service Organization in Germany, will become the new Head of the Food Service division as of 1 July 2011, and has been elected as a member of the Group Executive Management. These appointments from among our own ranks both bring in new blood and ensure continuity, and create the best possible conditions for Hügli's continued successful growth.

In addition, it is our sad duty to inform you of the death of Reto Consoni in January 2011. He joined our Board of Directors in 2001 and was also an elected shareholder representative. His in-depth knowledge of the food industry, his energy and independent open nature, coupled with his humour and people-sense played a key role in Hügli's success, and meant that he was an important member of our Board of

Directors. His death is a great loss for Hügli and also a personal loss for the members of the Board of Directors.

The **first quarter of 2011** resulted in a decline of sales by -2.6% of ongoing business activities, which is also due to comparing it with the same period in 2010, in which sales soared and were up +9.5%. All divisions were affected by this organic decrease of sales, from the Food Service division with -0.6%, the Private Label and Health & Natural Food divisions with -2.6% each, to the Industrial Foods division with -5.8%. The decline was particularly perceptible in the geographic segment Germany, totalling -5.0%, whereas it was -2.2% in the segment Switzerland / Rest of Western Europe. The segment Eastern Europe achieved a pleasing sales growth of +9.8% in the ongoing business activities.
The foreign currency translation of sales resulted in a massive currency effect of -9.3%, which lowered the reported consolidated sales by CHF 10 million**.** This reduction, along with the sale of a product line (disinvestment effect -4.2%, or CHF -4.5 million, respectively), brought about consolidated sales of CHF 90.9 million in the first quarter of 2011, compared to CHF 107.8 million in the first quarter of the previous year.

The reservedly optimistic **outlook** for the new financial year 2011 includes moderate organic sales growth of +3 to +5% in an economic environment which continues to depress figures. However, we expect that this growth will continue to be more than eliminated by exchange rates and the remaining disinvestment effect in our revenues, which means that our revenues in CHF will be slightly lower with about CHF 360 million. The increased prices for agricultural raw materials mean that we are also expecting higher costs of materials in 2011, and thus EBIT in line with the previous year. However, consolidated profits will be lower due to the fact that the one-off profit from the sale of a production line will no longer be included.

However, for the coming years we are very confident that we will attain our **strategic target** of recording organic revenue growth of more than 5% with an above average increase in earnings. In addition, we will constantly review opportunities on the market with the aim of increasing the profitability of our infrastructure and our sales capacity.

Financial key figures *in million CHF*	**2010**	**2009**	**Variance**
Sales	372.2	390.4	-4.7%
EBITDA	48.8	46.1	+5.8%
as % of sales	13.1%	11.8%	
EBIT	37.8	35.3	+7.1%
as % of sales	10.2%	9.0%	
Net Group profit	27.4	23.2	+18.1%
as % of sales	7.3%	5.9%	
Cash flow from operations	38.8	33.9	+14.5%
Capital expenditure	26.1	15.0	+73.7%
	31.12.2010	**31.12.2009**	
Net operating assets	195.7	209.0	-6.4%
Equity	111.7	105.8	+5.6%
as % of total assets	48.2%	42.3%	
Net debt	68.8	86.8	-20.7%
Gearing	0.62	0.82	
Return on invest. capital ROIC	14.3%	12.6%	
Earnings per share (CHF)	57.09	48.44	+17.9%
Dividend (in CHF)	15.50	13.50	+14.8%

Agenda

14 April 2011	07:30 a.m.	Media Release: Annual Report 2010 / Sales Q1 2011
	10:30 a.m.	Media/Analysts' Conference, Widder Hotel, Zurich
11 May 2011	04.30 p.m.	Shareholders' Meeting, Seeparksaal, Arbon
13 May 2011		Ex dividend stock exchange trading
18 May 2011		Dividend payment
16 August 2011	07.30 a.m.	Media Release: Half-Year Report 2011

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Hügli – one group, many teams, one goal
The Hügli Group, headquartered in Steinach, Switzerland, is one of the leading European food companies for the innovative development, the efficient production and the marketing of dry blends in the convenience segment comprising soups, sauces, bouillons, ready to serve meals, desserts, functional food as well as Italian specialities. The customer-oriented production and direct sales to professional clients are core elements of the Group strategy, which aims for sustainable and profitable growth. Hügli strives to heighten the customer benefit with excellent products – and these are recognised not least by their flavour. More than 1400 employees in 9 countries link Hügli directly with its customers, and generate annual sales of around CHF 360 million. For further information, please visit www.huegli.com.

The original of this Media Release is written in German.
The German version is binding.