

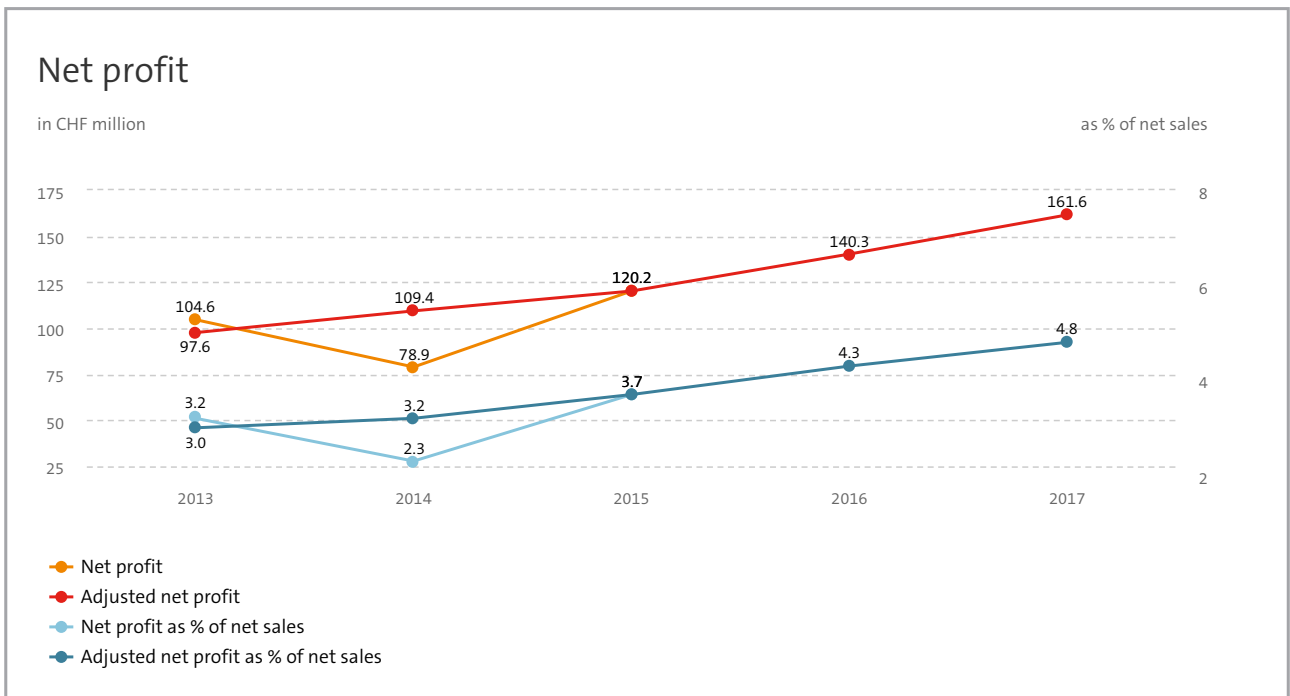
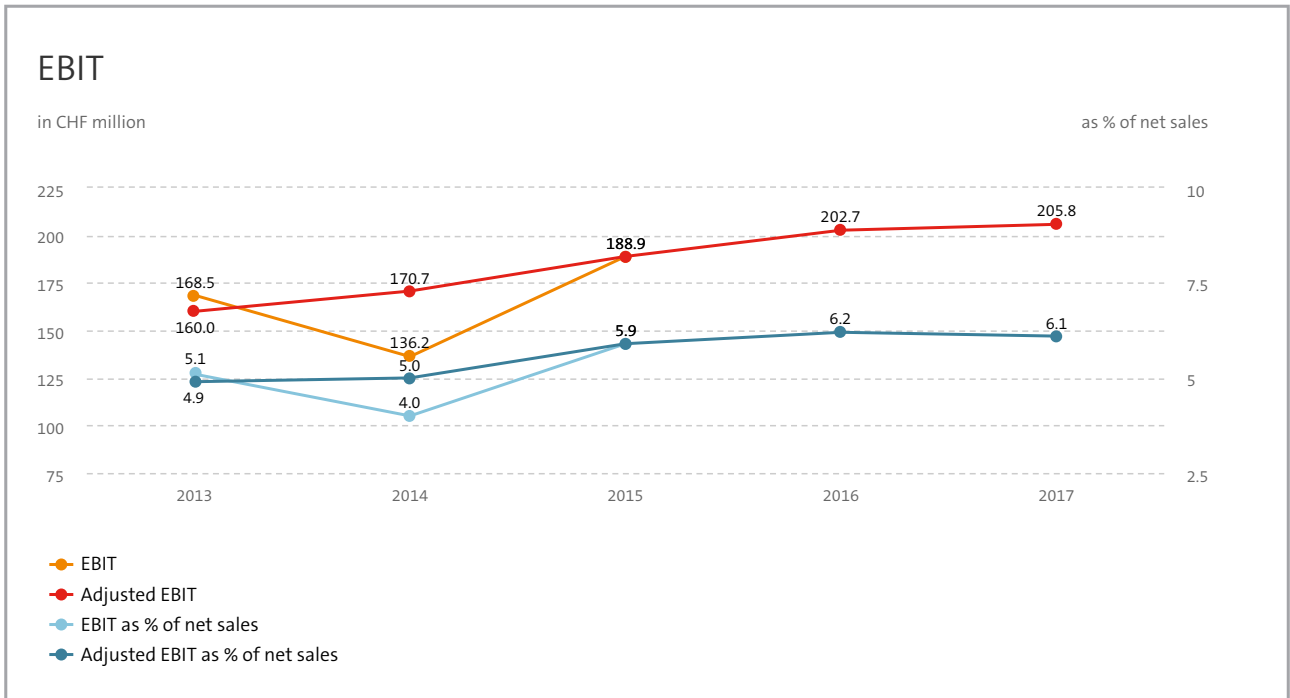


Annual Report 2017



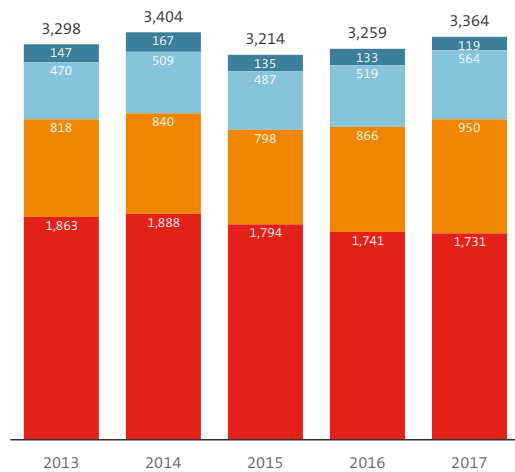
Key figures Emmi Group

Amounts in CHF million	2017	2016
Net sales	3,364	3,259
Sales development in %	3.2	1.4
Acquisition effect in %	2.8	2.3
Currency effect in %	-0.1	0.1
Net sales increase in organic terms (in loc. currency) in %	0.5	-1.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	340.7	328.2
as % of net sales	10.1	10.1
Earnings before interest and taxes (EBIT)	205.8	202.7
as % of net sales	6.1	6.2
Net profit	161.6	140.3
as % of net sales	4.8	4.3
Investment in fixed assets (excl. acquisitions)	99.1	104.4
as % of net sales	2.9	3.2
Headcount (full-time equivalents) as at 31.12.	6,147	5,779
Headcount (full-time equivalents) at yearly average	5,965	5,655
Net sales per employee in CHF 000s (average)	564	576
	31.12.2017	31.12.2016
Total assets	2,697	2,603
of which shareholders' equity incl. minority interests	1,521	1,506
as % of total assets	56.4	57.9
Market capitalisation	3,753	3,298



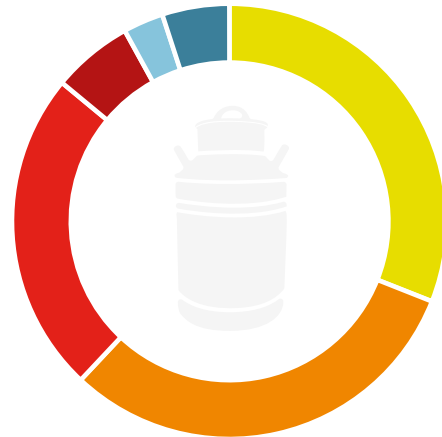
Net sales

in CHF million



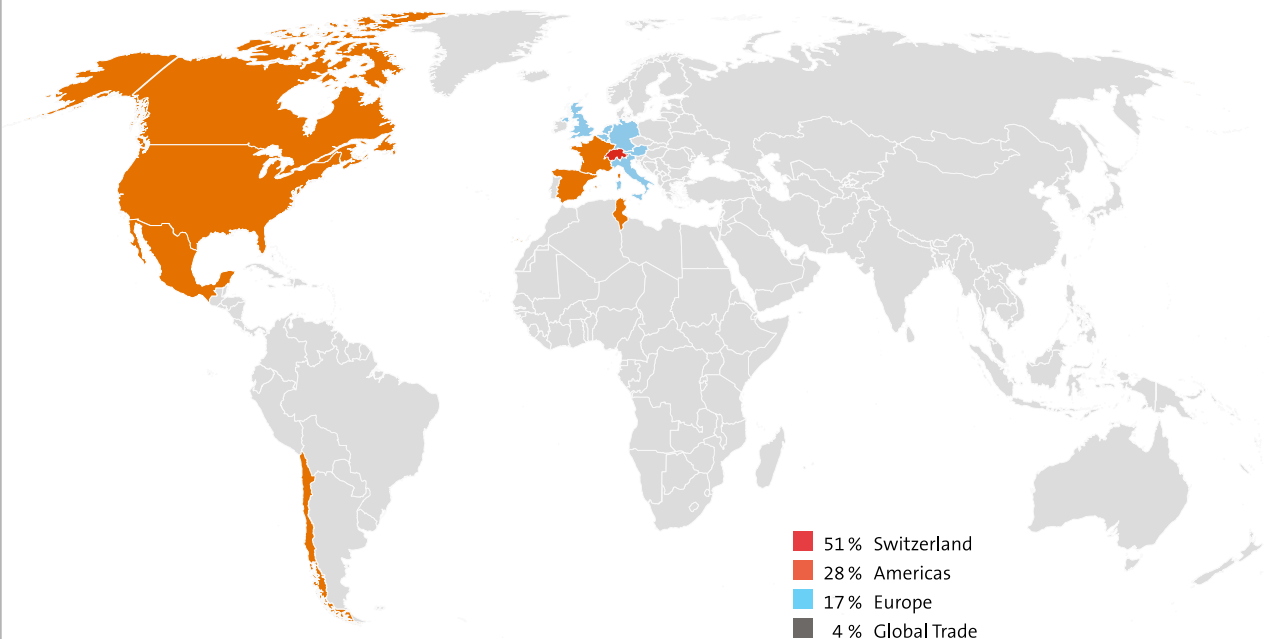
- Global Trade
- Europe
- Americas
- Switzerland

Net sales by product group



- 31 % Cheese
- 31 % Dairy products
- 24 % Fresh products
- 6 % Fresh cheese
- 3 % Powder/concentrates
- 5 % Other products/services

Net sales by business division



- 51 % Switzerland
- 28 % Americas
- 17 % Europe
- 4 % Global Trade

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Anyone who chooses Emmi also chooses Swiss farmers and cheesemakers

As a premium dairy, Emmi relies on suppliers who deliver outstanding quality. The company can count on around 6,000 Swiss dairy farmers and 170 cheese dairies. As representatives of these key links in the value chain, this report presents a number of Swiss milk and cheese suppliers. They show that numerous small – often family-run – businesses throughout Switzerland are behind the globally active Emmi Group. It is thanks to them too that Emmi is able to export its specialities to 60 countries.

Organic growth thanks to a strong second half-year

Dear Shareholders

Financial year 2017 was certainly a game of two halves. The first six months were characterised in part by a decline in retail business and rising cheese imports in Switzerland. The business division Europe had to cope with Brexit and weak cheese exports, while the business division Americas recorded only modest sales growth. Emmi caught up in the second half of the year, with faltering areas such as the Chilean market or Italian desserts posting more stable sales. The US cheese business performed well, while exports from Switzerland also recovered. The Swiss retail business became more robust; the global economy is in better shape than it was two or three years ago. As a result, Emmi was able to end the year on a positive note.

Emmi generated net sales of CHF 3,364.3 million in 2017 – an increase of 3.2 %. Adjusted for currency and acquisition effects, this resulted in organic growth of 0.5 %. The sales performance therefore exceeded the company's forecasts from August 2017.

Earnings also increased and were slightly above the forecasted range thanks to the positive impact of measures to reduce costs and improve efficiency through the Operational Excellence programme. The programme was stepped up again in 2017 and extended to other Group companies. Additional support came from brand concepts such as Caffè Latte. Finally, newly acquired companies also contributed to the EBIT of CHF 205.8 million, which was up 1.6 % year-on-year. The EBIT margin of 6.1 % was on a par with the previous year (6.2 %).





Increased regular dividend and additional anniversary dividend

Net earnings per share were CHF 30.20 (previous year: CHF 26.23). The higher net earnings are primarily attributable to lower minority interests as a result of the acquisition of the minority interests in Mittelland Molkerei AG. A proposal will be made to the General Meeting for a gross dividend of CHF 10.00 per registered share (previous year: CHF 5.90). CHF 7.00 of this will be distributed from the capital contribution reserves (exempt from withholding tax) and CHF 3.00 from retained earnings (subject to withholding tax). The additional dividend from retained earnings is intended to allow our shareholders to participate in the non-recurring earnings from the sale of the stake in “siggi’s”. The proceeds will not be realised until financial year 2018 and are therefore being paid out in advance. It is a happy coincidence that the sales proceeds are being realised in the year that marks Emmi AG’s 25th anniversary, since the separation of association activities from commercial operations was a key move that Emmi continues to derive strategic benefit from even today.

Targeted strengthening measures

Flexibility, risk diversification and decisive implementation of corrective action are essential capabilities that Emmi must possess in order to deal with the increasingly volatile conditions.

The measures to restructure Surlat in Chile have taken effect, while initial improvements have also been achieved in the A-27 dessert business. We will continue to work on boosting this company’s fitness.

We strengthened our goat's milk business with the acquisitions of California-based Jackson Mitchell and Lácteos Caprinos in Spain. In the Italian dessert business, Italian Fresh Foods joined the Group. In Mexico, we took a majority stake in Mexideli. We now have an additional strong base in Brazil following the acquisition of a 40 % stake in Laticínios Porto Alegre, the culmination of an evaluation phase that spanned several years. As a result, Emmi further reinforced its focus on profitable niches and international diversification.

The Swiss facilities have been using SAP successfully as company software since the start of 2017. We have been working since last year on streamlining the organisations in California, Italy and the Netherlands, and intend to forge ahead with the professionalisation of our international companies. The appointment of a Chief Supply Chain Officer with a global remit as a new member of Group Management reaffirms this objective.

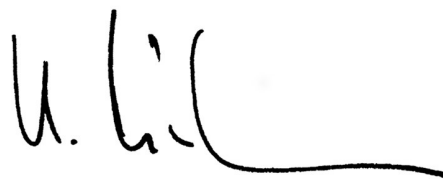
Back to growth

The focus remains on achieving a sustainable return to a growth path and organic growth over the long term. Niches such as the goat's cheese business, desserts and the organic range are to be further expanded. Other tasks are to strengthen the best-known brand products, to round out the range with innovations and to identify new channels or markets.

Emmi has made good additions to its portfolio of companies and products in recent years and is now better diversified than ever before. As such, we approach 2018 confidently. We look forward to continuing the partnership and cooperation with our customers, milk producers, suppliers, shareholders and employees.



Konrad Graber
Chairman of the Board of Directors



Urs Riedener
CEO

Emmi + the
Dairy Farmers





📍 WILIHOF, LU

Ruedi Stofer

Emmi uses the milk from his cows as a high-quality basis for the specialities it produces in Emmen and Dagmersellen.

Ruedi Stofer lives and works on the farm in Wilihof in the canton of Lucerne. The farm covers 25 hectares of agricultural land, on which Ruedi Stofer combines arable farming, fodder crops, pig fattening and dairy production. There are 55 dairy cows on the farm. Emmi processes most of the milk he produces in Dagmersellen and Emmen. The milk serves as a valuable basis for products such as mozzarella or Luzerner Rahmkäse.

Ruedi Stofer and 300 of his fellow Swiss farmers are involved in the “Stallvisite” (visit the farm) project, which offers visitors the opportunity to look behind the scenes on the farm and learn more about where their milk, meat and eggs come from.



Emmi has grown to become the leading supplier of Italian dessert specialities in recent years with A-27 and Rachelli. Northern Italian company Italian Fresh Foods is yet another building block in Emmi's pursuit of this niche strategy.

Medals for Emmi Caffè Latte ambassadors Wendy Holdener and Tina Weirather at the World Ski Championships in St. Moritz.

Acquisition: Jackson-Mitchell, Inc., a family company with Swiss roots and 80 years of history, becomes the leading producer of evaporated and powdered goat's milk with its Meyenberg brand.

Cypress Grove, the Arcata-based subsidiary, is the first Californian Emmi company to launch the proven Operational Excellence programme. The company doesn't just want to distinguish itself as a manufacturer of top quality goat's cheese – it also aims to come top in making processes even more efficient, reducing waste and saving costs.

After four years of hard work, Emmi officially brings the OneERP project to a close at the end of March 2017. SAP is rolled out as planned to all major Swiss production facilities and selected departments.





Kai Könecke joins Emmi Group Management as Chief Supply Chain Officer in April 2017. His post is newly created in order to optimise production and logistics processes in Swiss and international production facilities. The 50-year-old German national is a proven expert in supply chain management, with experience gained in a number of countries.

Yogurt lovers who want a practical snack without compromising on the quality and natural ingredients have a great option with Jogurtpur to go.

Announcement: The acquisition of a 40% stake in Laticínios Porto Alegre enables Emmi to consolidate its presence in South America and further boost its international growth outside of Europe.

In Thomas Morf, Emmi gains international experience and proven dairy industry expertise. The 42-year-old Swiss national has headed Emmi's worldwide marketing since June 2017. He previously worked as a consumer goods specialist in Belgium, France, Germany and most recently at Danone in South Africa.





Emmi partners with the myclimate foundation to launch a competition, the Emmi Company Challenge, in which apprentices work on environmental projects.

Their secret lies in the five artfully arranged components in each 60g pot. The new Ooola Secrets desserts taste as great as they look.

Gerber ready-made fondues have been hugely popular since the 1960s, as they are practical and perfect every time. With the new Gerber Mélange Maison fresh fondue, Emmi is addressing the trend towards natural, fresh foods.

Emmi keeps its word and reduces the sugar content of its products. Popular protein yogurt Yoqua is now available with 50% less added refined sugar.

The Luxembourg investment company ÖKOVISION LUX S.A. takes a close look at Emmi's commitment to sustainability and honours it with the ÖKOVISION Sustainability Leadership Award.





To keep stakeholders informed, Emmi provides information about its sustainability efforts now online. This ensures info is up to date at all times.

The climate experts of global not-for-profit organisation CDP (formerly the Carbon Disclosure Project) give Emmi's environmental commitment the third-highest rating of B.

Around 20% of employees have been with Emmi for more than 20 years. Christian Zaugg has been with the company the longest (47 years). He represents a whole host of employees who have supported Emmi for decades, and the cheese dispatcher in Kirchberg will continue to contribute his expertise to the company in 2018.

Federal Councillor Alain Berset visits the Kaltbach cave together with the Social Security and Health Committee of the Council of States.

Emmi increases its stake in Mexideli from 50% to 51% and now holds a majority stake in Mexico's leading importer of premium food products. The company is very well established after nearly 30 years of operating in this market.

Emmi's cheese specialities from Switzerland, the Netherlands and the US rake in a total of 16 World Cheese Awards. Once again, the winners include cave-aged KALTBACH cheeses, as well as goat's milk specialities and cow's milk cheese from abroad.



OCTOBER
NOVEMBER

DECEMBER

Emmi + the
Dairy Farmers





📍 HABSBURG, AG

Marina Boller

Together with her partner, Gerry Reutimann, Marina Boller runs the Hof Habsburg farm with a great deal of passion. They supply Emmi in Suhr with their milk.

Marina Boller and Gerry Reutimann run the Hof Habsburg farm, which covers 24 hectares of agricultural land near Habsburg in the canton of Aargau. They have 22 dairy cows together with breeding cattle, beef cattle and veal calves. Most of their milk is supplied to the Emmi site in Suhr, where it is processed and turned into milk, butter and cream.

The couple set great store by assuring animal welfare and a high level of transparency. They are keen to showcase their working processes and allow visitors to get to know their animals and farm better.

www.hofhabsburg.ch, Facebook and Instagram

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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 2017.

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

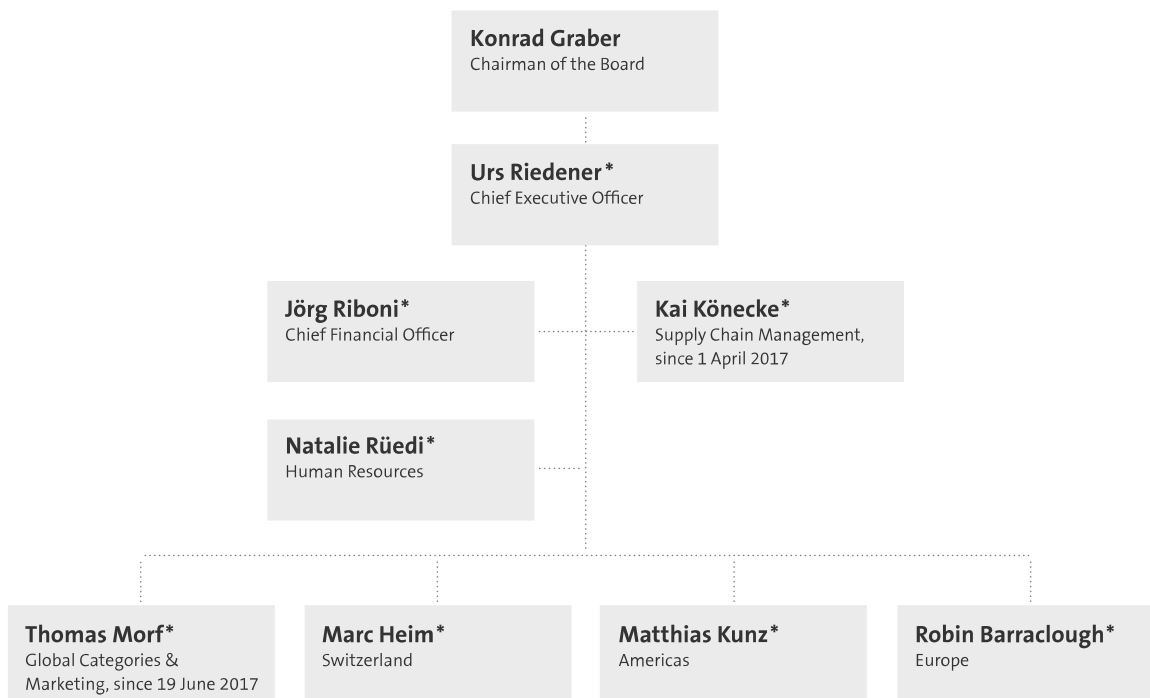
Organisational Regulations: www.emmi.com > About Emmi > Corporate Governance > Organisational Regulations (pdf)

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 Group Management

Member of the extended Group Management:

- Othmar Dubach: Dairy Products & Cheese Switzerland
- Max Peter: Trade & SCM Switzerland
- Markus Willmann: Industry Switzerland

Group functions:

- Human Resources
- Finance/Legal
- Corporate Development
- Corporate Communications & IR
- International Operations
- Quality/Safety/Environment

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 section Notes to the consolidated financial statements

1.2 Significant shareholders

Significant shareholders, see section Notes to the financial statements.

ZMP Invest AG, Lucerne, the Zentralschweizerischer Milchkäuferverband, Willisau, and the MIBA Milchverband der Nordwestschweiz, Aesch (BL), form a group in the sense of 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 this date.

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 2014 to 2017 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. Josef Schmidli, former Chairman of the Zentralschweizer Milchkaufverband (ZMKV), produces a significant proportion of his cheese for Emmi. ZMKV is a minority shareholder 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.

Since 2017 Christa Wey has been the Secretary of the Board of Directors.

3.1 Members of the Board of Directors



Members of the Emmi Board of Directors from left (as at the balance sheet date): Josef Schmidli, Diana Strebel, Niklaus Meier, Thomas Oehen-Bühlmann, Konrad Graber (Chairman of the Board of Directors), Monique Bourquin, Stephan Baer, Christian Arnold-Fässler, Franz Steiger

	Year of birth	Nationality	Education	First elected
Konrad Graber Chairman of the Board of Directors	1958	Swiss	Business Administration HWV Certified Auditor	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
Stephan Baer	1952	Swiss	Business Economist lic. oec. publ.	1999
Monique Bourquin	1966	Swiss	Business Economist lic. oec. HSG	2013
Niklaus Meier	1955	Swiss	Swiss certified expert in accounting and controlling	2012
Josef Schmidli	1957	Swiss	Federal Commercial Diploma Certified Master Cheesemaker	2003
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
1997 – 2001	Cantonal Parliament, canton of Berne, Auditor
1993 – 2004	SSBL (foundation for the severely disabled in Lucerne), President
1987 – 2007	Lucerne cantonal parliament, 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 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

Stephan Baer

Member of the Board of Directors since 1999

Professional background

since 2008	Independent management consultant
1997 — 2008	Baer AG, Chairman of the Board of Directors
1982 — 2008	Baer AG, Chief Executive Officer
1979 — 1982	OPM AG, Business Analyst

Other mandates

since 2015	Association "Tischlein deck dich", President
since 2009	frXsh AG, Chairman of the Board of Directors
2012 — 2015	Spichtig AG, Chairman of the Board of Directors
2011 — 2016	Spichtig AG, Member of the of the Board of Directors
2010 — 2016	Bio Partner Schweiz AG, Member of the Board of Directors

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 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	Swiss Marketing Association GfM, 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

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 of BASF following acquisition by 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

Josef Schmidli

Member of the Board of Directors since 2003

Professional background

since 1998	Käserei Schmidli GmbH, Proprietor
1986 — 1998	Käserei Schmidli, Proprietor as a sole trader
1982 — 1986	Qualified master cheesemaker, various employers

Other mandates

since 2003	Fromarte, the Association of Swiss cheese specialists, Member of the Board
since 1993	Municipal power utility, Chairman
2004 — 2012	Fromarte, the Association of Swiss cheese specialists, Vice Chairman
2002 — 2012	Central Switzerland Milk Purchasers Association (ZMKV), Chairman

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
since 2009	Ricola AG, Member of the Board
2006 – 2009	Interbrand Zintzmeyer & Lux AG, Member of the Board
2002 – 2005	Scholz & Friends AG, Member of the Board
2002 – 2004	Wundermann AG, Member of the Board

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 2018 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				•
Stephan Baer Member		• (Chairman)	•	
Monique Bourquin Member	•	•		
Niklaus Meier Member	• (Chairman)			
Josef Schmidli Member		•		
Franz Steiger Member				•
Diana Strebel Member		•		

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 table above. 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 subsidiary companies
- 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
- 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 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 Managing Director of the milk producer organisation MIBA, the Head of Procurement of the milk producer organisation mooh and the President of the national milk sector organisation BOM. 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
- milk volume and price management
- 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 2017, 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 2.5 hours each plus for two whole days. The Personnel and Compensation Committee met four times for 1.5 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 section Notes to the consolidated financial statements).
- External and internal auditing: Details of the external auditor are provided in section 8 Auditors. Internal Auditing 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 Auditing regularly meets with the Chairman of the Audit Committee.

The Internal Auditing 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 corporate governance, business processes and information systems of the company 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 Auditing 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 process 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	Economist lic. oec. HSG	Deputy CEO, Executive Vice President Switzerland
Robin Barraclough	1967	United Kingdom/ Swiss	Economist	Executive Vice President Europe
Kai Könecke	1966	Germany	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	Economist lic. oec. HSG	Chief Marketing Officer
Jörg Riboni	1957	Swiss	Business Economist lic. oec. HSG Certified Auditor	Chief Financial Officer
Natalie Rüedi	1971	Swiss	Certified Primary School Teacher EMBA, Lucerne University of Applied Science 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, the most recent of which were 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 Gesellschaft), Member of the Executive Committee
since 2014	Conzzeta AG, Member of the Board
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 1 April 2017

Professional background

2012 — 2016	Unilever Germany-Austria-Switzerland, Managing Director Supply Chain
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 the 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 19 June 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 2016	Sika AG, Member of the Expert Committee
	Chairman or Member of the Board 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, Member of Group Management
1992 — 1993	Emmi Group, Head of Marketing
1983 — 1991	Central Switzerland Milk Association, various roles

Max Peter

Head of Retail & Supply Chain Management Switzerland, Member of the Executive Board Switzerland and of the extended Group Management since 2014

Professional background

2017	Emmi Group, Head of Supply Chain Management Switzerland and interim Managing Director at A-27
2005 — 2017	Emmi Group, Head of Retail & 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
since 2009	Swiss Sport Aid foundation, President
since 2008	GS1 Switzerland, Member of the Board

Markus Willimann

Head of Industrial Business Switzerland, Member of the Executive Board Switzerland and of the extended Group Management since 2004

Professional background

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) , Member of the Board
since 2007	Agriculture Research Council, Member
since 2004	Swiss Dairy Industry Association (VMI), Chairman
since 2004	Federation of Swiss Food Industries (fial), Member
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 do not include any "opting up" clause pursuant to Art. 135(1) FinfraG and no "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 2017 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 1,187.

8.3 Additional fees

During the year under review, KPMG charged a total of KCHF 206 for additional services beyond the scope of their statutory mandate. This fee includes KCHF 124 for tax advice and KCHF 82 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 2017. Details on Internal Auditing 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 > Company: Emmi

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 12 April 2018. All registered shareholders will receive an invitation to the General Meeting by post.

The next business results (2018 half-year results) will be published on 29 August 2018.

Emmi + the
Cheese Dairies





📍 MÉZIÈRES, FR

Nicolas Schmoutz

The specialist from the Gruyère region is one of seven village cheesemakers who supply their Gruyère wheels to Emmi in Kaltbach.

Nicolas Schmoutz runs the Fromagerie de Mézières cheese dairy in the canton of Fribourg. He learned the craft of cheesemaking from the bottom up. The family-run dairy produces a range of specialities including Vacherin Fribourgeois AOP and raclette cheese. His strongest product, however, is Le Gruyère AOP, with 30 wheels produced each day.

Nicolas Schmoutz is one of the few village cheesemakers from the French part of Switzerland who supplies Emmi with Le Gruyère AOP for cave ageing. After about six months, the best wheels are delivered to Kaltbach, where they then age for at least another six months in the sandstone cave to become the unmistakable speciality product.

www.fromagerie-mezieres.ch

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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 other elements.

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 amount to a maximum of 50 % of his/her 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 compensation 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 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 the relevant social security contributions and 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 compensation: 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 his/her 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:

1. Group performance (weighting 50 %)
2. Business area performance (weighting 30 %)
3. 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 2018 Ordinary General Meeting.

Approval model for the General Meeting 2018



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 elaboration, 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 2017 General Meeting until the 2018 General Meeting.

Konrad Graber Chairman	Independent member and Chairman of the Board of Directors
Stephan Baer 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 940 for financial year 2018

Proposal to GM 2018 for full year 2018	Remuneration paid 2017 (see section 6)	Proposal to GM 2017 for full year 2017
940 (ceiling amount)	847	870 (ceiling amount)

5.2 Agricultural Council

Approval of the total amount of fixed remuneration of the Agricultural Council up to a maximum of KCHF 36 for financial year 2018.

Proposal to GM 2018 for full year 2018	Remuneration paid 2017 (see section 6)	Proposal to GM 2017 for full year 2017
36 (ceiling amount)	28	32 (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 5,400 for financial year 2019.

Proposal to GM 2018 for full year 2019	Proposal to GM 2017 for full year 2018	Remuneration paid 2017 (see section 6)	Proposal to GM 2016 for full year 2017
5,400 (ceiling amount)	4,980 (ceiling amount)	4,240	4,570 (ceiling amount)

5.4 Group Management variable remuneration

Approval of the total amount of variable remuneration of Group Management of KCHF 930 for financial year 2017.

Proposal to GM 2018 for full year 2017 (see section 6)	Remuneration paid 2016	Proposal to GM 2017 for full year 2016
930	865	865

6. Remuneration for the year under review

Board of Directors	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	
Konrad Graber								
Chairman	270	–	–	270	–	–	270	255
Thomas Oehen-Bühlmann								
Vice-Chairman	80	–	20	100	–	–	100	93
Christian Arnold								
Member	48	–	13	61	–	–	61	61
Stephan Baer								
Member	74	–	1	75	–	–	75	69
Monique Bourquin								
Member	60	–	17	77	–	–	77	68
Niklaus Meier								
Member	59	–	22	81	–	–	81	73
Josef Schmidli								
Member	49	–	13	62	–	–	62	57
Franz Steiger								
Member	46	–	12	58	–	–	58	55
Diana Strebelt								
Member	49	–	14	63	–	–	63	58
Total Board of Directors	735	–	112	847	–	–	847	789
Agricultural Council								
Christophe Eggenschwiler	5	–	1	6	–	–	6	6
Pirmin Furrer	5	–	2	7	–	–	7	6
Stephan Hagenbuch (since 1.1.2017)	5	–	2	7	–	–	7	n.a.
Peter Hegglin (since 1.7.2017)	3	–	1	4	–	–	4	n.a.
Kurt Nüesch (until 31.12.2016)	–	–	–	–	–	–	–	6
Markus Zemp (until 30.6.2017)	3	–	1	4	–	–	4	6
Total Agricultural Council	21	–	7	28	–	–	28	24
Group Management								
Urs Riedener, CEO	855	3	219	1,077	344	344	1,421	1,365
Other Members	2,400	20	743	3,163	586	586	3,749	3,286
Total Group Management	3,255	23	962	4,240	930	930⁴⁾	5,170	4,651

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 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 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 2017. 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 2017.

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 2017. 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 2017 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, 2 March 2018

Emmi + the Dairy Farmers

📍 LUCERNE

Adrian Unternährer

His organic farm supplies Emmi with milk that is processed into fresh products and cheese in Emmen.

Adrian and Ruth Unternährer manage the Lindenfeldweid organic farm on the outskirts of Lucerne. Their farm covers 54 hectares of cultivated area, including 7 hectares of forest and 260 high-stem fruit trees. Since 1995, the farm has been managed in line with the strict guidelines of Bio Suisse.

The farm's main business is the production of organic milk (55 dairy cows), which Emmi picks up every two days and processes primarily at its nearby Emmen site, for example into organic-quality Yoqua or Luzerner Rahmkäse. The family-run farm, currently held by the third generation, also breeds its own cattle and sells seasonal organic fruit in its farm shop.

www.bio-hof-luzern.ch



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Income statement

Operating section

Emmi achieved net sales of CHF 3,364.3 million in 2017, a rise of 3.2 % compared with the previous year. In organic terms, i.e. adjusted for currency and acquisition effects, Group sales grew by 0.5 %.

This performance exceeded expectations. Emmi originally forecasted a sales development of between -1 % and 0 %, but it recorded a strong second half of 2017 that more than made up for weak sales in the first six months of the year. Success factors included the cheese business in the US (cow's milk and goat's milk), Emmi Caffè Latte (particularly in Switzerland, the UK and Spain), Rachelli desserts, organic milk from Gläserne Molkerei and the Tunisian market.

Acquisition effects are accounted for by the following factors:

- 60 % stake in Bettinehoeve (Netherlands, 2 February 2016)
- Increased stake in SDA Chile (Chile, 19 May 2016)
- Acquisition of Cowgirl Creamery (US, 31 May 2016)
- Acquisition of Jackson Mitchell (US, 4 January 2017)
- 80 % stake in Lácteos Caprinos (Spain, 12 January 2017)
- Acquisition of Italian Fresh Foods (Italy, 1 March 2017)
- Sale of stake in Venchiaredo (Italy, 31 July 2017)
- Increased stake in Mexideli (Mexico, 8 October 2017)

Sales development Switzerland

The business division **Switzerland** generated sales of CHF 1,730.7 million, compared with CHF 1,741.3 million in the previous year. This corresponds to a decline of 0.6 % (-0.7 % price effect and +0.1 % volume effect). Emmi had forecasted a sales decline of -2 % up to 0 %, so sales in the domestic Swiss market were in line with expectations despite price pressure remaining at a high level.

The good second half of the year largely offset the declines in the first six months of 2017. This was due in part to the stronger Swiss retail trade, which posted stable sales for the year as a whole after being at around -1 % in the middle of the year (source: Nielsen). Import and price pressure remained high, impacting in particular the cheese and fresh cheese segments. 4.2 % more cheese was imported from abroad in 2017 than in the previous year (source: TSM Treuhand).

Sales of dairy products (milk, cream, butter) remained relatively stable overall. In the cheese segment, Luzerner Rahmkäse made gains while AOP cheese posted a decline, reflecting the higher volume of cheese imports mentioned above. In fresh products, Emmi Caffè Latte, Jogurtpur and Energy Milk saw sales increase, while Yoqua and private labels were down.

The business division Switzerland accounted for 51 % of Group sales (previous year 53 %).

Sales by product group: Switzerland

in CHF million	Sales 2017	Sales 2016	Organic growth
Dairy products	662.0	663.4	-0.2 %
Cheese	475.6	480.5	-1.0 %
Fresh products	343.9	346.2	-0.7 %
Fresh cheese	107.8	111.5	-3.4 %
Powder/concentrates	67.5	59.8	13.0 %
Other products/services	73.9	79.9	-7.5 %
Total Switzerland	1,730.7	1,741.3	-0.6 %

Sales development Americas

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

It generated sales of CHF 949.8 million, compared with CHF 865.6 million in the previous year. This corresponds to an increase of 9.7 %. In organic terms, i.e. adjusted for currency and acquisition effects, this resulted in an increase of 4.1 %, which is line with the forecasted range of 3 % to 5 %.

The positive acquisition effect is attributable to the increased stakes in SDA Chile and Mexideli as well as the acquisitions of Cowgirl Creamery and Jackson Mitchell. The main reasons for the positive organic growth are the pleasing sales performances in Tunisia and the US. In Tunisia, the yogurts, desserts and milk marketed under the Vitalait brand reported significantly higher sales, which had a positive effect on the dairy and fresh products segments. Emmi is also satisfied that the core business in Chile has stabilised. In fresh products, Emmi Caffè Latte in Spain also made a positive contribution. Locally produced cow's and goat's milk cheeses performed very well in the US.

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

The business division Americas accounted for 28 % of Group sales (previous year 27 %).

Sales by product group: Americas

in CHF million	Sales 2017	Sales 2016	Difference 2017/2016	Acquisition effect	Currency effect	Organic growth
Cheese	404.0	361.9	11.6 %	3.8 %	0.5 %	7.3 %
Dairy products	266.1	237.1	12.2 %	9.9 %	-3.1 %	5.4 %
Fresh products	196.8	200.5	-1.9 %	0.4 %	-1.4 %	-0.9 %
Fresh cheese	2.6	0.8	212.3 %	304.8 %	-4.1 %	-88.4 %
Powder/concentrates	5.3	0.2	2290.0 %	2255.9 %	1.4 %	32.7 %
Other products/services	75.0	65.1	15.2 %	15.3 %	1.2 %	-1.3 %
Total Americas	949.8	865.6	9.7 %	6.4 %	-0.8 %	4.1 %

Sales development Europe

In the business division **Europe**, sales rose by 8.7 % from CHF 519.0 million to CHF 564.1 million. In organic terms, i.e. adjusted for currency and acquisition effects, this resulted in growth of 0.8 %, thereby exceeding Emmi's expectations. Based on the modest first half of the year, the company had anticipated a decline of -3 % to -1 %.

The acquisition effect, which was significantly positive overall, was attributable to the purchase of the stakes in Bettinehoeve and Lácteos Caprinos, the acquisition of Italian Fresh Foods and the sale of the stake in Venchiaredo.

In fresh products, Emmi Caffè Latte in the UK and the Italian speciality desserts from Rachelli performed very well. Sales at A-27 stabilised in the second half of the year. In the cheese segment, the Kaltbach specialities made gains in Germany, Austria and the UK. By contrast, AOP cheese and Onken yogurts remained under heavy pressure.

Dairy products reflect the sales growth of organic milk specialist Gläserne Molkerei.

The fresh cheese segment was impacted positively by the acquisition-based growth through Bettinehoeve and negatively by falling volumes and prices in Italy. The good performance in the powder/concentrates segment is attributable to higher sales of goat's milk powder (AVH dairy).

The business division Europe accounted for 17 % of Group sales (previous year: 16 %).

Sales by product group: Europe

in CHF million	Sales 2017	Sales 2016	Difference 2017/2016	Acquisition effect	Currency effect	Organic growth
Fresh products	227.5	206.9	10.0 %	11.8 %	–	-1.8 %
Cheese	125.0	124.4	0.5 %	1.5 %	1.5 %	-2.5 %
Dairy products	108.1	98.2	10.1 %	0.6 %	2.1 %	7.4 %
Fresh cheese	69.8	64.7	7.9 %	12.8 %	2.1 %	-7.0 %
Powder/concentrates	26.5	18.5	42.5 %	–	2.8 %	39.7 %
Other products/services	7.2	6.3	13.8 %	–	2.1 %	11.7 %
Total Europe	564.1	519.0	8.7 %	6.8 %	1.1 %	0.8 %

Sales development Global Trade

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 119.7 million, compared with CHF 132.9 million in the previous year, resulting in an organic decline of 9.7 %. The slightly negative acquisition effect is due to the loss of export sales to Mexideli from the fourth quarter of 2017, as the company is now fully consolidated in the business division Americas.

The negative performance can be attributed above all to declining exports of butter and milk powder as well as lower sales of non-dairy products, which are not part of Emmi's core business. Other inhibiting factors were the modest performance of milk sales in China and lower cheese sales in Russia. By contrast, fresh product sales in Hong Kong and Singapore and cheese sales in Brazil all recorded a pleasing performance.

Global Trade accounted for 4 % of total Group sales (previous year: 4 %).

Sales by product group: Global Trade

in CHF million	Sales 2017	Sales 2016	Difference 2017/2016	Acquisition effect	Organic growth
Cheese	49.0	48.5	0.9 %	-0.7 %	1.6 %
Fresh products	42.8	45.9	-6.8 %	–	-6.8 %
Powder/concentrates	14.9	18.0	-17.1 %	–	-17.1 %
Dairy products	10.9	12.5	-12.9 %	–	-12.9 %
Fresh cheese	0.4	0.4	11.7 %	–	11.7 %
Other products/services	1.7	7.6	-78.0 %	–	-78.0 %
Total Global Trade	119.7	132.9	-10.0 %	-0.3 %	-9.7 %

Gross profit

Gross profit increased by CHF 21.4 million to CHF 1,200.9 million in the year under review, compared with CHF 1,179.5 million in the previous year. This was due to acquisitions. The gross profit margin decreased slightly from 36.2 % to 35.7 %. This development is primarily attributable to price pressure in Switzerland, while the business divisions Europe and Americas posted a slight improvement in their gross profit margins. The performance in Chile was pleasing, with successfully implemented rationalisation and productivity-raising measures leading to a significant increase in gross profit margin. By contrast, the UK posted considerably lower margins due to Brexit.

Non-recurring effects in the consolidated financial statements

No non-recurring effects were recorded in either the year under review or the previous year.

Operating result

Operating expenses rose by CHF 9.8 million or 1.1 % in 2017 to CHF 865.9 million, compared with CHF 856.1 million in the previous year. As operating expenses grew far less strongly than sales, they decreased in comparison to sales from 26.2 % to 25.8 %. The drop in margin at gross profit level was therefore compensated.

Personnel expenses in the period under review amounted to CHF 443.2 million, compared with CHF 424.5 million in 2016. Since the increase of 4.4 % is disproportionately high in comparison with the development in sales, the ratio of personnel expenses to sales rose from 13.0 % to 13.2 % in the period under review. This was largely due to higher personnel expenses in the business division Americas.

By contrast, **other operating expenses** fell by CHF 9.0 million or 2.1 % in the period under review to CHF 422.6 million, compared with CHF 431.6 million in the previous year, in spite of the flurry of acquisition activity. Accumulated marketing and sales-related expenses amounted to CHF 126.0 million, compared with CHF 129.3 million in 2016, which corresponds to a decrease of 2.5 %. Other cost savings were achieved in maintenance and repair as well as in administrative expenses, where IT expenditure in particular was reduced as expected following completion of the SAP rollout in Switzerland. The considerable fall in other operating expenses was attributable, among other factors, to a lower need for provisions for ongoing legal disputes. By contrast, energy and logistics expenses increased as a result of acquisitions.

Other operating income registered a year-on-year increase of CHF 1.0 million to CHF 5.7 million.

As a consequence of this development, **earnings before interest, taxes, depreciation and amortisation (EBITDA)** increased by CHF 12.5 million to CHF 340.7 million, from CHF 328.2 million in the previous year. At 10.1 %, the **EBITDA margin** was exactly the same as in 2016.

Depreciation and amortisation rose significantly by CHF 9.4 million in the period under review, from CHF 125.8 million to CHF 135.2 million. Depreciation of property, plant and equipment increased by CHF 1.6 million, while amortisation on intangible assets went up by CHF 7.8 million due primarily to higher amortisation of goodwill as a result of acquisitions. Unlike the majority of listed firms using Swiss GAAP FER, Emmi continues to amortise goodwill via the income statement.

Earnings before interest and taxes (EBIT) amounted to CHF 205.8 million in the period under review, which was CHF 3.1 million higher than the previous year's EBIT of CHF 202.7 million. The **EBIT margin** of 6.1 % remained virtually unchanged compared with the previous year (6.2 %).

Financial result

Net financial expenses decreased significantly by CHF 4.2 million versus the previous year to CHF 10.4 million, mainly due to the substantially lower interest expenses following the refinancing in 2017. The currency result also improved slightly.

Income taxes

In the period under review, **income taxes** decreased by CHF 3.4 million to CHF 30.3 million. The tax rate decreased from 17.6 % to 15.2 %. Expected taxable profits in countries with historic tax loss carryforwards rose markedly, leading to an increase in recognised deferred tax loss carryforwards. Reductions in tax rates in a number of countries relevant to Emmi also contributed to this positive development.

Net profit

Net profit including minority interests amounted to CHF 168.7 million, up CHF 10.4 million from the previous year's level of CHF 158.3 million. Minority interests were significantly down on the previous year by CHF 10.8 million. This is largely due to the acquisition of the minority interests in Mittelland Molkerei AG. After deduction of minority interests to CHF 7.2 million, **net profit** amounted to CHF 161.6 million. This represents an increase of CHF 21.3 million on the previous year. Accordingly, the **net profit margin** improved significantly to 4.8 % in the year under review (previous year: 4.3 %).

Assets, financing and cash flow

Total assets increased by CHF 94.0 million, or 3.6 %, year-on-year as a consequence of operating activities and the acquisitions made, with major changes recorded on the assets side in cash and cash equivalents and intangible assets in particular. The CHF 200.6 million increase in intangible assets is attributable to the flurry of acquisition activity, which is also the main reason for the CHF 194.3 million decline in cash and cash equivalents. The rise in investments in associates and joint ventures is also related to acquisitions and primarily attributable to the new stake in Brazil. By contrast, the goodwill paid in this transaction is recognised under intangible assets. As higher investments and higher depreciations were largely balanced with regard to tangible assets, the CHF 10.4 million rise in the carrying amount was largely due to acquisitions.

Operating net working capital (comprising inventories as well as trade receivables and payables) amounted to CHF 506.2 million, up CHF 62.1 million compared with 31 December 2016. In organic terms, the increase as at the reporting date was approximately CHF 45 million, which is attributable to higher trade receivables and lower trade payables. The instructed reduction in trade payables was to avoid negative interest rates. The substantial fall in prepayments and accrued income was due to an advance payment in the previous year related to acquisition activities.

With regard to financing, there were significant adjustments between current and non-current liabilities due in particular to the refinancing which took place in the summer. Firstly, a bond worth CHF 250 million was repaid on 30 June 2017. Secondly, two new bonds worth a total of CHF 200 million were issued on 21 June 2017 to refinance this repayment and for general corporate financing purposes, and finally, bonds totalling EUR 100 million were paid up on 21 July 2017.

The **equity ratio** fell to 56.4 %, from 57.9 % as at 31 December 2016. The main reason for the reduction is the acquisition of the minority interests in Mittelland Molkerei AG, which decreased the minority interests and therefore also equity. Net debt increased from CHF 71.4 million as at 31 December 2016 to CHF 338.4 million as at the end of 2017. Despite this acquisition-related rise, the ratio of **net debt** to EBITDA remained low at 0.99 (previous year 0.22).

Cash flow from operating activities amounted to CHF 251.7 million in the period under review, and was therefore CHF 20.2 million below the previous year's level (CHF 271.9 million). Cash flow before changes in net working capital, interest and taxes increased by CHF 6.5 million versus the previous year, essentially reflecting the operational improvement achieved at EBITDA level. This year-on-year rise was more than offset by the increase in net working capital versus the previous year. The instructed reduction in trade payables to avoid negative interest rates contributed to this. While taxes paid remained at a similar level to the previous year, interest paid decreased slightly as a result of the refinancing.

Cash outflow from investing activities amounted to CHF 474.3 million in the period under review, a rise of CHF 284.0 million year-on-year (previous year CHF 190.3 million), as a result of acquisitions. A total of CHF 400.2 million was used for the acquisition of new companies and the purchase of minority interests and stakes in associates in the year under review. After taking into account the cash inflow from the sale of the stake in an associate, net cash outflow resulting from acquisition activities amounted to CHF 398.1 million, compared with CHF 93.2 million in the previous year. CHF 96.3 million was also invested in property, plant and equipment in financial year 2017, which represents a slight increase on the previous year's figure of CHF 92.4 million. Investments in intangible assets were significantly lower than in the previous year at CHF 2.9 million (previous year CHF 12.1 million) due to completion of the SAP project in Switzerland.

Not including the net outflow of funds resulting from acquisition activities, the level of **free cash flow** generated in 2017 amounted to CHF 175.5 million, compared with CHF 174.7 million in 2016.

Cash inflow from financing activities amounted to CHF 26.6 million in the period under review, compared with an outflow of CHF 63.2 million in the previous year. This inflow resulted primarily from the financing activities described, less CHF 33.6 million in dividend payments, of which CHF 31.6 million to the shareholders of Emmi AG.

As a consequence of these cash flows, **cash and cash equivalents** fell from CHF 406.9 million to CHF 212.6 million in financial year 2017, a decline of CHF 194.3 million.

Outlook 2018

The global economy is currently growing more strongly than two or three years ago. The eurozone, which has been sluggish for a long time, posted a rise of around 2 % in gross domestic product (GDP). The Swiss export industry is also confident. However, conditions in Switzerland remain very challenging for Emmi, with the environment continuing to be highly competitive. This is also reflected in the outlook for Swiss retailers, which ranges from stable to at best slightly increasing sales in the food sector. Milk prices should remain stable. Emmi expects stable to slightly higher prices for the most important non-milk raw materials (e.g. coffee and sugar).

Markets

Massive import pressure will persist in Switzerland. Consumer tourism has likely plateaued, but is not expected to decrease substantially. Sales in the **business division Switzerland** will consequently remain under pressure. However, as there was an increase in milk prices in Switzerland effective 1 October 2017, sales in the business division Switzerland will benefit slightly compared with the previous year if milk prices remain at this level. Emmi therefore considers slight organic growth to be achievable based on this and thanks to the support of strong brand concepts.

The strong competition will also affect the **business division Europe**. The further consequences of Brexit and future performance of the British pound also continue to be difficult to predict, inhibiting the performance of our company in the UK (exports from Switzerland, Onken yogurts from Germany) and the sales of our Italian dessert companies. By contrast, the recent strengthening of the euro should positively impact the performance of the business division Europe, and the overall economic outlook in the eurozone is the most promising it has been for a long time. Exports of speciality cheeses and Emmi Caffè Latte from Switzerland should also have a favourable effect. Overall, we therefore expect a positive performance by the business division Europe in 2018, taking into account all markets and companies.

In the **business division Americas**, we expect further growth in demand in Tunisia (milk, fresh products) and in the US (cheese, goat's milk specialities) in 2018. The Chilean market should be able to confirm the signs of recovery. Foreign currency effects in countries such as Chile, Mexico and Tunisia will continue to be an issue. In addition, the European markets in the business division Americas – Spain and France – will again inhibit growth in the division this year.

Sales and profit development

The company expects organic sales growth in 2018 roughly in line with the medium-term forecast. It believes growth will be driven by proven brand concepts, growth in the niches of organic products and goat's milk specialities, and positive overall economic prospects in many markets relevant to Emmi.

To support earnings, Emmi will continue to pursue its efficiency programme and step this up above all in international markets. The company therefore expects an improvement in earnings in the business divisions Europe and Americas, which should have a positive impact on the Group as a whole. Emmi therefore anticipates a corresponding rise in operating profit at Group level in 2018.

Emmi 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	2017	%	2016	%
Sales of products		3,338,561		3,233,952	
Sales of services		25,703		24,873	
Net sales	1	3,364,264	100.0	3,258,825	100.0
Change in inventories of semi-finished and finished products		-12,263	0.4	-21,017	0.6
Cost of materials and services		-2,151,146	63.9	-2,058,296	63.2
Gross operating profit		1,200,855	35.7	1,179,512	36.2
Other operating income	2	5,692	0.2	4,736	0.1
Personnel expenses		-443,232	13.2	-424,494	13.0
Other operating expenses	3	-422,631	12.6	-431,602	13.2
Operating expenses		-865,863	25.8	-856,096	26.2
Earnings before interest¹⁾, taxes, depreciation and amortisation (EBITDA)		340,684	10.1	328,152	10.1
Depreciation on property, plant and equipment	4	-97,140	2.9	-95,563	3.0
Amortisation on intangible assets	4	-38,027	1.1	-30,222	0.9
Write-back of negative goodwill		310		310	
Earnings before interest¹⁾ and taxes (EBIT)		205,827	6.1	202,677	6.2
Income from associates and joint ventures		3,613		3,936	
Financial result	5	-10,387		-14,618	
Earnings before taxes (EBT)		199,053	5.9	191,995	5.9
Income taxes	6	-30,305		-33,700	
Profit incl. minority interests		168,748	5.0	158,295	4.9
Minority interests		-7,174		-17,974	
Net profit		161,574	4.8	140,321	4.3
Earnings per share (diluted/basic in CHF)	7	30.20		26.23	

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	31.12.2017	%	31.12.2016	%
Cash and cash equivalents		212,605		406,882	
Securities		1,661		3,318	
Trade receivables	8	432,729		386,523	
Other receivables	9	31,066		32,192	
Inventories	10	362,109		347,021	
Prepayments and accrued income	11	29,915		56,245	
Current assets		1,070,085	39.7	1,232,181	47.3
Investments in associates and joint ventures	30	71,539		28,880	
Loans and other receivables	12	59,018		59,912	
Securities		2,222		1,429	
Employer contribution reserves	20	2,048		2,048	
Deferred tax assets	6	10,908		8,011	
Total financial assets		145,735		100,280	
Prepayments and accrued income	11	5,869		6,242	
Property, plant and equipment	13	930,439		920,018	
Intangible assets	14	544,931		344,359	
Non-current assets		1,626,974	60.3	1,370,899	52.7
Total assets		2,697,059	100.0	2,603,080	100.0
Liabilities and shareholders' equity					
Bank overdrafts	18	33,403		14,865	
Finance lease liabilities	18	1,331		1,226	
Bonds	18	–		250,000	
Loans	18	5,609		598	
Trade payables	15	288,659		289,486	
Other payables	16	23,301		17,944	
Accrued liabilities and deferred income	17	165,423		149,896	
Provisions	19	6,750		6,760	
Current liabilities		524,476	19.4	730,775	28.1
Bank overdrafts	18	120,306		15,051	
Finance lease liabilities	18	1,407		1,911	
Loans	18	49,647		57,899	
Bonds	18	400,000		200,000	
Accrued liabilities and deferred income	17	3,098		7,462	
Provisions	19	76,888		83,963	
Non-current liabilities		651,346	24.2	366,286	14.0
Liabilities		1,175,822	43.6	1,097,061	42.1
Share capital		53,498		53,498	
Capital reserves		44,887		76,451	
Retained earnings		1,357,833		1,191,605	
Shareholders' equity excl. minority interests		1,456,218	54.0	1,321,554	50.8
Minority interests		65,019	2.4	184,465	7.1
Shareholders' equity incl. minority interests		1,521,237	56.4	1,506,019	57.9
Total liabilities and shareholders' equity		2,697,059	100.0	2,603,080	100.0

Consolidated cash flow statement

in CHF 000s

	2017	2016
Profit incl. minority interests	168,748	158,295
Net interest expense	8,062	11,687
Income taxes	30,305	33,700
Gain/loss on disposal of fixed assets	-831	313
Result from sale of investments/businesses	-397	–
Depreciation and amortisation	133,223	123,519
Impairment charges	1,944	2,266
Write-back of negative goodwill	-310	-310
Change in provisions	-2,130	3,665
Income from associates and joint ventures	-3,216	-3,936
Other non-cash adjustments	132	-196
Cash flow before changes in net working capital, interest and taxes	335,530	329,003
Change in inventories	-880	25,656
Change in trade receivables	-23,042	12,512
Change in other receivables, prepayments and accrued income	-3,302	8,541
Change in trade payables	-15,803	-34,125
Change in other payables, accrued liabilities and deferred income	10,353	-16,524
Interest paid	-11,359	-13,965
Taxes paid	-39,807	-39,223
Cash flow from operating activities	251,690	271,875
Investments in property, plant and equipment	-96,260	-92,369
Proceeds from disposal of property, plant and equipment	5,875	1,235
Purchase of securities	–	-471
Sale of securities	3,899	–
Investments in intangible assets	-2,872	-12,051
Purchase of shares in associates and joint ventures	-149,744	–
Proceeds from sale of shares in associates	2,056	–
Acquisition of consolidated companies	-250,417	-93,162
Repayment of loans receivable	7,930	3,824
Dividend received	3,492	687
Interest received	1,749	2,004
Cash flow from investing activities	-474,292	-190,303
Change in other current financial liabilities	23,093	-34,316
Change in other non-current financial liabilities	86,494	2,534
Repayments of bonds	-250,000	–
Proceeds from bond-issuance	200,613	–
Share of minority interests in capital increase of a group company	–	749
Dividend paid to shareholders	-31,564	-26,214
Dividend paid to minority interests	-1,998	-5,960
Cash flow from financing activities	26,638	-63,207
Currency translation	1,687	-305
Net change in cash and cash equivalents	-194,277	18,060
Cash and cash equivalents at beginning of period	406,882	388,822
Cash and cash equivalents at end of period	212,605	406,882

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. 2016	53,498	102,665	1,119,267	-67,662	1,051,605	1,207,768	185,959	1,393,727
Change in scope of consolidation	-	-	-	-	-	-	1,686	1,686
Capital increase of a group company	-	-	-	-	-	-	1,358	1,358
Acquisition of minority interests	-	-	-	-	-	-	-14,394	-14,394
Profit incl. minority interests	-	-	140,321	-	140,321	140,321	17,974	158,295
Currency translation differences	-	-	-	-321	-321	-321	-2,158	-2,479
Dividend	-	-26,214	-	-	-	-26,214	-5,960	-32,174
Shareholders' equity as at 31 Dec. 2016	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

As at 31 December 2017, 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 36.9 million (previous year CHF 34.7 million).

Notes to the financial statements

Principles of consolidation

General information

The Board of Directors of Emmi AG approved the Group financial statements on 2 March 2018. 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 2017, 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. Participations of less than 20 % 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 30).

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 30.

Consolidated companies		Currency	Capital in thousands	Capital share 31.12.2017	Capital share 31.12.2016
Jackson-Mitchell, Inc., USA-Turlock	Acquired on 4.1.2017	USD	50	100 %	–
Lácteos Caprinos S.A., Campillo de Arenas, Spain	Partially acquired on 12.1.2017	EUR	600	80 %	–
Italian Fresh Foods S.p.A., Lasnigo, Italy	Acquired on 1.3.2017	EUR	202	100 %	–
Emmi do Brasil Holding Ltda., Sao Paulo, Brasil	Founded on 30.5.2017	BRL	481,000	100 %	–
Mexideli 2000 Holding S.A. de C.V., Mexico City, Mexico ¹⁾	Partially acquired on 8.10.2017	MXN	101,759	51 %	50 %

¹⁾ Due to the increase of the capital share in Mexideli 2000 Holding S.A. de C.V., Emmi controls and thus fully consolidates this company as from 8 October 2017 onwards. Mexideli 2000 Holding S.A. de C.V. consists, apart from the parent company mentioned above, of seven subsidiary companies. See note 30.

Associates and joint ventures

Laticínios Porto Alegre Indústria e Comércio S.A., Ponte Nova, Brasil	Partially acquired on 3.7.2017	BRL	344,637	40 %	–
Venchiaredo S.p.A., Ramuscello, Italy	Sale on 31.7.2017	EUR	–	–	24 %
Emmentaler Schaukäserei AG, Affoltern i.E., Switzerland ¹⁾	Watering of capital stock on 13.9.2017	CHF	4,265	17 %	37 %

¹⁾ Since Emmi did not participate in the capital increase which took place on 13 September 2017, our stake in the capital decreased as per that date to 17 %. As a consequence, our stake is now part of the position non-current securities.

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 currencies ¹⁾

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 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	
	2017	2016	31.12.2017	31.12.2016
1 EUR	1.11	1.09	1.17	1.07
1 USD	0.98	0.99	0.98	1.02
1 GBP	1.27	1.34	1.32	1.26
1 CAD	0.76	0.74	0.78	0.76
1 TND	0.41	0.46	0.40	0.44
1 MXN	0.05	0.05	0.05	0.05
100 CLP	0.15	0.15	0.16	0.15
1 BRL	0.30	n.a.	0.29	n.a.

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 plant	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. 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 of the goodwill have 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 24.

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 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 22 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

By product groups and divisions	Switzerland		Americas		Europe		Global Trade		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Milk	254,830	256,823	231,128	206,792	77,440	76,489	2,881	2,988	566,279	543,092
Butter and margarine	239,560	234,266	1,160	143	27,001	18,171	6,856	8,781	274,577	261,361
Cream	167,564	172,313	33,771	30,126	3,689	3,512	1,144	728	206,168	206,679
Dairy products	661,954	663,402	266,059	237,061	108,130	98,172	10,881	12,497	1,047,024	1,011,132
As % of net sales	38.2	38.1	28.0	27.4	19.2	18.9	9.1	9.4	31.1	31.0
Fresh products	343,883	346,248	196,776	200,538	227,513	206,880	42,768	45,902	810,940	799,568
As % of net sales	19.9	19.9	20.7	23.2	40.3	39.8	35.7	34.6	24.1	24.5
Natural cheese	421,954	424,939	384,896	344,758	107,524	107,232	41,761	40,488	956,135	917,417
Processed cheese	53,676	55,541	19,094	17,101	17,492	17,143	7,250	8,064	97,512	97,849
Cheese	475,630	480,480	403,990	361,859	125,016	124,375	49,011	48,552	1,053,647	1,015,266
As % of net sales	27.5	27.6	42.5	41.8	22.1	24.0	40.9	36.5	31.3	31.2
Fresh cheese	107,767	111,511	2,636	844	69,826	64,690	436	408	180,665	177,453
As % of net sales	6.2	6.4	0.3	0.1	12.4	12.5	0.4	0.3	5.4	5.4
Powder/ concentrates	67,532	59,766	5,330	223	26,459	18,552	14,910	17,981	114,231	96,522
As % of net sales	3.9	3.4	0.6	–	4.7	3.6	12.5	13.5	3.4	3.0
Other products	53,575	59,773	71,695	62,394	5,516	4,652	1,268	7,192	132,054	134,011
Sales of services	20,378	20,136	3,269	2,716	1,651	1,631	405	390	25,703	24,873
Other products and services	73,953	79,909	74,964	65,110	7,167	6,283	1,673	7,582	157,757	158,884
As % of net sales	4.3	4.6	7.9	7.5	1.3	1.2	1.4	5.7	4.7	4.9
Net sales	1,730,719	1,741,316	949,755	865,635	564,111	518,952	119,679	132,922	3,364,264	3,258,825
As % of Group	51.4	53.4	28.2	26.6	16.8	15.9	3.6	4.1	100.0	100.0

By country group	2017	in %	2016	in %
Switzerland	1,730,719	51.4	1,741,316	53.4
Europe excl. Switzerland	887,049	26.4	872,934	26.8
North and South America	559,862	16.6	462,345	14.2
Africa	140,338	4.2	142,492	4.4
Asia/Pacific	46,296	1.4	39,738	1.2
Total	3,364,264	100.0	3,258,825	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

	2017	2016
Company-produced additions to plant and equipment	–	1,128
Gain on disposal of fixed assets	1,097	372
Miscellaneous operating income	4,595	3,236
Total	5,692	4,736

3. Other operating expenses

	2017	2016
Marketing and sales related expenses	126,005	129,283
Occupancy expense, maintenance and repair, leasing	65,413	67,452
Insurance, fees and HGV road tax	16,715	16,207
Energy, operating material and supplies	65,117	62,766
Administrative expenses	39,210	42,766
Logistic expenses	96,045	92,711
Other operating expenses	14,126	20,417
Total	422,631	431,602

4. Depreciation and amortisation

	2017	2016
Depreciation of property, plant and equipment	95,196	93,297
Impairment of property, plant and equipment	1,944	2,266
Amortisation of goodwill	22,508	15,337
Amortisation of other intangible assets	15,519	14,885
Total	135,167	125,785

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. Financial result

	2017	2016
Interest income	1,740	2,009
Other financial income	262	418
Total financial income	2,002	2,427
Interest expense	-9,802	-13,696
Bank charges and fees	-831	-1,077
Total financial expenses	-10,633	-14,773
Total excl. currency result	-8,631	-12,346
Currency result	-1,756	-2,272
Financial result	-10,387	-14,618

6. Income taxes

	2017	2016
Current income taxes	39,681	38,747
Deferred income taxes	-9,376	-5,047
Total	30,305	33,700
Average tax rate	15.2 %	17.6 %

With CHF 23.7 million, net accruals for current income taxes remained largely unchanged in comparison with the previous year (previous year CHF 22.4 million). Deferred income taxes are calculated for every company using the effective applicable tax rate. As at 31 December 2017, the resulting weighted average tax rate was 18.1 % (previous year 18.7 %). Deferred income taxes include recognised tax claims from tax loss carryforwards amounting to CHF 13.0 million (previous year CHF 6.0 million).

Details on change of tax claims from tax loss carryforwards	2017	2016
Recognised tax claims from tax loss carryforwards	12,969	6,010
Unrecognised tax claims from tax loss carryforwards	11,573	21,710
Total tax claims from tax loss carryforwards	24,542	27,720
Recognised tax claims from loss carryforwards at 1.1.	6,010	5,914
Additions	442	254
Reductions	-1,001	-3,396
Reassessment	6,893	2,752
Other adjustments	625	486
Recognised tax claims from loss carryforwards at 31.12.	12,969	6,010

The net change of recognised tax claims from tax loss carryforwards decreased the income taxes of the current period by CHF 7.0 million.

7. Earnings per share

	2017	2016
Number of shares on 1.1.	5,349,810	5,349,810
Number of shares on 31.12.	5,349,810	5,349,810
Average number of shares	5,349,810	5,349,810
Net profit in CHF 000s	161,574	140,321
Earnings per share (in CHF)	30.20	26.23

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.

8. Trade receivables

	2017	2016
Third parties	426,424	375,604
Associates	10,569	14,500
Shareholders	344	252
Allowance for doubtful accounts	-4,608	-3,833
Total	432,729	386,523

9. Other receivables

	2017	2016
Third parties	27,838	29,255
Associates	3,228	2,890
Other related parties	-	47
Total	31,066	32,192

10. Inventories

	2017	2016
Finished products	89,695	82,941
Merchandise	30,518	22,953
Raw materials, semi-finished products and packaging material	250,406	248,405
Other inventories	2,013	1,645
Allowance for market price adjustments	-10,523	-8,923
Total	362,109	347,021

11. Prepayments and accrued income

	2017	2016
Income taxes	4,421	8,623
Other – third parties	30,952	53,268
Other – associates	156	596
Other – shareholders	21	–
Other – related parties	234	–
Total	35,784	62,487
Thereof current prepayments and accrued income	29,915	56,245
Thereof non-current prepayments and accrued income	5,869	6,242

Other prepayments and accrued income consist mainly of various refunds, accrued promotion costs, VAT and prepayments of insurance premiums, as well as in the previous year a prepayment in relation with the acquisition activity.

12. Loans and other receivables

	2017	2016
Third parties	45,121	47,147
Associates	13,897	12,765
Total	59,018	59,912

The carrying amount of loans and other receivables from third parties includes impaired loans in the amount of CHF 3.6 million (previous year CHF 4.2 million). Due to payments received for loans which were already impaired, the total impairment on loans has been reduced by CHF 0.6 million in comparison with the previous year's reduction of CHF 2.9 million.

13. Property, plant and equipment

	Undeveloped land	Properties/ Buildings	Plant/ 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 lease	–	–	2,772	–	–	2,772
2016						
Purchase value at 1.1.2016	4,505	684,503	1,349,224	42,700	55,897	2,136,829
Change in scope of consolidation	–	8,050	22,618	113	710	31,491
Additions	–	1,997	8,390	79,719	2,263	92,369
Disposals	–	-376	-26,645	–	-2,735	-29,756
Reclassification	–	7,167	58,961	-71,309	5,181	–
Currency translation differences	–	361	-718	-59	-248	-664
As at 31 December 2016	4,505	701,702	1,411,830	51,164	61,068	2,230,269
Accumulated depreciation at 1.1.2016	1,058	297,457	889,682	–	39,608	1,227,805
Change in scope of consolidation	–	2,966	12,896	–	532	16,394
Depreciation	–	16,183	71,685	–	5,429	93,297
Impairment charges	–	197	1,916	–	153	2,266
Disposals	–	-371	-25,410	–	-2,427	-28,208
Currency translation differences	–	-154	-868	–	-281	-1,303
As at 31 December 2016	1,058	316,278	949,901	–	43,014	1,310,251
Net book value at 31 December 2016	3,447	385,424	461,929	51,164	18,054	920,018
Thereof finance lease	–	–	3,429	–	–	3,429

14. Intangible assets

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 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

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.

2016	Trademarks	Software	Goodwill fully consolidated	Goodwill equity consolidated	Total goodwill	Other intangible assets	Total
Purchase value at 1.1.2016	92,935	64,657	311,801	28,086	339,887	9,113	506,592
Change in scope of consolidation	10	536	42,419	–	42,419	–	42,965
Additions	–	11,373	–	–	–	678	12,051
Disposals	–	-8,200	–	–	–	-28	-8,228
Currency translation differences	-3,926	72	-3,326	–	-3,326	252	-6,928
As at 31 December 2016	89,019	68,438	350,894	28,086	378,980	10,015	546,452
Accumulated amortisation 1.1.2016	26,649	32,817	102,356	12,447	114,803	6,356	180,625
Change in scope of consolidation	8	244	–	–	–	–	252
Amortisation	4,189	10,225	15,337	1,186	16,523	471	31,408
Disposals	–	-8,091	–	–	–	–	-8,091
Currency translation differences	-813	73	-1,568	–	-1,568	207	-2,101
As at 31 December 2016	30,033	35,268	116,125	13,633	129,758	7,034	202,093
Net book value at 31 December 2016	58,986	33,170	234,769	14,453	249,222	2,981	344,359

15. Trade payables

	2017	2016
Third parties	267,309	265,250
Associates	4,012	9,052
Shareholders	17,170	15,044
Other related parties	168	140
Total	288,659	289,486

16. Other payables

	2017	2016
Third parties	20,391	15,098
Associates	36	–
Other related parties	2,874	2,846
Total	23,301	17,944

17. Accrued liabilities and deferred income

	2017	2016
Interest	2,931	4,488
Income taxes	28,083	31,055
Liabilities to employees and social security accruals	32,627	31,197
Contractual discounts	55,434	45,825
Other – third parties	48,333	43,462
Other – associates	1,113	1,296
Other – shareholders	–	35
Total	168,521	157,358
Thereof current accrued liabilities and deferred income	165,423	149,896
Thereof non-current accrued liabilities and deferred income	3,098	7,462

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.

18. Financial liabilities

The CHF 250 million bond for 2011 to 2017 was repaid on 30 June 2017. To refinance this bond and for general corporate financing purposes, new variable and fixed-interest debt in Swiss francs and euros have been issued. On 21 June 2017 a variable-interest bond between 0.00 % and 0.05 % was issued in the amount CHF 100 million with a term of 2 years and a fixed-interest bond at 0.50 % was issued also in the amount of CHF 100 million with a term of 12 years. On 21 July 2017 Schuldscheine (promissory notes) denominated in euro totaling 100 million were paid up (EUR 70 million variable based on a 6-month EURIBOR at initially 0.50 %, and EUR 30 million for 7 years fixed at 1.42 %).

18.1 Bonds

Bond type	Bond with reopening option
Nominal amount	CHF 250 million
Securities number	13194685 / ISIN CH0131946854
Interest rate	2.125 %
Term	30 June 2011 to 30 June 2017
Maturity	30 June 2017 at par value

The CHF 2.4 million expenses incurred in connection with the issuance of the bond were capitalised under prepayments and accrued income on 30 June 2011. This accrual will be released over the term of the bond. The actual interest rate on the bond is thereby increased from 2.125 % to 2.285 % per year.

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	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 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.

18.2 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 %
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
Bonds	–	100,000	300,000	400,000	–	0.0 – 1.6
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
Total	40,343	196,262	375,098	611,703	53,716	–

Bank loans with residual terms 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. In accordance with the terms of the credit agreement, some bank loans are linked to financial covenants such as net equity ratio and net-debt-to-EBITDA ratio. In the current year as well as in the previous year, Emmi Group clearly complied with all the financial covenants.

In the year under review, financial liabilities increased by CHF 70.2 million. Due to the new Schuldscheindarlehen (promissory notes) of EUR 100 million the stake of funding in foreign currencies increased. 65.7 % (previous year 83.5 %) of the financing is denominated in Swiss Francs, mainly through the three bonds in the amount of CHF 400.0 million. 22.8 % (previous year 3.6 %) of the financial liabilities is denominated in Euro, 7.8 % (previous year 9.9 %) in US dollars and 3.7 % (previous year 3.0 %) in other currencies such as Chilean peso or Tunisian dinar.

2016	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 %
Bank overdrafts	14,865	13,164	1,887	29,916	6,819	0.7 – 9.0
Finance lease liabilities	1,226	1,911	–	3,137	–	3.0 – 8.3
Bonds	250,000	–	200,000	450,000	–	1.6 – 2.1
Loans from third parties	598	9,143	44,504	54,245	49,627	0.0 – 5.4
Loans from associates	–	4,252	–	4,252	–	2.0 – 4.0
Total	266,689	28,470	246,391	541,550	54,446	–

19. Provisions

	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

The restructuring provisions recognised as at 31 December 2017 relate in particular to anticipated costs in connection with the decision to reorganise business activities.

Other provisions include in particular provisions for pending legal matters and business disputes (2017: CHF 4.4 million, 2016: CHF 6.6 million), and liabilities for staff expenses in foreign countries as required by law (2017: CHF 5.1 million, 2016: CHF 4.7 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 2016	3,084	1,241	17,501	73,375	95,201
Change in scope of consolidation	–	–	–	620	620
Additions	116	–	13,638	1,329	15,083
Utilisation	-49	–	-4,194	–	-4,243
Release	-250	-310	-5,562	-9,193	-15,315
Currency translation differences	–	–	-382	-241	-623
As at 31 December 2016	2,901	931	21,001	65,890	90,723
Thereof current provisions	401	310	6,049	–	6,760
Thereof non-current provisions	2,500	621	14,952	65,890	83,963

20. Employee benefit schemes

Employer contribution reserve (ECR)	Nominal value ECR	Waiver of usage	Other value adjustments	Balance sheet	Balance sheet	Result from ECR in personnel expenses	
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2016	2017	2016
Pension schemes without excess/insufficient cover (domestic)	2,048	–	–	2,048	1,489	–	–
Pension schemes with excess cover (domestic)	–	–	–	–	559	–	3
Total	2,048	–	–	2,048	2,048	–	3

Economic benefit/economic obligation and pension expenses	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	
	31.12.2017	31.12.2017	31.12.2016		2017	2016
Welfare funds	38,000	–	–	–	–	–
Pension schemes without excess/insufficient cover (domestic)	–	–	–	–	19,370	19,370
Pension schemes without excess/insufficient cover (abroad)	–	–	–	–	1,788	1,788
Pension schemes with excess cover (domestic)	–	–	–	–	–	99
Total	38,000	–	–	–	21,158	21,158

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

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

Breakdown of pension expenses 2016	Domestic	Foreign	Total
Contributions to pension plans at cost to the companies	19,253	1,374	20,627
Contributions to pension plans from employer contribution reserves	–	–	–
Total contributions	19,253	1,374	20,627
Change in ECR due to asset performance, value adjustments etc.	3	–	3
Contributions and change to employer contribution reserves	19,256	1,374	20,630
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	19,256	1,374	20,630

21. Acquisitions

The companies acquired by Emmi in 2017 and 2016, respectively, reported the following main balance sheet items at the date of acquisition:

	2017				2016			
	Jackson-Mitchell, Inc.	Lácteos Caprinos S.A.	Italian Fresh Foods S.p.A.	Mexideli	Bettinehoeve Group	Goat Milk Powder B.V.	SDA Chile, S.A.	Cowgirl
Cash and securities	3,912	2,265	1,202	4,197	1,396	105	448	2,506
Trade receivables	2,713	452	3,729	6,108	5,133	524	5,948	1,343
Inventories	2,590	837	1,898	8,103	2,288	144	1,373	993
Other current assets	62	267	717	694	1,361	127	71	523
Non-current assets	2,594	2,598	5,077	1,025	8,261	5,237	653	1,739
Trade payables	566	579	1,975	5,948	4,857	1,131	6,628	1,257
Other current liabilities	1,182	607	1,688	980	7,594	6,366	548	644
Non-current liabilities	807	648	2,290	–	1,151	–	55	363
Shareholders' equity	9,316	4,585	6,670	13,199	4,837	-1,360	1,262	4,840
Balance sheet total	11,871	6,419	12,623	20,127	18,439	6,137	8,493	7,104

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 as such obtained control over it. Mexideli is Mexico's leading importer of premium food products – e.g. speciality cheese.

On 2 February 2016, Emmi acquired a stake of 60 % in the Dutch Bettinehoeve Group, based in Etten-Leur, the Netherlands. In connection with this transaction, AVH dairy trade B.V. increased its stake in Goat Milk Powder B.V. from 50 % to 60 % and as such obtained control over it.

On 19 May 2016, Kaiku Corporación Alimentaria increased its stake in SDA Chile, S.A. based in Santiago (Chile), from 45 % to 98 % and as such obtained control over it.

On 31 May 2016, Emmi fully acquired the cheese company Cowgirl Creamery Corporation and Tomales Bay Foods, Inc. (jointly "Cowgirl"), based in Petaluma (US). The company is specialised in the production of organic speciality cheeses.

22. Unsettled derivative financial instruments

	31.12.2017			31.12.2016		
	Positive value	Negative value	Purpose	Positive value	Negative value	Purpose
Forward currency transactions	757	2,016	Hedging	1,121	1,169	Hedging
Other forward transactions	–	189	Hedging	305	–	Hedging
Total forward transactions	757	2,205	–	1,426	1,169	–
of which to hedge future cash flows	130	992	–	967	968	–
Total recognised in the balance sheet	627	1,213	–	459	201	–

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. 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.

23. 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 CHF 18.3 million (previous year CHF 19.1 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.

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

	31.12.2017	31.12.2016
Pledges on property, nominal values	281,287	309,219
Pledges on other assets	–	3,248
Thereof used as security for own liabilities	53,634	56,446
Off-balance sheet leasing/rental obligations		
1 to 2 years	19,830	21,152
3 to 5 years	19,028	19,998
over 5 years	28,191	29,460
Total	67,049	70,610

25. Investment obligations and off-balance sheet liabilities

	31.12.2017	31.12.2016
Investment obligations in connection with previously concluded agreements	5,916	22,170
Long-term commodity contracts	515	600
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.

26. 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 2017 and 2016, 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 the financial statements (see notes 8, 9, 11, 12, 15, 16, 17 und 18).

Transactions with associates	2017	2016
Net sales	25,321	57,443
Cost of materials and services	61,703	68,934
Other expenses	2,655	3,131
Financial income	474	3,360
Financial expense	86	84

Transactions with shareholders	2017	2016
Net sales	4,187	5,459
Cost of materials and services	187,397	194,299
Other expenses	17	23

Transactions with other related parties	2017	2016
Net sales	3,850	2,500
Cost of materials and services	3,035	2,758
Other expenses	162	72

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 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.

27. Shareholders

Nominal capital	31.12.2017	%	31.12.2016	%
ZMP Invest AG , Lucerne ¹⁾	28,476	53.2	29,087	54.4
Zentralschweizer Milchkäuferverband, Willisau ¹⁾	2,250	4.2	2,250	4.2
MIBA Milchverband der Nordwestschweiz, Aesch (BL) ¹⁾	1,811	3.4	1,811	3.4
Other	20,961	39.2	20,350	38.0
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 62.0 %) 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 2017, Emmi Wohlfahrtsfonds (welfare fund) owned a total of 6,000 shares of Emmi AG (unchanged to previous year).

28. 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 entry to the market of milk alternatives, are threatening 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.

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 EUR, USD and GBP.

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.

29. Subsequent events

Sale of investment in The Icelandic Milk and Skyr Corporation

On 1 February 2018, Emmi sold its 22.1 % stake in The Icelandic Milk and Skyr Corporation (“siggi’s”) to Lactalis. The parties have agreed not to disclose details of the contract. The transaction will have a positive effect on Emmi’s net income in the mid double-digit million Swiss francs range in the financial year 2018.

Increase of stake in Centrale Laitière de Mahdia, S.A.

On 10 January 2018, Emmi announced that Kaiku, an Emmi subsidiary based in San Sebastián (Spain), is increasing its stake in Centrale Laitière de Mahdia SA (Vitalait), based in Mahdia (Tunisia), from 45.4 % to 54.7 %. As a result, Emmi, which holds 73.4 % of the shares in Kaiku, will have a 40.2 % stake in Centrale Laitière de Mahdia SA. In a second step in 2021, Kaiku will increase its stake by another 9.34 %. Emmi’s stake will then increase to 47.1 %. The transactions have no impact on Emmi’s net sales and EBITDA, since Centrale Laitière de Mahdia SA was already controlled and therefore fully consolidated by Emmi before these transactions. The parties have agreed not to disclose the purchase price or any other details of the contract.

From the balance sheet date until the consolidated financial statements were approved by the Board of Directors on 2 March 2018, no other major events occurred which could have adversely affected the validity of the annual financial statements for 2017 or which would have to be disclosed.

30. Summary of consolidated companies, associates and joint ventures

Consolidated companies	Head office	Function	Currency	Capital	Capital	Capital
				in 000s	share	share
				31.12.2017	31.12.2017	31.12.2016
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	Hefenhofen	Prod. and trade	CHF	240	100 %	100 %
Lesà Lataria Engiadinaisa SA	Bever	Prod. and trade	CHF	1,500	80 %	80 %
Mittelland Molkerei AG	Suhr	Production	CHF	20,000	100 %	60 %
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	Hefenhofen	Service	CHF	720	100 %	100 %
Studer Käsemarketing AG	Hefenhofen	Service	CHF	100	100 %	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.	Renedo	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. ¹⁾	Campillo de Arenas	Prod. and trade	EUR	600	80 %	–
Lácteos de Navarra, S.L.	Pamplona	Production	EUR	9,647	73 %	73 %
Llet Nostra Alimentaria, S.L.	Barcelona	Trade	EUR	3	36 %	36 %
SDA Bilbao, S.L.	Bilbao	Service	EUR	3	73 %	73 %
SDA Catalunya	Barcelona	Trade	EUR	3	55 %	55 %
SDA Gipuzkoa, S.L.	Bilbao	Service	EUR	3	73 %	73 %
Kaiku Km0, S.L. ²⁾	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⁾ The shares of Lácteos Caprinos S.A. were acquired on 12 January 2017.

²⁾ Sociedad Distribuidora Alimentaria, S.L. was renamed Kaiku Km0, S.L.

Consolidated companies	Head office	Function	Currency	Capital in 000s 31.12.2017	Capital share 31.12.2017	Capital share 31.12.2016
Netherlands						
AVH dairy trade B.V.	Bergen	Prod. and trade	EUR	18	75 %	75 %
Bettinehoeve B.V.	Etten-Leur	Prod. and trade	EUR	18	60 %	60 %
Bettinehoeve Groep B.V. ³⁾	Etten-Leur	Service	EUR	–	–	60 %
Bettinehoeve Holding B.V. ³⁾	Etten-Leur	Service	EUR	–	–	60 %
Bettinehoeve Onroerend Goed B.V. ³⁾	Etten-Leur	Service	EUR	–	–	60 %
Emmi Benelux B.V.	Tiel	Trade	EUR	523	100 %	100 %
Emmi Finance Netherlands B.V.	Tiel	Service	EUR	p.m.	100 %	95 %
Goat Milk Powder B.V.	Etten-Leur	Production	EUR	1	45 %	45 %
Rachelli International B.V.	Amsterdam	Trade	EUR	18	100 %	100 %
Germany						
Emmi Deutschland GmbH	Essen	Trade	EUR	75	100 %	100 %
Gläserne Meierei GmbH	Dechow	Prod. and trade	EUR	375	100 %	100 %
Gläserne Molkerei GmbH	Münchehofe	Prod. and trade	EUR	100	100 %	100 %
Hofmolkerei Münchehofe GmbH	Münchehofe	Trade	EUR	25	100 %	100 %
Meierei Mecklenburg GmbH	Dechow	Trade	EUR	25	100 %	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 Holding Italia S.r.l.	Milan	Service	EUR	1,714	100 %	100 %
Emmi Italia S.p.A.	Milan	Trade	EUR	500	100 %	100 %
Eurogel S.r.l.	Pero	Trade	EUR	40	100 %	100 %
Italian Fresh Foods S.p.A. ⁴⁾	Lasnigo	Prod. and trade	EUR	202	100 %	–
Rachelli Italia S.r.l.	Pero	Production	EUR	52	100 %	100 %
France						
Distribution Frais Disfrais SAS	Avignon	Trade	EUR	192	66 %	66 %
EAF Immo 84 SCI	Nice	Service	EUR	270	66 %	66 %
Emmi France SAS	Rungis	Trade	EUR	40	100 %	100 %
Ets Schoepfer SAS	Avignon	Trade	EUR	1,252	66 %	66 %
SAS Emmi Ambrosi France E.A.F.	Nice	Service	EUR	100	66 %	66 %
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	33 %	33 %
Société tunisienne d'engraissement des veaux S.A.R.L.	Mahdia	Production	TND	140	30 %	30 %

³⁾ Bettinehoeve Groep B.V., Bettinehoeve Holding B.V. and Bettinehoeve Onroerend Goed B.V. were merged into Bettinehoeve B.V. on 4 September 2017, retroactive to 1 January 2017.

⁴⁾ Italian Fresh Foods S.p.A. was acquired on 1 March 2017.

Consolidated companies	Head office	Function	Currency	Capital	Capital	Capital
				in 000s	share	share
				31.12.2017	31.12.2017	31.12.2016
United States						
Cowgirl Creamery Corporation	Petaluma	Prod. and trade	USD	339	100%	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 Roth USA, Inc.	Monroe	Prod. and trade	USD	2	100%	100%
Emmi USA Inc.	Orangeburg	Trade	USD	800	100%	100%
Jackson-Mitchell, Inc. ⁵⁾	Turlock	Prod. and trade	USD	50	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%	50%
Mexideli 2000 Holding S.A. de C.V. ⁶⁾	Mexico City	Trade	MXN	101,759	51%	50%
Mexideli, S.A. de C.V.	Mexico City	Trade	MXN	68,350	51%	50%
Tecnologias Narcisco, S.A. de C.V.	Mexico City	Trade	MXN	60	51%	50%
Chile						
Eurolac Chile, S.A.	Santiago	Service	CLP	29,020,654	73%	73%
Kaiku Internacional, S.L. Agencia en Chile	Santiago	Service	CLP	55,203	73%	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.	Pitrufulquen	Production	CLP	20,310,389	72%	72%
Canada						
Emmi Canada Inc.	Saint-Laurent	Trade	CAD	30,152	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. ⁷⁾	Sao Paulo	Service	BRL	481,000	100%	—

⁵⁾ Jackson-Mitchell, Inc. was acquired on 4 January 2017.

⁶⁾ The investment in Mexideli 2000 Holding S.A. de C.V. was increased from 50% to 51% on 8 October 2017. Therefore, the company and its subsidiaries are now fully consolidated and classified as consolidated companies.

⁷⁾ Emmi do Brasil Holding Ltda. was set up on 30 May 2017.

The percentage of voting rights controlled by Emmi Group in subsidiaries of Kaiku Corporación Alimentaria, S.L., subsidiaries of SAS Emmi Ambrosi France E.A.F. and 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	Capital	Capital
				in 000s	share	share
				31.12.2017	31.12.2017	31.12.2016
Switzerland						
BO Butter GmbH	Berne	Service	CHF	500	20%	20%
Cetra Alimentari SA	Lugano	Trade	CHF	250	34%	34%
Emmentaler Schaukäserei AG ¹⁾	Affoltern i.E.	Prod. and trade	CHF	4,265	17%	37%
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%
Venchiaredo S.p.A. ²⁾	Ramuscello	Prod. and trade	EUR	–	–	24%
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 ³⁾	Delaware	Production	USD	2	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	New York	Production	USD	p.m.	22%	22%
White Hill Cheese Company LLC	Shullsburg	Production	USD	7,000	50%	50%
Brazil						
Laticínios Porto Alegre Indústria e Comércio S.A. ⁴⁾	Ponte Nova	Prod. and trade	BRL	344,637	40%	–
Mexico						
Mexideli 2000 Holding S.A. de C.V. ⁵⁾	Mexico-City	Trade	MXN	101,759	51%	50%

¹⁾ The investment of Emmentaler Schaukäserei AG has been below 20% since September 2017. Therefore it is no longer accounted for using the equity method.

²⁾ The investment of Venchiaredo S.p.A. was sold on 31 July 2017.

³⁾ EB Snacks LLC was founded on 18 July 2017.

⁴⁾ The shares of Laticínios Porto Alegre Indústria e Comércio S.A. were acquired on 3 July 2017.

⁵⁾ The investment of Mexideli 2000 Holding S.A. de C.V. was increased from 50% to 51% on 8 October 2017. The parent company and its subsidiaries are therefore now fully consolidated and classified as consolidated companies.

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 2017 and the consolidated statement of income, consolidated statement of changes in equity and consolidated cash flow statement 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 74 to 109) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 82
- Note 14 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 KEY AUDIT MATTER 2 refer to the following:

- Principles of valuation, page 81
- Note 10 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, 2 March 2018

Emmi + the
Dairy Farmers





📍 GRASSWIL, BE

Remo Weber

The quality milk from Remo Weber's farm is processed in Ostermundigen to create products such as Emmi Caffè Latte, the company's top export success.

Remo Weber is the owner of the Eichhof farm in Grasswil in Oberaargau. He took over the farm from his father in 2016 and now manages 35 hectares of agricultural land. The focus is on dairy farming, for which he keeps 65 dairy cows. On a smaller scale, he also sells productive livestock and manages forest land.

He supplies most of his milk to the Emmi site in Ostermundigen, where it is processed into various products including Caffè Latte and exported to countries throughout Europe.

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Share information of Emmi AG

130	Share information of Emmi AG
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Income statement

in CHF 000s

	Notes	2017	2016
Income from investments	2.1	436,448	61,282
Other financial income	2.2	20,105	4,062
Other operating income		6,289	6,456
Total income		462,842	71,800
Financial expenses	2.3	-18,007	-1,147
Personnel expenses		-937	-899
Other operating expenses		-5,780	-1,149
Direct taxes		-1,631	-945
Total expenses		-26,355	-4,140
Net profit		436,487	67,660

Balance sheet

in CHF 000s

Assets	Notes	31.12.2017	%	31.12.2016	%
Cash and cash equivalents		3,809		4,776	
Other short-term receivables from third parties		18		8	
Other short-term receivables from companies in which the entity holds an investment		53,368		121,015	
Prepayments and accrued income		1,623		1,413	
Current assets		58,818	4.4	127,212	15.9
Loans to companies in which the entity holds an investment	2.4	186,945		248,508	
Investments in subsidiaries and associates	2.5	1,078,723		424,900	
Financial assets		1,265,668		673,408	
Prepayments and accrued income		164		9	
Non-current assets		1,265,832	95.6	673,417	84.1
Total assets		1,324,650	100.0	800,629	100.0
Liabilities and shareholders' equity					
Other current payables due to third parties		11,854		144	
Accrued liabilities and deferred income		4,464		2,527	
Current liabilities		16,318	1.2	2,671	0.3
Non-current interest-bearing debts due to third parties		116,945		10,720	
Provisions		–		774	
Non-current liabilities		116,945	8.8	11,494	1.5
Liabilities		133,263	10.0	14,165	1.8
Share capital	2.6	53,498		53,498	
Legal capital reserves					
– Reserves from capital contributions	2.7	51,093		82,657	
Legal retained earnings		2,886		2,886	
Voluntary retained earnings					
– Free reserves		645,000		575,000	
– Available earnings					
– Profit brought forward		2,423		4,763	
– Net profit		436,487		67,660	
Shareholders' equity		1,191,387	90.0	786,464	98.2
Total liabilities and shareholders' equity		1,324,650	100.0	800,629	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 2014	53,498	149,529	2,886	360,000	87,857	653,770
Allocation	–	–	–	85,000	-85,000	–
Dividend	–	-20,329	–	–	–	-20,329
Net profit for the year	–	–	–	–	78,301	78,301
Shareholders' equity as at 31 December 2014	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

Notes to the financial statements

in CHF 000s

1. Principles

1.1 General aspects

These financial statements were for the first time 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 (unchanged on the previous year).

2.5 Investments

	Function	Currency	Capital in 000s 31.12.2017	Capital share 31.12.2017	Capital share 31.12.2016
Switzerland					
Baumann Käse AG , Zollikofen	Trade	CHF	100	100 %	100 %
Cetra Alimentari 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 %
Mittelland Molkerei AG , Suhr	Production	CHF	20,000	100 %	60 %
Molkerei Biedermann AG , Bischofszell	Production and trade	CHF	1,010	100 %	100 %
MOPRO Luzern AG , Lucerne	Service	CHF	120	100 %	100 %
Studer Holding AG, Hefenhofen	Service	CHF	720	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. ¹⁾	Production and trade	EUR	600	80 %	–
Germany					
Emmi Deutschland GmbH, Essen ²⁾	Trade	EUR	75	100 %	–
Netherlands					
Emmi Finance Netherlands B.V., Tiel ³⁾	Service	EUR	p.m.	100 %	80 %
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. ⁴⁾	Trade	CAD	30,152	100 %	–
United States					
Emmi Holding (USA), Inc. ⁵⁾	Service	USD	1	100 %	–

1) Lácteos Caprinos S.A. was transferred from Emmi International AG on 4 December 2017.

2) Emmi Deutschland GmbH was transferred from Emmi International AG on 21 November 2017.

3) The investment in Emmi Finance Netherlands B.V. was increased on 16. June 2017.

4) Emmi Canada Inc. was transferred from Emmi International AG on 28 November 2017.

5) Emmi Holding (USA), Inc. was transferred from Emmi International AG on 15 December 2017.

The above-mentioned investments are directly held by Emmi AG. Investments which are indirectly held by Emmi AG are mentioned in note 30 of the consolidated financial statements.

2.6 Share capital and significant shareholders

The share capital of KCHF 53,498 as at 31 December 2017 consists of 5,349,810 registered shares with a nominal value of CHF 10 (unchanged on the previous year).

Nominal capital	31.12.2017	%	31.12.2016	%
ZMP Invest AG, Lucerne ¹⁾	28,476	53.2	29,087	54.4
Zentralschweizer Milchkäuferverband, Willisau ¹⁾	2,250	4.2	2,250	4.2
MIBA Milchverband der Nordwestschweiz, Aesch (BL) ¹⁾	1,811	3.4	1,811	3.4
Other	20,961	39.2	20,350	38.0
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 62.0 %) 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 2017, Emmi Wohlfahrtsfonds (welfare fund) owned a total of 6,000 shares of Emmi AG (unchanged on the previous year).

2.7 Capital contribution reserve

	31.12.2017	31.12.2016
Confirmed by the tax authorities	45,321	76,885
Not confirmed by the tax authorities	5,772	5,772
Total	51,093	82,657

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 2017 and in the previous year, Emmi AG employed fewer than 10 employees on average.

3.2 Collateral provided for liabilities of third parties

	31.12.2017	31.12.2016
Guarantees and joint liability for loans of Group companies	512,144	584,185
Of which used by Group companies	408,856	450,759
Other guarantees for Group companies	344,185	76,350

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 2016, 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 2017, 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 31.12.2017	No. of shares 31.12.2016
Board of Directors		
Konrad Graber, Chairman	950	950
Thomas Oehen, Vice-Chairman	615	610
Christian Arnold, Member	30	30
Stephan Baer, Member	34,500	34,500
Monique Bourquin, Member	–	–
Niklaus Meier, Member	200	200
Josef Schmidli, Member	74	74
Franz Steiger, Member	400	400
Diana Strebhel, Member	–	–
Agricultural Council		
Christophe Eggenschwiler	–	–
Pirmin Furrer	–	–
Stephan Hagenbuch (since 1.1.2017)	50	n.a.
Peter Hegglin (since 1.7.2017)	–	n.a.
Kurt Nüesch (until 31.12.2016)	n.a.	–
Markus Zemp (until 30.6.2017)	n.a.	–
Group Management		
Urs Riedener, CEO	–	–
Marc Heim, Deputy CEO	150	150
Robert Muri, Deputy CEO (until 31.12.2016)	n.a.	100
Robin Barraclough, Member	20	20
Kai Könecke, Member (since 1.4.2017)	–	n.a.
Matthias Kunz, Member	27	27
Thomas Morf, Member (since 19.6.2017)	–	n.a.
Jörg Riboni, Member	–	–
Natalie Rüedi, Member	–	–

The members of the Board of Directors, the Agricultural Council and Group Management own a total of 37,016 shares (previous year 37,061 shares) and thus hold 0.7 % of the voting rights (previous year 0.7 %).

3.6 Significant events after the balance sheet date

From the balance sheet date until the financial statements were approved by the Board of Directors on 2 March 2018, no other major events occurred which could have adversely affected the validity of the annual financial statements for 2017 or which would have to be disclosed.

Proposed appropriation of available earnings

in CHF 000s

Available earnings	31.12.2017	31.12.2016
Retained earnings carried forward	2,423	4,763
Net profit	436,487	67,660
Available for distribution by the General Meeting	438,910	72,423

Appropriation of available earnings

The Board of Directors proposes that the General Meeting approve the distribution of a dividend of CHF 10.00 (previous year CHF 5.90) gross per registered share for the 2017 financial year on 5,349,810 shares entitled to dividends. The Board of Directors likewise proposes that the distribution of CHF 7.00 per share be paid out of the capital contribution reserve (exempt from withholding tax) and CHF 3.00 per share be paid out of of retained earnings (subject to withholding tax).

Earnings available for distribution by the General Meeting	438,910	72,423
Allocation from confirmed capital contribution reserve	37,449	31,564
Dividend	-53,498	-31,564
Allocation to free reserves	-420,000	-70,000
Carried forward to new account	2,861	2,423
Total distribution	53,498	31,564
Of which from confirmed capital contribution reserve (exempt from withholding tax)	-37,449	-31,564
Of which from other available earnings	-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 2017, 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 126) for the year ended 31 December 2017 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

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 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 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, 2 March 2018

Share information Emmi AG

Stock exchange information		2017	2016	2015	2014	2013
Share price at 31.12.	in CHF	701.50	616.50	450.25	351.00	273.50
Year's high (end-of-day position)	in CHF	764.00	677.50	452.25	375.00	297.00
Year's low (end-of-day position)	in CHF	608.00	429.25	288.75	271.00	230.00
Market capitalization at 31.12.	in CHF million	3,753	3,298	2,409	1,878	1,463
Average trading volume	Units	5,377	4,355	5,518	3,286	3,290
Key share data						
Net income per share	in CHF	30.20	26.23	22.46	14.75	19.54
Shareholders' equity per share	in CHF	272.20	247.03	225.76	212.78	199.69
Return on shareholders' equity ¹⁾	in %	14.74	38.01	29.36	29.73	20.48
Distribution	in CHF	10.00	5.90	4.90	3.80	3.80
Distribution rate ²⁾	in %	33.11	22.49	21.81	18.58	20.83
Dividend return ³⁾	in %	1.43	0.96	1.09	1.08	1.39

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

²⁾ Distribution per share/adjusted net profit per share

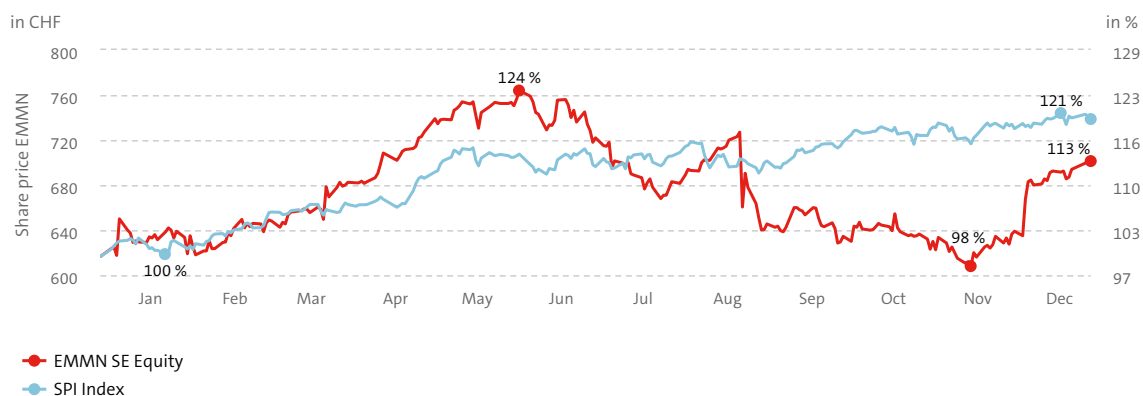
³⁾ Distribution per share/year-end closing price

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	20592664
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 2017



Emmi + the Cheese Dairies

📍 DÜRRENROTH, BE

Urs Kämpfer

The cheesemaker lives in the Emmental and supplies Emmi with the top-quality cheese to which the region gave its name.

Urs Kämpfer owns the Dürrenroth village cheese dairy in the Emmental. He produces a variety of hard, semi-hard and soft cheeses as well as yogurt, butter and drinking milk. Together with his team, he also regularly tries out new creations. His best-selling cheese, though, remains Emmentaler AOP, with between 10 and 12 100-kg wheels produced and supplied to Emmi each day.

Emmi has been able to rely on the constantly high quality of his Emmentaler AOP for many years. The succession plan is also in place: his two sons already help out in the cheese dairy to top up their pocket money.

www.dorfkaeserei-duerrenroth.ch



EMMENTALER

Dorf-Käserei
Dürrenroth

Editing

Emmi Corporate Communications & IR, Lucerne

Concept, design, usability and realisation

Farner Consulting AG, Zurich

Technical realisation

mms solutions ag

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This Annual Report is available
in German and English.

The information within our Annual Report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes. If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our Annual Report, which is the official and only binding version.

© Emmi, Lucerne, March 2018





Emmi
Landenbergstrasse 1
CH-6002 Lucerne
Phone +41 58 227 27 27
info@emmi.com
www.emmi.com