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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

	Nominal value ECR	Waiver of usage	Other value adjustments	Balance sheet	Balance sheet	Result from ECR in personnel expenses	
Employer contribution reserve (ECR)	31.12.2017	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

	Excess/insufficient cover as per Swiss GAAP FER 26	Economic benefit/obligation for the company	Change vs. previous year or taken to the income statement in the FY	Contributions limited to the period ¹⁾	Pension expenses in personnel expenses	
Economic benefit/economic obligation and pension expenses	31.12.2017	31.12.2017	31.12.2016		2017	2016
Welfare funds	38,000	–	–	–	–	–
Pension schemes without excess/insufficient cover (domestic)	–	–	–	–	19,370	19,157
Pension schemes without excess/insufficient cover (abroad)	–	–	–	–	1,788	1,374
Pension schemes with excess cover (domestic)	–	–	–	–	–	99
Total	38,000	–	–	–	21,158	20,630

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 in 000s 31.12.2017	Capital share 31.12.2017	Capital share 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	Weinfeldern	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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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 Strebel, 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

