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Continued solid sales growth of the Hügli Group
Investments in new markets and infrastructure temporarily weaken profits

In the reporting year 2006 the Hügli Group increased sales on the previous year by 12.2% (in local currency by 10.3%) to CHF 305 million. 6.9% of growth is organic growth and 5.3% is due to acquisitions. EBIT decreased due to extraordinary expenses and investments into market development by 9.9% to CHF 22.5 million. Despite the resulting drop of net profit by 17.3% to CHF 15.9 million 2006 showed the second best profit Hügli has ever achieved. The Board of Directors proposes to the General Meeting on 8 May 2007 an unchanged repayment of par value of CHF 10.50.

In our previous annual report we referred to the financial year 2006 as transition year after years with high growth rate both in revenues and earnings. In 2006 we planned investments to safeguard our achievements and lay the basis for further growth by undertaking important structural and market investments. While continuing to increase sales we announced therefore a decrease of profits. We have adhered to these plans which aim at the long-term success of our group.

Group sales remain dynamic. Our marketing strategy is based on four mega-trends: organic foods (Health and Natural Food Division), out-of-home catering (Food Service Division), competitively priced products for retailers and discounters (Private Label Division) and outsourcing of production steps by food manufacturers (Industrial Foods Division). This strategy again demonstrated the strength and validity.

We are using all our energy to continue and develop this long-term strategy, which requires a lot of preparatory effort first. New sales organisations in new markets and reinforcement of existing sales structures result in high initial costs. In 2006 this was especially true for the Food Service Division and its expansion in Eastern Europe and a restructuring in Germany but also for the Private Label Division which increased the service levels for its retail customers in various countries.

We are pleased to see that the two companies Supro (Switzerland) and Inter-Planing (Germany), both **acquired** in August 2005, have been successfully integrated into the Hügli Group. Both companies contributed positively towards the bottom line. Also for the future we plan to support our organic growth through smaller acquisitions fitting into our strategy.

Sales growth in 2006 was rather similar in our three **geographical segments** with increases of between 11% and 15%. The development of the operating result (EBIT) was, however, rather diverse. In Switzerland and Western Europe EBIT developed noticeably whilst in Germany the bottom line suffered as a result of various reasons. Investments in infrastructure – especially new product development –, the aforementioned restructuring of the Food Service Division and some difficulties in the Private Label Division reduced earnings. For Hügli East, building up new sales organisations in Poland and Hungary, while at the same time strengthening the infrastructure for cater for the sales growth, weighed heavily on the bottom line.

The consolidated **income statement** show that EBIT decreased by 9.9% to 22.5 million CHF. In addition to the planned cost of building up structures (future investment costs), we encountered extraordinary one-time cost of 1.6 million CHF for a product withdrawal. As is generally known, last year, quite large batches of US long grain rice containing minute amounts of genetically modified rice got into Europe. We carried out analyses ourselves and contracted out others. The upshot was not a trace of contamination. Nonetheless, for legal reasons and to help our retail customers we withdrew all products containing US long grain rice from the market, replacing it with Italian rice. Accordingly, the EBIT decreased. Furthermore, the last slice of one million CHF profit from the sale of our stake in Natudis, which was recorded in 2005, left us with a profit of 15.9 million CHF.

The consolidated **balance sheet** has continued to be solid and favourable. Current assets rose under-proportionally to sales. Depreciation was 19% higher due to new investment. Our investments in further growth reflect a total of 16.3 million CHF. Nevertheless, equity rose to attain 45% of the balance sheet total (+18%). This does leave a certain amount of scope for minor acquisitions.

Our group observes a principle for **distribution of profits**, which is that it shall be dependent upon profit. The payout ratio is 25% to 30% of profits. However, the Board of Directors sees the decline in profits in 2006 in a different light. It is a planned step towards preparing and underpinning future growth. This is why it is requesting that the dividend of 10.50 CHF per bearer share shall remain the same. This corresponds to 31% of the group profits. As in the previous year, payments are going to take the form of a reduction in par value of shares from 31.00 CHF to 20.50 CHF. A corresponding change to the articles of incorporation will be up for the General Meeting to decide on 8 May 2007.

We regard the **outlook** for 2007 and subsequent years as good with many opportunities. Our strategy and our business model offers the very best chances there are and the all-round conditions are favourable. We have a team of capable, hard-working and inspired workers on all levels, which will enable us to achieve the goals we set ourselves. Therefore we expect 2007 to continue to show an increase of sales by +8% on the previous year to around CHF 330 million and once again a significant increase for EBIT and profit.

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Financial key figures

in million CHF	2006	2005	Variance
Sales	305.0	271.7	+12.2%
EBITDA	31.6	32.6	-3.1%
as % of sales	10.4%	12.0%	
EBIT	22.5	25.0	-9.9%
as % of sales	7.4%	9.2%	
Net profit	15.9	19.3	-17.3%
as % of sales	5.2%	7.1%	
Cash flow from operations	23.0	21.5	+7.1%
as % of sales	7.5%	7.9%	
Capital expenditure	16.3	12.3	+33.1%
Cash flow from acquisitions	0.0	25.6	n.a.
	31.12.2006	**31.12.2005**	
Net operating assets	180.7	165.2	+9.4%
Equity	97.5	82.8	+17.7%
as % of total assets	45.2%	41.9%	
Net debt	68.7	67.1	+2.5%
Gearing	0.7	0.8	
Return on invest. capital ROIC	10.9%	14.8%	
Return on equity ROE	18.2%	26.9%	
Earnings per share (CHF)	33.45	40.69	-17.8%
Repayment par value (CHF)	10.50	10.50	0.0%

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Hügli is one of the leading European groups that operates in development, production and marketing of dry blends such as soups, sauces, stocks, prepared dishes and desserts. More than 1'000 employees in 9 countries connect Hügli directly with the customers and achieve annual sales of over 300 million CHF.