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Half-Year Report as at 30 June 2011

Sales growth in local currencies shows slight improvement in Q2 2011 / Operating result marked by soaring raw materials prices and strong Swiss Franc

In the first half of 2011 the Hügli Group achieved a small sales growth of +0.1% in local currencies, which was generated by the slightly increasing dynamic in the second quarter (+3.3%) after a bad start into 2011 (first quarter -2.6%). The strong Swiss Franc caused a translation loss in the reporting currency of -9.0%. In addition, a minus of -4.3% resulted from the discontinuation of business activities that had been sold in the previous year, reducing sales by -13.2% to CHF 170.1 million. The operating result was affected by climbing raw materials prices and the strong Swiss Franc, in consequence EBIT dropped by -20.0% to CHF 16.6 million. Standing at 9.8%, the EBIT margin is still considered satisfactory, despite having failed to maintain the record level of 10.6% achieved in the first half of the previous year. The second half of 2011 is forecasted as relatively stable both in operating terms and in local currencies. The still growing negative currency effect will continue to exert pressure.

As expected, throughout the first half of 2011, Hügli had to face both the comparison with unusually high results from 2010 and difficult economic conditions. While sales began to rise again after a bad start into 2011 and raw materials prices remained stable at high level, the Swiss Franc’s foreign exchange rates wreaked havoc. This lowered the Group’s earnings in spite of the natural compensation of a part of the costs in the same currencies as well as the instituted currency hedging. The slump of recorded sales in CHF by -13.2% and the decline of EBIT by -20.0% reflects most of all the worsened foreign exchange rates and that this year's figures are compared with the very high values achieved in 2010. Hügli’s solid earning power is confirmed by an EBIT margin of 9.8%, which stands below the peak value of 10.6% attained in the first half of 2010 but surpasses the 9.7% achieved in the second half of 2010.

In the first quarter of 2011, *sales* in local currencies showed a negative development in all divisions, totalling -2.6%. This was due to the slow sales development and even more so due to the comparison with an unusual Q1 2010, in which sales took a jump of +9.5%. With +3.3%, the second quarter of 2011 came to stand at a level within the spread of 3% to 4% growth achieved in the previous two years, but it turned out lower than expected. On the whole, in the first half of 2011 organic sales growth totals +0.1% and sales volume has declined by -0.8%.
The translation loss, based on the worsened currency situation – 85% of Group sales are generated in foreign currencies – resulted in CHF -17.7 million, or -9.0% respectively, and was predominantly affected by an Euro exchange rate that was on the average -11.6% lower. Moreover, the previous year’s sale of the product line “chocolate-containing spreads” in the Czech Republic, a measure taken within the overall concentration on core business, caused a disinvestment effect of CHF -8.5 million, or -4.3% respectively. Recorded Group sales thereby fell by CHF -25.9 million to CHF 170.1 million.

EBIT saw a reduction by CHF 4.2 million, or -20.0%, to CHF 16.6 million. Prices for agricultural raw materials have been climbing noticeably since the second half of 2010 and they are affecting the gross margin more and more. Some first price increases have been implemented, constituting an inevitable measure in the present phase. However, their effect will only show after some delay. Personnel expenses have risen owing to the average salary raises afforded to each country. They have nevertheless remained below normal proportions owing to the declining number of staff. Other operating expenses came to stand just below the previous year’s level thanks to a good cost discipline.
Consolidated profits fell from CHF 15.4 million to CHF 11.2 million, or by -27.2% respectively, mostly due to translation losses of profits attained in companies abroad as well as to the extraordinary profit of CHF 2.1 million realised through the sale of the product line in 2010.

The *consolidated balance sheet* is still solid. Net operating assets increased by +2.1%, particularly due to intensive investment activities in production capacity. While negative foreign exchange rates influenced shareholders’ equity, it nevertheless rose from CHF 111.7 million to CHF 113.0 million. Consequently, the equity ratio of total assets fell slightly from 48.2% to 46.9%. Net debt was up by a marginal CHF 0.7 million to a total of CHF 69.5 million. Relevant *financial figures* such as gearing, the ratio of net debt to equity, was thus maintained at a good 0.61, and net debt to projected EBITDA increased slightly to 1.6, which proves that Hügli’s financial condition is sound and sustainable. These results were achieved in spite of a major share of the operating cash flow of CHF 19.5 million, or 11.5% of sales respectively, i.e. a total of CHF 12.6 million having been invested in the substitution and expansion of production facilities and machinery.

Geographic segments / Sales divisions

The largest segment *Germany* did not succeed in holding the record results achieved in the previous year and faced a sales slump of -2.1% in local currencies in the first half of 2011. The results were affected by cyclic sales and will in the course of 2011 return to a positive development; the growth rate of +1.7% in the second quarter of 2011 already indicates such change.The increased raw materials prices caused a marked reduction of the gross margin, which significantly affected EBIT despite good cost management and reduced the EBIT margin from 14.0% to a still high 12.4%. The production infrastructure was expanded by 10'000 sqm by the construction of a modern three-storey production building with its own energy-generating 977 sqm photovoltaic plant on the roof. Moreover, new and technologically far more advanced machinery was acquired. The investment totalled a high CHF 8.8 million. The number of full-time staff remained with 575 full-time-equivalents on the previous year’s level.

The *Switzerland* / *Rest of Western Europe* segment, showing organic sales growth of +1.5%, was affected by the very high growth rates of the market development of Private Label UK and the distinctly negative development in Italy. A change in the management of sales of Food Service Italy, as well as organisational measures, are aimed at further developing the difficult Italian market. Switzerland remained relatively stable, although lower orders in the key account business, which had resulted in a sales increase of +35% in the same period of the previous year, led to a minus in total.
The EBIT segment was maintained at the previous year’s level with approximately CHF 5.2 million while the EBIT margin rose from 8.0% to 8.4%.

The segment *Eastern Europe* achieved in its core business a good organic sales growth of +6.8%. Sales nevertheless fell from CHF 27.9 million to CHF 19.0 million, primarily due to the disinvestment of a product line that had generated sales of CHF 8.5 million in the first half of 2010. Despite the adjustment of production capacity, combined with a reduction of staff, both performed to adapt to the lower production volume in the first half of 2011, operating costs – taking into account lower capacity utilisation and gross margin loss being caused by raw materials prices – divided the EBIT margin of 4.2% in half, the margin thus coming to 2.1%. Thanks to the focus on the core business, we nevertheless expect a significant improvement in future.

The largest division *Food Service* is still affected by stagnating sales of hotels and restaurants, and less so by the sales of canteens. Organic sales in local currencies remained with +0.1% at approximately the previous year's level. The sales organisations in Switzerland, Austria, the Czech Republic and in particular also Poland showed a very positive development. The difficult economic conditions slowed down sales in Hungary while in Italy the restructuring of the sales organisation weighed on results and created a significant minus. The sale to large retail trade organisations under their own labels in the division *Private Label LEH* achieved organic sales growth of +10.4% in spite of the bad start into the second quarter of 2011. The largest contribution in sales within the total of +3.3% of the first half of 2011 stemmed from the UK, and Eastern Europe also showed very positive development. In Germany, sales are currently below the previous year's figures. The division *Industrial Foods* accelerated the organic sales development in Q2 2011 to +8.4%, and to an accumulated +0.4% in the first half of the year, a situation particularly owed to the organisations in the UK and in Germany. Sales of the *Health and Natural Food* division totalled -1.7% below the previous year's result which is due to the on-going negative development in the traditional health food market in Germany.

Outlook

Hügli is sticking to its *strategic target* of recording solid organic sales growth of more than 5% over the long term, with an above average increase in income. In addition, we are constantly reviewing opportunities on the market with the aim of increasing the profitability of our infrastructure.

For the entire 2011, we are forecasting organic sales growth in the range of +2%. Against the background of the present currency situation, the negative currency effect is difficult to predict; it could stand between -10% and -13%. The sales amount of CHF 12 million, which is lost owing to the disinvestment of the product line, corresponds to a sales reduction of around -3%. Due to the increased raw materials prices and based on price increases, whose effect will show with some delay, we also forecast a slightly lower gross margin for the second half of 2011. The massively over-rated Swiss Franc weighs on our expectations. For the year 2011, we anticipate sales of CHF 320 million and EBIT of approximately CHF 31 million, or around 9.5% of sales.

Key financial figures *in CHF million*	H1 2011	H1 2010	Change
Sales	170.1	196.0	-13.2%
EBITDA	22.1	26.4	-16.2%
in % of sales	13.0%	13.5%	
EBIT	16.6	20.8	-20.0%
in % of sales	9.8%	10.6%	
Net profit	11.2	15.4	-27.2%
in % of sales	6.6%	7.9%	
Cash flow from operating activities	19.5	31.8	-38.6%
Capital expenditure	12.6	11.7	+8.0%
	30.06.2011	**31.12.2010**	
Net operating assets	199.7	195.7	+2.1%
Equity	113.0	111.7	+1.2%
in % of total assets	46.9%	48.2%	
Net debt	69.5	68.8	+0.9%
Gearing	0.61	0.62	

Detailed financial information on the H1 results can be found in our Half-Year Report 2011. The report can be downloaded from the Hügli website:
http://ir.huegli.com/InvestorRelations/BerichteundPräsentationen/tabid/327/language/en-US/Default.aspx

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Financial calendar

27 January 2012	7.30 a.m.	Media Release: Sales 2011
12 April 2012	7.30 a.m.	Media Release: Annual Report 2011
	10.30 a.m.	Media/Analysts' Conference, Widder Hotel, Zurich
23 May 2012	4.30 p.m.	Annual General Meeting, Seeparksaal, Arbon
17 August 2012	7.30 a.m.	Media Release: Half-Year Report 2012

Hügli – one group, many teams, one goal

The Hügli Group, headquartered in Steinach, Switzerland, is one of the leading European food companies for the innovative development, the efficient production and the marketing of dry blends in the convenience segment comprising soups, sauces, bouillons, ready to serve meals, desserts, functional food as well as Italian specialities. The customer-oriented production and direct sales to professional clients are core elements of the Group strategy, which aims for sustainable and profitable growth. Hügli strives to heighten the customer benefit with excellent products – and these are recognised not least by their flavour. 1300 employees in 9 countries link Hügli directly with its customers, and generate annual sales of around CHF 320 million.
For further information, please visit www.huegli.com