Hügli Holding AG

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Half-Year Report as per 30 June 2009

Strong development of earnings – substantial increase of EBIT and net profit Sales slowed down by economic situation and currency effects

The Hügli Group increased EBIT by 16.8% to CHF 16.8 million and net profit by 28.7% to CHF 11.0 million in the first half of 2009. Sales in Swiss Francs were reduced by 4.6% to CHF 192.9 million due to currency effects; it rose by 3.5% in local currencies. The outlook is still positive.

Thanks to its established strategy and operational strength, the Hügli Group achieved an *organic sales growth of 2.7%* in spite of adverse economic conditions. Along with an additional 0.8% that was generated by an acquisition effect, sales growth totalled 3.5% in local currencies. Owing to the Swiss Francs' strength, exceeding that of the previous year – against the Euro, British Pound and the Eastern European currencies – we had to register currency-related losses of 8.1% and currently report a reduction of sales by 4.6% to CHF 192.9 million. Against the background of the unfavourable economic conditions, which have had differing impacts on our customer segments, we consider the achieved organic sales growth a good result.

We are pleased that we have been able to increase profits over-proportionally, not only in local currencies but also in Swiss Francs, notwithstanding the losses incurred through currency translation. The raw materials prices, after having soared in the second half of 2007 and first half of 2008, have abated slightly in the second half of 2008 and the first half of 2009 and stabilised on an elevated level. Our material expenses were favourably affected by this development, which brought our gross profits to an again acceptable level. Above all, we have further improved our internal business processes and accomplished considerable gains from rationalisation. We have also expanded the quota of self-manufactured products within our sales and lowered that of trade goods, which was as well a consequence of our product portfolio's enhancement through the acquisition of Contract Foods (UK) and Ali-Big (Italy). In conclusion, we have given profits our main attention in all our customer segments and discontinued the supply of less profitable domains.

All of this has resulted in an advantageous increase of EBIT by 16.8% to CHF 16.8 million and of net profit by 28.7% to CHF 11.0 million. Both results mark new first half-year records for Hügli. Rendered in percentage of sales, the EBIT standing at 8.7% (7.1% in the previous year) and profits at 5.7% (4.2% in the previous year) lie within our benchmarks.

Geographic Segments

Germany, our still most relevant segment with regard to sales and profits suffered a decline of sales of 2.2% in local currencies. The first half of 2008 though yielded exceptionally strong sales with a plus of 18.1%, which was mainly due to high promotion sales in the Private Label customer segment. In 2009, sales will be spread more evenly throughout the entire year. Germany was, however, especially successful with regard to the rationalisation of processes and a consistent cost control. EBIT therefore rose from CHF 9.9 million to 11.2 million, which corresponds to 11.0% of sales (8.9% in the previous year). This performance is outstanding, in particular because we consider Germany to be the market with the fiercest competition.

The segment *Switzerland / Rest of Western Europe* attained a favourable growth of 9.0% in local currencies. But owing to the weakness of the Euro and expressly that of the British pound – by -6.2% and -18.8% (!) against the previous year, respectively – this increase was reduced to +1.8% in Swiss Francs. The good sales development was primarily driven by Switzerland, but also by a significant increase that was achieved by our acquisition Contract Foods (UK) starting in February 2008. With 7.7% of sales (7.6% in the previous year), the EBIT of this segment did not match our benchmark. The principal reasons are heavy currency-related profit losses affecting the crucial export from Switzerland to England as well as the still unsatisfactory revenue situation of our most recent acquisitions Contract Foods (UK) and Ali-Big (Italy). It nonetheless also means that this segment still holds profit reserves, especially so as we recognise very promising development potential for both companies.

The negative currency effects had an exceptionally severe impact on sales and profit in the segment *Eastern Europe*. The quite strong sales growth of 13.9% in local currencies, which had developed according to our expectations, turned into a minus of 4.4% in Swiss Francs. Besides that, the currency situation within Eastern Europe generally evolved in a for us inopportune manner. From our production site Zasmuky in the Czech Republic, we supply Poland and Hungary, which constitute important markets for us. While the decline of the Hungarian Forint against the Czech Crown by -5.7% was still in line with expectations, we were faced with considerable problems due to the Polish Zloty's value loss of -15.9%. We are overall satisfied with the course of reorganisation we had introduced in 2008 in this geographic segment. The currency development, however, prevented a higher growth of EBIT. After all, we have been able to improve EBIT from a minus of 2.1% of sales to +1.9%. We still attribute sound potential to Eastern Europe and expect further improvements by the second half of 2009, also due to the gradual adjustment of prices to the altered currency situation.

Sales by Customer Segments / Sales Divisions

The *Food Service Division*, our largest division – sales to all out-of-home catering markets – had to withstand the strong counter currents of the unfavourable economic situation. Hotels and restaurants suffered a lessening of demand in the tourism sector and the canteens of large industrial firms had to reduce the amount of meals prepared because of a decline in employment, increase in short time and the loss of entire work shifts. Only the domain of hospitals/institutions was spared by the crisis. Under these circumstances, the increase by 1.6% in local currencies and sales of CHF 80.3 million constitute a hard-fought success.

The *Private Label LEH Division* – catering to big retail trade companies that sell our products under their own labels – achieved a growth in local currencies, when compared with the previous year, of only 0.6% and sales of 39.6 million in Swiss Francs. It must be noted, though, that this division had grown by 38.4% in the first half of 2008 and had therefore consolidated on a very high level. Moreover, we have already referred to specific shifts in sales in the segment Germany. Here, we expect a relatively strong second half of 2009 as the trend towards products with a good cost/value ratio is unbroken and bound to gain momentum specifically within adverse economic conditions.

The *Industrial Foods Division* – supply of finished and semi-finished products to the food industry – again achieved a strong organic growth of +9.9%. With CHF 36.2 million it was the only division to exceed the previous year's sales by +2.7% also in CHF. Our most recent acquisition Contract Foods made a significant contribution in spite of the already mentioned value loss of the British Pound against the Swiss Franc of 18.8%.

The *Health and Natural Food Division* – sales of biological / organic products to the specialised trade – registered a certain restraint towards its premium products, especially in its most important market Germany, which probably resulted from the unfavourable economic situation. The division notwithstanding attained an organic sales growth of 0.6% to CHF 26.6 million. It thereby maintained its leading position in its product domain with market shares between 50% and 80%.

Balance Sheet
Our consolidated balance sheet provides the accustomed solid results. The total assets remained practically unchanged when compared to 31.12.2008 as well as to 30.06.2008. We can report an advantageous decline of net debt by CHF 10.1 million to CHF 85.5 million and an increase of equity – after the debiting of the dividend / repayment of par value of CHF 5.3 million – to CHF 125.4 million, which corresponds to 45.0% of total assets (against 41.4% as per 31.12.2008). We have thereby attained our objective of strengthening our equity position in these uncertain times.

Conversion from IFRS to Swiss GAAP FER
Since 2004, we have been preparing our financial statements in accordance with the financial reporting standards IFRS, which has been the norm prescribed by the Main Standard (formerly Main Market Segment) of SIX Swiss Exchange (Swiss Stock Exchange). The regulation complexity of IFRS has massively increased since then; the manual with all standards now incorporates approximately 3'000 pages! The internal and external work load it entails has significantly risen but in our opinion has not resulted in a comparable increase of comprehensible information for our shareholders, analysts, banks, etc. Furthermore, the consistently more detailed disclosure requirements increasingly lead to the disclosure of business secrets, which create advantages for our competitors, among which some are unlisted and not bound by these regulations. This particularly affects a medium size company like Hügli while the information disclosed by large companies is well diluted by the sheer amount and diversity of aggregated figures.

We have therefore decided to adopt the financial reporting standard Swiss GAAP FER as per the financial statement of 31.12.2009. This new financial reporting standard also complies with the true and fair view principle and provides comprehensive information to all those interested in Hügli. This standard still encompasses 200 pages but has been tailored to fit medium size companies. With this change of standards we find ourselves in good company with firms like Emmi, Bell and Conzzeta. For the same reasons, the companies Bossard, Gurit and Cham Paper Group have also performed the change in this year. Further companies are expected to follow. With the adoption of Swiss GAAP FER, Hügli changes from the Main Standard (formerly Main Market Segment) to the Domestic Standard (formerly Local Caps Segment). You can already find all information about the effects of this conversion in the Notes to the Half-Year Report 2009. Hügli has always maintained a policy of open information and will hold it up.

Outlook

Our over-all strategy – our core customer segments, product portfolio and not least our corporate culture – has again shown its strength under the prevailing difficult market conditions. We can still count on an outstanding and highly motivated staff. Consequently, we anticipate a very promising medium-term and long-term development.
From a short-term view, we do not expect any major changes with regard to the basic conditions for the second half of 2009. The economic downward trend appears to be slowly breaking off; consumption may nevertheless still slightly decline. Otherwise, raw materials prices remain stable, interests and inflation stay low – we do not believe in the ghost of deflation and on a long-term basis rather see a danger in inflation.
The currency conditions have also stabilised on their current level. We support without reservation the Swiss National Bank's policy of holding the CHF/EUR rate above the limit of 1.50 – this may be the most important measure to support the economic boom and more effective than any economic stimulus programme. We have learned to accommodate ourselves to the Eastern European currency conditions – at least we do not anticipate any further aggravation.

We expect for Hügli a still hard-won sales development against this background in the second half of 2009, and nevertheless an overall considerably good course of business. However, the growth rates of EBIT and earnings will slow down significantly as the first half of 2008 saw weak earnings while they were markedly stronger in the second half. We confirm our sales expectations with a targeted organic growth of +3.0% to CHF 385 million for the running financial year and raise our objectives for EBIT and net profit to a plus of approximately 10%.

Change of Regulatory Standard of Listing at SIX Swiss Exchange

SIX Swiss Exchange, with its decision of 29 July 2009 approved Hügli's application for segment change to the Domestic Standard (formerly SIX Swiss Exchange Local Caps Segment) under the condition of compliance with all publication obligations. The segment change will be carried out as per 17 August 2009. From that date, the 280'000 bearer shares of Hügli Holding AG, registered office in Steinach (HUE, securities no. 464795, ISIN CH0004647951), with a nominal value of CHF 1.00 per share will cease to be listed according to the Main Standard (formerly Main Market Segment) and will be listed according to the Domestic Standard of SIX Swiss Exchange. The last day of trading under the Main Standard therefore is 14 August 2009. The change of regulatory standard provides Hügli with the option to adopt the financial reporting standard Swiss GAAP FER but has no other effect on SIX Swiss Exchange rules and regulations that Hügli must comply with; the shares will be traded as before.

Detailed financial information on the half-year results can be found in our Half-Year Report 2009. The report can be downloaded directly from our website www.huegli.com, Investor Relations, English, Reports.
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Hügli – one group, many teams, one goal
The Hügli Group is one of the leading European groups that operate in development, production and marketing of dry blends such as soups, sauces, bouillons, dry ready meals, desserts and functional foods. More than 1300 employees in 9 countries connect Hügli directly with the customers, and achieve annual sales of above CHF 380 million (GBP 220 million). Hügli is headquartered in Steinach, Switzerland and generates more than 85% of its sales outside of its home country.