Half-Year Report 2010

Hügli Holding AG, Steinach

Key figures in brief

million CHF

Key figures of the group	Jan.-June 2010	Variance in CHF	Variance in *local currency*	Jan.-June 2009
Sales	196.0	1.6%	*4.6%*	192.9
Operating profit before depreciation (EBITDA) as % of sales	26.4 13.5%	17.7%		22.4 11.6%
Operating profit (EBIT) as % of sales	20.8 10.6%	21.5%		17.1 8.9%
Net profit as % of sales	15.4 7.9%	37.1%		11.3 5.8%
Net profit per bearer share (CHF)	32.23	36.8%		23.56
Cash flow from operating activities as % of sales	31.8 16.2%	68.2%		18.9 9.8%
Investments (tangible and intangible assets)	11.7	120.7%		5.3
	30.06.2010			**31.12.2009**
Invested capital (Net operating assets)	188.8	– 9.7%		209.0
Equity as % of total assets	104.5 44.5%	– 1.2%		105.8 42.3%
Net dept Gearing (Ratio to equity)	63.1 0.60	– 27.3%		86.8 0.82
Number of employees (full-time postitions)	1’421			1’429

Key figures of geographical segments		Jan.-June 2010	Variance in CHF	Variance in *local currency*	Jan.-June 2009
Germany	Sales	102.5	0.4%	*5.3%*	102.0
	EBIT as % of sales	14.4 14.0%	25.3%		11.5 11.2%
Switzerland / Rest of Western Europe	Sales	65.6	– 1.8%	*– 0.1%*	66.8
	EBIT as % of sales	5.3 8.0%	1.3%		5.2 7.8%
Eastern Europe	Sales	27.9	15.9%	*14.1%*	24.1
	EBIT as % of sales	1.2 4.2%	152.1%		0.5 1.9%

Sales of customer segments / divisions

Food Service	80.0	– 0.4%	*2.4%*	80.3
Private Label	42.8	8.3%	*11.7%*	39.6
Industrial Foods	37.6	3.8%	*4.9%*	36.2
Health & Natural Food	25.5	– 3.9%	*0.6%*	26.6
Other	10.0	– 2.1%	*2.6%*	10.2

Half-Year Report as per 30 June 2010

Economy continues to dampen sales growth at +4.6%
Continued improvements in earnings – operating result up 21.5%

The Hügli Group recorded organic sales growth of +4.6% in the first six months of 2010, which corresponds to a +1.6% increase in sales to CHF 196.0 million as a result of the lower exchange rates. The improved product mix, with its higher percentage of products produced in house and sound cost discipline led to significant 21.5% increase in EBIT to CHF 20.8 million. The sale of a product line also increased profits, which lifted 37.1% to CHF 15.4 million. These are both best H1 figures for Hügli.

We continue to regard the outlook as being good, despite the heightened problems with exchange rates.

Hügli recorded solid results in all segments in the first six months of 2010 given the economic situation. Sales were up +4.6% in local currency terms, and all of the divisions contributed to this figure. Lower exchange rates to the Euro and the British Pound had a negative impact, with the result that revenues in Swiss Francs only increased by +1.6% to CHF 196.0 million compared to H1 2009. After a brilliant start to the first quarter of 2010 in key account business in the Private Label and Industrial Foods divisions, the second quarter was depressed by lower cyclical sales. Food Service and Health & Natural Food, with their broad customer bases, enjoyed positive growth in line with expectations and the previous year, however the continued depressed economy slowed growth in a medium-term comparison.

EBIT was up again significantly by +21.5% or CHF 3.7 million to CHF 20.8 million. This corresponds to an EBIT margin of 10.6% (same period of previous year: 8.9%). The positive growth in the gross margin was a key element in this improvement in earnings – this was due to several factors. Optimising the product portfolio allowed the gross margin to be increased. This optimisation is based on a higher percentage of products made in house, and delisting lower-margin products. In addition, optimising operating workflows resulted in additional savings. On the other hand, it was possible to reduce the effective cost of materials compared to the previous year, mostly due to the existing good purchasing contracts. However, compared to 2009, certain price increases can already be seen again on the current market for agricultural commodities. Operating expenses only increased slightly as a result of the sound cost discipline, and were in line with expectations. The number of full-time employees remained constant in the first half of 2010. However, the increase from 1'331 full-time employees as of June 2009 to 1'421 full-time employees as of June 2010 shows the increase in staff numbers in the second half of 2009.

Consolidated profits increased by a strong CHF 4.2 million in the first six months of 2010, or by 37.1% to CHF 15.4 million. In this regard, it must be noted that a non-strategic product line in the Czech Republic was sold in May 2010 (machinery and equipment, customer base and brand), which led to extraordinary pre-tax profits of CHF 2.1 million. Financial expenses increased in total as a result of exchange rate losses in the Group's financing, whereas interest expenses fell by around 20% as a result of the lower debt and lower interest rates. The further increase in the value of the Swiss Franc compared to all of the currencies that are relevant for the group resulted in a significant negative impact on profits compared to the previous year, in particular as a result of the translation of profits recorded in Euros to Swiss Francs.

The Group succeeded in further reinforcing its balance sheet ratios, although the valuation on the balance sheet date resulted in an average 9% lower valuation of the balance sheet items as a result of the lower exchange rates on 30 June 2010. The nominal equity decreased slightly from CHF 105.8 million to CHF 104.5 million despite the higher profits as a result of the very strong negative exchange rate effects totalling CHF 11.1 million. Compared to total assets, however, the equity ratio improved from 42.3% at the end of 2009 to 44.5% as of June 2010. Despite very high capital expenditure, it was possible to cut financial liabilities by a total of CHF 15.4 million thanks to the excellent cash flow from operating activities and extraordinary income. This means that net debt fell from CHF 86.8 million to EUR 63.1 million at the end of June. Key

financial indicators such as gearing, net debt to equity, thus improved significantly from 0.82 to 0.60, and net debt to EBITDA also improved substantially to 1.2, compared to 1.9 in the previous year. The Hügli Group thus has a very solid financial stance, which also forms an excellent basis for the planned investments in expanding the production infrastructure (buildings, equipment, machinery) in 2010 and 2011. Investments in property, plant and equipment already totalled CHF 11.7 million in the first six months, whereas the average capital expenditure over the past five years totalled around CHF 13 million per year.

Geographic segments

Germany is the most important segment, and recorded a strong increase in sales of +5.3% across all of the divisions. We are particularly pleased that we were able to record additional economies of scale of with consistent cost control, which lead to an above-average increase in EBIT of 25.3% to CHF 14.4 million. In addition, we have created 32 new jobs over the past 12 months, increasing the number of full-time employees to a total of 574. We further improved the technology in our high-performance production infrastructure by adding new machines and equipment, and we also rationalised the infrastructure, which is expressed in the capital expenditure of CHF 5.1 million compared to CHF 2.1 million in the first half of 2009.

The *Switzerland and Rest of Western Europe* segment was only able to maintain its sales in local currency compared to the previous year at –0.1%. However, we must note that the performance of Switzerland as a production location was excellent, whereas Hügli UK suffered a downturn in sales and earnings compared to the same period of the previous year. However, as sales were up more than 50% in the previous year, the basis for comparison is very high. Italy-based Ali-Big, which was acquired in 2007, enjoyed strong growth. In total, EBIT increased slightly, as was also the case for the EBIT margin, which lifted from 7.8% in the previous year to 8.0%.

The *Eastern Europe* segment (Czech Republic, Poland, Hungary and Slovakia) again recorded strong sales growth – up 14.1%. The sale of the product line "chocolate-based spreads" has not yet had a major impact on sales in the first six months of the year. The improved capacity uptake means that it was possible to lift EBIT from CHF 0.5 million to CHF 1.2 million, and an EBIT margin of 4.2%. The funds released as a result of the divesture of the production line are currently being invested in a significant expansion to the production and warehouse area for dry blend products at the facility in the Czech Republic. The investments, which to date have primarily been made in buildings, already totalled CHF 4.2 million compared to CHF 1.1 million in the same period of the previous year. The reduction in sales and capacity in the second half of 2010 as a result of the divesture will be together with the increase in capacity for dry blend products.

Sales by customer segments / divisions

The largest *division Food Service* – which serves that out of home market – continues to suffer from the downturn in sales at hotels and restaurants, in particular in tourist gastronomy. In contrast, the situation in sales at canteens has relaxed somewhat, as the improved employment situation has caused the number of visits to staff restaurants to increase again. The organic sales growth of +2.4% can be regarded as excellent performance in view of the downturn on the overall market.

Sales to large retail trade organisations using their brands in the *Private Label division* were up 11.7% in local currencies compared to the previous year. Demand for retail products with an excellent cost/benefits ratio that increasingly also enjoy excellent results in tests by independent consumer protection organisations compared to brand products continues to grow.

The *Industrial Foods division*, which sells finished and semi-finished products to the food industry, enjoyed a very strong start to the financial year. However, the cyclical dip in sales in the United Kingdom in particular had a significant negative impact on Q2 2010. As a result, the organic growth of +4.9% is thus clearly below our expectations. However, our well-filled project pipeline means that we can soon expect positive cycles again here.

The *Health and Natural Food division*, which sells organic products to the specialist trade, was also impacted by the poorer economy and the associated reserved consumption of premium products – its sales grew by 0.6% in local currency. The downturn in sales in health food stores had a negative impact, however natural food stores and, in particular, drug stores are enjoying strong growth rates

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. We also constantly review market opportunities, with the aim of increasing the profitability of our infrastructure.

We are forecasting sales growth in local currencies of +5% for 2010 as a whole, which corresponds to sales which are around 3% lower year-on-year at CHF 380 million as a result of significantly negative exchange rate effects and the reduction in sales caused by the loss of the production line mentioned above. As a result of the increase in commodities prices we are forecasting a lower gross margin for the second half of the year. EBIT will total around CHF 39 million, up 10% year-on-year. Together with the extraordinary income this results in a forecast 20% increase in profits.

Steinach, August 2010

Dr. Alexander Stoffel
Chairman of the Board of Directors

Dr. Jean Gérard Villot
CEO, Vice President of the Board of Directors

Consolidated Balance Sheet

in CHF 1'000

Assets	30.06.2010	%	31.12.2009	%	30.06.2009	%
Cash and cash equivalents	11'451		7'443		7'124	
Trade accounts receivable	49'399		58'631		54'296	
Other accounts receivable	6'139		5'273		4'507	
Accrued income and prepaid expenses	2'436		2'093		2'110	
Inventories	53'879		56'924		61'537	
Current assets	**123'304**	**52.5**	**130'364**	**52.2**	**129'574**	**52.3**
Land and buildings	68'077		72'741		74'416	
Technical equipment and machinery	32'643		34'846		31'277	
Other tangible assets	8'759		9'034		9'435	
Intangible assets	1'895		2'406		2'708	
Financial assets	41		46		37	
Deferred income tax assets	343		400		527	
Fixed assets	**111'758**	**47.5**	**119'473**	**47.8**	**118'400**	**47.7**
Total assets	**235'062**	**100.0**	**249'837**	**100.0**	**247'974**	**100.0**
Liabilities and shareholders' equity						
Borrowings	34'936		52'158		36'458	
Trade payables	19'135		21'809		21'731	
Tax liabilities	7'766		3'575		4'093	
Other current liabilities	2'743		2'096		2'110	
Accrued expenses and deferred income	16'232		12'902		21'124	
Current liabilities	**80'812**	**34.4**	**92'540**	**37.0**	**85'516**	**34.5**
Borrowings	39'570		42'071		56'173	
Deferred tax liabilities	8'738		7'956		7'885	
Provisions for employee benefits	1'402		1'512		1'678	
Non-current liabilities	**49'710**	**21.1**	**51'539**	**20.6**	**65'736**	**26.5**
Liabilities	**130'522**	**55.5**	**144'079**	**57.7**	**151'252**	**61.0**
Share capital	485		485		485	
Share premium	17'992		17'701		17'701	
Own shares	– 267		– 312		– 312	
Retained earnings	86'330		87'884		78'848	
Shareholders' equity	**104'540**	**44.5**	**105'758**	**42.3**	**96'722**	**39.0**
Total liabilities and shareholders' equity	**235'062**	**100.0**	**249'837**	**100.0**	**247'974**	**100.0**

Consolidated Income Statement

in CHF 1'000

	Jan.-June 2010	%	Jan.-June 2009	%	Jan.-Dec. 2009	%
Sales	**195'969**	**100.0**	**192'855**	**100.0**	**390'427**	**100.0**
Sales deductions	– 4'481	– 2.3	– 3'990	– 2.1	– 8'612	– 2.2
Net sales	**191'488**	**97.7**	**188'865**	**97.9**	**381'815**	**97.8**
Change in inventories	1'080	0.6	1'220	0.6	– 204	– 0.1
Operating revenue	**192'568**	**98.3**	**190'085**	**98.6**	**381'611**	**97.7**
Material expenses	– 89'096	– 45.5	– 92'437	– 47.9	– 183'854	– 47.1
Personnel expenses	– 45'884	– 23.4	– 44'170	– 22.9	– 87'083	– 22.3
Other operating expenses, net	– 31'201	– 15.9	– 31'067	– 16.1	– 64'586	– 16.5
Operating profit before depreciation and amortisation (EBITDA)	**26'387**	**13.5**	**22'411**	**11.6**	**46'088**	**11.8**
Depreciation	– 5'366	– 2.7	– 5'036	– 2.6	– 10'276	– 2.6
Amortisation	– 243	– 0.1	– 268	– 0.1	– 514	– 0.1
Operating profit (EBIT)	**20'778**	**10.6**	**17'107**	**8.9**	**35'298**	**9.0**
Extraordinary result	2'063	1.1	0	0.0	0	0.0
Interest expenses	– 1'435	– 0.7	– 1'803	– 0.9	– 3'486	– 0.9
Interest income	19	0.0	16	0.0	79	0.0
Other financial result	– 628	– 0.3	– 64	0.0	– 159	0.0
Profit before taxes	**20'797**	**10.6**	**15'256**	**7.9**	**31'732**	**8.1**
Income taxes	– 5'357	– 2.7	– 3'991	– 2.1	– 8'560	– 2.2
Net profit	**15'440**	**7.9**	**11'265**	**5.8**	**23'172**	**5.9**
Earnings per bearer share (in CHF)	32.23		23.56		48.44	

Consolidated Cash Flow Statement

in CHF 1'000

	Jan.-June 2010	Jan.-June 2009	Jan.-Dec. 2009
Net profit	15'440	11'265	23'172
Depreciation / Amortisation	5'609	5'304	10'790
Increase / (Decrease) in provisions for employee benefits	60	26	– 98
Interest expenses, net	1'416	1'787	3'407
Income taxes	5'357	3'991	8'560
Profit from the disposal of fixed assets	– 2'063	– 1	– 1
Other non-cash result	340	– 255	10
Change in net working capital			
(Increase) / Decrease in receivables	2'833	2'419	– 3'458
(Increase) / Decrease in inventories	– 1'972	– 271	1'753
Increase / (Decrease) in liabilities	5'375	– 1'228	– 1'660
Income taxes paid	– 599	– 4'134	– 8'566
Cash flow from operating activities	**31'796**	**18'903**	**33'909**
Investments tangible fixed assets	– 11'665	– 5'292	– 14'921
Investments intangible assets	– 17	0	– 102
Cash flow from acquisitions, net	0	0	– 885
Disposales of tangible assets	4'773	0	11
Disposales of intangible assets	2'923	0	0
Disposales of financial assets	0	0	– 15
Interest received	19	16	79
Cash flow from investing activities	**– 3'967**	**– 5'276**	**– 15'833**
Increase / (Repayment) of short-term borrowings	– 13'484	– 17'505	– 13'896
Increase / (Repayment) of long-term borrowings	– 1'825	– 1'997	– 2'324
Repayment of finance lease liabilities	– 72	– 137	– 295
Dividend payment	– 6'473	0	– 1'196
Repayment of par value	0	0	– 4'068
Interest paid	– 1'387	– 1'732	– 3'514
Sale of own shares	336	235	234
Cash flow from financing activities	**– 22'905**	**– 21'136**	**– 25'059**
Total cash flow	**4'924**	**– 7'509**	**– 6'983**
Translation adjustment on cash and cash equivalents	– 916	305	98
Change in cash and cash equivalents	**4'008**	**– 7'204**	**– 6'885**
Cash and cash equivalents at 01.01.	7'443	14'328	14'328
Cash and cash equivalents at 30.06. / 31.12.	11'451	7'124	7'443

Consolidated Statement of Comprehensive Income

in CHF 1'000	Jan.-June 2010	%	Jan.-June 2009	%	Jan.-Dec. 2009	%
Net profit	**15'440**	**7.9**	**11'265**	**5.8**	**23'172**	**5.9**
Other comprehensive income						
Translation gains / (losses) recorded in equity	– 11'126	– 5.7	2'093	1.1	– 736	– 0.2
Transfer realised currency (gains) / losses in income statement	380	0.2	34	0.0	211	0.1
Valuation of cash flow hedges, net	205	0.1	– 541	– 0.3	– 773	– 0.2
Total other comprehensive income	**– 10'541**	**– 5.4**	**1'586**	**0.8**	**– 1'298**	**– 0.3**
Comprehensive income	**4'899**	**2.5**	**12'851**	**6.7**	**21'874**	**5.6**

Consolidated Statement of Changes in Equity

in CHF 1'000

	Share capital	Share premium	Own shares	Other retained earnings	Changes in value hedge accounting	Translation differences	**Total**
Balance at 31.12.2008	4'608	17'429	– 345	66'105	657	432	**88'886**
Net profit				11'265			11'265
Total other comprehensive income					– 541	2'127	1'586
Comprehensive income				11'265	– 541	2'127	**12'851**
Reduction in par value / dividends	– 4'123	71		– 1'212			– 5'264
Sale of own shares		202	33				235
Recognition of share-based payments				14			14
Balance at 30.06.2009	485	17'702	– 312	76'172	116	2'559	**96'722**
Balance at 31.12.2009	485	17'701	– 312	88'093	– 116	– 93	**105'758**
Net profit				15'440			15'440
Total other comprehensive income					205	– 10'746	– 10'541
Comprehensive income				15'440	205	– 10'746	**4'899**
Dividends				– 6'473			– 6'473
Sale of own shares		291	45				336
Recognition of share-based payments				20			20
Balance at 30.06.2010	485	17'992	– 267	97'080	89	– 10'839	**104'540**

Exchange rates

	Balance Sheet			Income Statement		
	30.06.2010	31.12.2009	30.06.2009	Jan.-June 2010	Jan.-June 2009	Jan.-Dec. 2009
EUR (1)	1.323	1.485	1.525	1.437	1.506	1.510
GBP (1)	1.621	1.667	1.794	1.651	1.684	1.696
CZK (100)	5.149	5.631	5.882	5.593	5.570	5.732
PLN (100)	31.870	36.310	34.190	35.990	33.820	35.040
HUF (100)	0.462	0.551	0.559	0.530	0.522	0.541

Segment Information

in CHF 1'000

1st Half-Year

2010	Germany	Switzerland / Rest of Western Europe	Eastern Europe	Eliminations / not allocated	Total Group
Consolidated sales	**102'455**	**65'577**	**27'937**		**195'969**
Inter-segment sales	2'784	6'660	120		
Total sales	105'239	72'237	28'057	– 9'564	
EBITDA	**16'778**	**7'538**	**2'071**		**26'387**
Depreciation	– 2'222	– 2'238	– 906		– 5'366
Amortisation	– 202	– 38	– 3		– 243
EBIT	**14'354**	**5'262**	**1'162**		**20'778**
EBIT-Margin	*14.0%*	*8.0%*	*4.2%*		*10.6%*
Extraordinary result					2'063
Financial results, net					– 2'044
Income taxes					– 5'357
Net profit					**15'440**
Investments in tangible fixed assets	5'142	2'306	4'234		11'682
Assets	105'690	98'921	34'738	– 4'287	235'062
Liabilities	20'564	22'092	9'252	78'614	130'522
Personnel (full-time positions)	574	448	399		1'421

2010	Food Service	Private Label	Industrial Foods	Health & Natural Food	Other	Total Group
Sales	80'037	42'835	37'609	25'531	9'957	195'969

1st Half-Year

2009	Germany	Switzerland / Rest of Western Europe	Eastern Europe	Eliminations / not allocated	Total Group
Consolidated sales	**102'003**	**66'751**	**24'101**		**192'855**
Inter-segment sales	3'565	6'167	105		
Total sales	105'568	72'918	24'206	– 9'837	
EBITDA	**14'034**	**7'060**	**1'317**		**22'411**
Depreciation	– 2'372	– 1'812	– 852		– 5'036
Amortisation	– 210	– 54	– 4		– 268
EBIT	**11'452**	**5'194**	**461**		**17'107**
EBIT-Margin	*11.2%*	*7.8%*	*1.9%*		*8.9%*
Financial results, net					– 1'851
Income taxes					– 3'991
Net profit					**11'265**
Investments in tangible fixed assets	2'137	2'070	1'085		5'292
Assets	110'780	101'650	40'820	– 5'276	247'974
Liabilities	16'114	24'143	9'068	101'927	151'252
Personnel (full-time positions)	542	441	348		1'331

2009	Food Service	Private Label	Industrial Foods	Health & Natural Food	Other	Total Group
Sales	80'339	39'558	36'226	26'559	10'173	192'855

Explanatory Notes to the Consolidated Interim Financial Statements

Corporate Accounting Principles

The consolidated interim financial statements are the unaudited, interim consolidated statements of Hügli Holding AG and its Swiss and foreign subsidiaries for the period from 01.01. to 30.06.2010 (hereafter "the interim period"). They are prepared in accordance with Swiss GAAP FER 12 "Interim reporting". The accounting policies followed in these consolidated interim financial statements are consistent with the consolidated annual financial statements 2009. The consolidated interim financial statements do not include all information as compared with the annual financial statements as per 31 December 2009. They should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009 as they provide an update of the previously reported information for the interim period.

The preparation of the interim financial statements requires management to make estimates and assumptions to the best judgment that affect the reported amounts of revenues, expenses, assets, liabilities and contingent liabilities at the date of the interim financial statements. Actual results may differ from these estimates. The preparation of the interim financial statements is based on the same essential estimates and assumptions used in the consolidated financial statements 2009.

Income tax expense is recognised based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

Changes in the Scope of Consolidation

The scope of consolidation has not changed within the interim reporting periods 2010 and 2009. All presented balance sheets – as per 30.06.2010, 31.12.2009 and 30.06.2009 – as well as the presented consolidated income statements for the periods therefore contain the same scope of consolidation.

Seasonality

The Group's activities are not subject to any regularly occurring biannual seasonal influences. Fluctuations of raw materials prices and exchange rates along with periodic changes in demand from major customers may still exert some influence on the amount of sales and the operating profit.

Distribution of Profits

The Annual General Meeting held on 19 May 2010 approved a gross dividend of CHF 13.50 per bearer share. The distribution of altogether CHF 6.5 million was effectuated on 27 May 2010 and recognised in the retained earnings. In the previous year, the distribution of CHF 5.3 million was carried out in the form of a par value repayment of CHF 8.50 and a gross dividend of CHF 2.50 per bearer share. The distribution was recognised in the first half of 2009 and effectuated on 7 August 2009.

Income Statement

The organic sales growth of +4.6% in the first half of 2010 mainly stems from an increase of sales volume. The

price effect amounted to +0.6% when compared with the previous year's interim period. All sales divisions once more succeeded in contributing positively to the Group's growth. The largest contribution was achieved by the Private Label LEH division with an organic sales growth of 11.7%. The increase of volume was attributed solely to self-manufactured products – around 84% of Group sales – while trade goods were in decline. The share of own products was again increased due to adjustments to the product assortment. Sales growth amounts to only +1.6% in Swiss Francs in the first half of 2010 owing to a negative currency effect of 3.0%. Losses relating to the most relevant currency ratios of Swiss Franc to the Euro, to the British Pound as well as to the Eastern European currencies had to be taken into account. The negative development of the Euro (–4.6%) had the most decisive impact on this negative currency effect. The organic growth had totalled +2.7% in the first half of the previous year. In Swiss Francs, a sales decrease of –4.6% had to be recorded at that time.

As in the entire previous year 2009, the first half of 2010 saw a further stabilisation of raw materials prices. This development, along with the adjustments to the product assortment, also had a positive influence on the gross margin. As per the first half of 2010 the gross margin improved by 2.2% points, and this contributed significantly to the increase in profitability of the Hügli Group. The exposure to transaction currencies through differing currencies for sale and purchase, in particular GBP to CHF/EUR and CZK to PLN/HUF, continues to exert negative impacts.

Personnel expenses rose by +3.9% and adjusted for currency translation by +6.7%. This development reflects the increase of full-time positions by 90 to a group-wide 1'421 as well as the regular salary increases in the Group since June 2009. In the interim period, the other operating expenses grew by +3.6% when adjusted for currency translation, which is on the one hand due to higher expenses for marketing and sales. On the other hand, higher expenses were also generated in the domains of production and logistics. Depreciation rose by an adjusted +9.3% due to numerous new investments. Amortisation remained unchanged when compared with the previous year.

The consistent amortisation of loans and, in addition, lower money market interests on short-term financial liabilities led to a decrease of interest charges of –20.4% in the interim reporting period. In contrast, owing to foreign currency losses in the financing of the Group, other financial expenses had to be taken into account that added up to a higher amount than in the previous year. The reported tax rate matched with approximately 26% the expected range. Group profits rose in the first half of 2010 by CHF 4.2 million or by 37.1% to CHF 15.4 million. It must be acknowledged, that the sale of a non-strategic product line in the Czech Republic in May 2010 (machinery and equipment, client base and brand) contributed to Group profits with an extraordinary result of CHF 2.1 million before taxes.

Balance Sheet

The balance sheet relations has without exception overall improved when compared to 31.12.2009. This improvement was achieved despite the fact that the valuation at the balance sheet date, due to lower exchange rates as per 30.06.2010, resulted in a valuation of balance sheet items, which was on average 9% lower. The net working capital was reduced by CHF 6.2 million. Owing to substantial investment activities fixed assets increased to a nominal CHF 111.8 million. Net debt decreased by CHF 23.7 million to 63.1 million. Not considering the revaluation effect, this corresponded to CHF 15.4 million of definancing.

Nominal equity, due to the momentous recognised currency exchange effects of CHF 11.1 million, declined slightly from CHF 105.8 million to CHF 104.5 million. In relation to the balance sheet total, however, the equity ratio amounting to 42.3% at the end of 2009 increased to 44.5% by the end of June 2010. Connected with this development, the financial operating figures also indicate a positive trend: gearing dropped from 0.82 to 0.60, the net debt to EBITDA ratio fell from an annualised 1.9 to 1.2.

Cash Flow

The cash flow from operating activities before the change of net working capital and without aperiodic tax payments rose by 14.8% from CHF 18.1 million to CHF 20.8 million. A decrease of the tied up capital by CHF 6.2 million was achieved thanks to an additionally good management of the net working capital, in particular owing to the reduction of the debt and a marked increase of liabilities. The cash flow from operating activities therefore grew altogether by 68.2% to CHF 31.8 million. The considerable investments in fixed tangible assets resulted in the interim reporting period to an outflow of funds of CHF 11.7 million and thereby exceeded the regular value decreases. The sale of a product line in the Czech Republic in particular led to disposals of tangible and intangible assets and yielded a total accrual of funds of CHF 7.7 million. Based on sufficient internal financing a total of CHF 15.4 million of financial liabilities was carried back in spite of the substantial investment activities. The payment to the shareholders (dividend) of CHF 6.5 million was effected already in the first half of the year, in contrast to the previous year.

Earnings per Share / Stock Ownership Programme

The number of outstanding bearer shares was affected by the stock ownership programme carried out in April 2010. 931 shares were bought by executive staff at a preferential price of CHF 363 per share, or at 75% of the market value respectively (previous year: 688 shares). The average number of outstanding bearer shares rose in the interim reporting period to 479’022 bearer share equivalents (previous interim period: 478’212). Since neither conversion nor option rights are outstanding, the earnings per share are not diluted.

Divestment

In agreement with the strategic focus on the core business, Hügli has on 15 May 2010 sold the operating business of the product line “chocolate-based spreads”, with annual sales of approximately CHF 18 million, to an industrial group that specialises in this domain. This product line had never constituted a component of the strategic core product portfolio. It contributed considerably to the building up and development of the site, however. The sale comprised all machinery and equipment used for this product line, the production know-how, the client base, the brand as well as the inventory of raw materials and finished products. Moreover, the purchasing party has carried on the existing delivery contracts with customers. The staff will be further employed under hitherto prevailing conditions in the core business of customised dry blends, the production plant and equipment of which will again be markedly expanded in the course of this year.

On behalf and partially on the account of the purchasing party, production will probably be continued at the present location until the end of August 2010. Subsequently, all production equipment will be dismantled and transferred to the production site of the purchasing party. Due to the on-going project, the expected costs of shutdown in the second half year cannot yet be conclusively assessed. An accrual amounting to CHF 0.5 million has therefore been recognised.

Because of the transaction modalities, the disposal has not shown any substantial impact on the EBIT 2010. However, the purchasing price payment as well as the transfer of ownership occurred in May.

The reduction of net assets comprises the following balance sheet positions:

TCHF	**30.06.2010**
Land and buildings	– 2’166
Technical equipment and machinery	– 2’607
Accrued expenses and deferred income	– 500
Net assets	**– 5’273**

Financial Statements Reconciliation from IFRS to Swiss GAAP FER

As per the financial year 2009, the reporting standard applied to the Hügli consolidated financial statements was converted from the financial reporting standard IFRS (International Financial Reporting Standards) to Swiss GAAP FER (Swiss Accounting and Reporting Recommendations). Due to the conversion to Swiss GAAP FER, the interim financial statements as per 30.06.2009 were adjusted for reasons of comparability (restatement).

This restatement mainly includes the retroactive utilisation of intangible assets (goodwill) in the opening balance sheet. As per 31.12.2008 the valuation at the balance sheet date resulted in a reduction of equity by CHF 27.4 million based on intangible assets of CHF 29.5 million and deferred tax liabilities on these positions of CHF 2.1 million. Because of this new balance sheet ratio, the equity ratio therefore stands at 39.0% (previously according to IFRS: 45.0%) as per 30.06.2009. Furthermore, the retroactive utilisation eliminates the depreciation of intangible assets of CHF 0.3 million, which increases EBIT in the first half of 2009 by CHF 17.1 million (+2.0%). After the deduction of the change of deferred taxes, Group profits in the first half of 2009 rise marginally by CHF 0.2 million to the new total of CHF 11.3 million (+2.1%). As these circumstances constitute a so-called non-cash item resulting from the conversion of financial reporting standards, none of the operating cash flows are affected.

Subsequent Events after Balance Sheet Date

No further events occurred between 30.06.2010 and the approval of the consolidated financial statements by the Board of Directors on 11 August 2010 that would have caused an adjustment of the book values of assets and liabilities of the Group or which would have to be disclosed in this position.

Disclaimer

All statements in this report that do not relate to historical facts are forward-looking statements and no guarantees of future performance. Forward-looking statements involve risks and uncertainties, namely in reference to basic macroeconomic conditions, consumption behaviour, foreign exchange rates, financing opportunities, changes of legal provisions or in the political and social environment, the actions of competitors, availability of raw material, and general market conditions. Such circumstances can lead to variance between anticipated and actual results.

Translation: The original of this Half-Year Report is written in German. In the case of inconsistencies between the German original and this English translation, the German version shall prevail.

Hügli on the Internet

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Investor Relations

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Agenda

27.01.2011

- 07.30 a.m.
  Media Release: Sales 2010

14.04.2011

- 07.30 a.m.
  Media Release: Annual Report 2010
- 10.30 a.m.
  Media/Analysts' Conference,
  Widder Hotel, Zurich

11.05.2011

- 04.30 p.m.
  Annual General Meeting,
  Seeparksaal, Arbon

16.08.2011

- 07.30 a.m
  Media Release: Half-Year Report 2011

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