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Half-Year Report as at 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 de-listing 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.

Key financial indicators in CHF million	**H1 2010**	**H1 2009***	**Change**
Sales	196.0	192.9	+1.6%
EBITDA	26.4	22.4	+17.7%
in % of sales	13.5%	11.6%	
EBIT	20.8	17.1	+21.5%
in % of sales	10.6%	8.9%	
Net profit	15.4	11.3	+37.1%
in % of sales	7.9%	5.8%	
Cash flow from operating activities	31.8	18.9	+68.2%
Capital expenditure	11.7	5.3	+120.7%
	30.06.2010	**31.12.2009**	
Net operating assets	188.8	209.0	-9.7%
Equity	104.5	105.8	-1.2%
in % of total assets	44.5%	42.3%	
Net debt	63.1	86.8	-9.3%
Gearing	0.60	0.82	

* H1 2009 figures restated according to Swiss GAAP FER for comparability

Detailed financial information on the H1 results can be found in our Half-Year Report 2010. You can download this report from our Web site:
http://ir.huegli.com/InvestorRelations/BerichteundPräsentationen/tabid/327/language/en-US/Default.aspx

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Financial calendar

27 January 2011	7.30 a.m.	Media Release: Sales Report 2010
14 April 2011	7.30 a.m.	Media Release: Annual Report 2010
	10.30 a.m.	Media/Analysts' Conference, Widder Hotel, Zurich
11 May 2011	4.30 p.m.	Annual General Meeting, Seeparksaal, Arbon
16 August 2011	7.30 a.m.	Media Release: Half-Year Report 2011

Hügli – one group, many teams, one goal
The Hügli Group is one of the leading European companies for the development, production and marketing of dry blends such as soups, sauces, bouillons, dry ready meals, desserts, functional foods and Italian specialties. More than 1'400 employees in 9 countries link Hügli directly with its customers and generate annual sales of CHF 380 million. Our mission is to provide our customers with top-quality foodstuffs and key services better than others. Hügli is headquartered in Steinach, Switzerland, and records more than 85% of its sales abroad. For further information, please visit www.huegli.com.