Financial Review

Barry Callebaut achieved a robust performance in a challenging market environment. Volume growth outperformed the market and operating profit in local currencies improved.

Business Performance Review fiscal year 2014/15

Summary

Barry Callebaut had to cope with challenging market conditions in 2014/15. Some of these, such as sluggish economies both in developed and emerging markets and increased volatility in currency markets, it shared with other companies and industries. More specific to the cocoa and chocolate industry were high cocoa bean prices, which also impacted on the demand for consumer products and therefore the sales of our customers.

The Group managed to significantly outperform the declining global confectionary market and increased its sales volume by 4.5% to reach 1,794,782 tonnes, with a significant acceleration in the last quarter. Growth was broadly based with strong contributions from the developed markets in Western Europe and North America, but also from outsourcing, emerging markets and Gourmet & Specialties.

Barry Callebaut increased its operating profit (EBIT) by 7.4% in local currencies despite a negative combined cocoa ratio. This is the result of our continued focus on product mix, margins and costs. EBIT per tonne grew by 2.9% in local currencies. Net profit for the year came in at HF 239.9 million, representing a decrease of 2.7% in local currencies.

Corporate strategy and mid-term guidance

Barry Callebaut has a clear long-term strategy based on four pillars (Expansion, Innovation, Cost Leadership and Sustainable Cocoa). Going forward, we will focus on a smart balance between consistent above-market volume growth and enhanced profitability. The new mid-term financial guidance (until 2017/18) is:

- Average volume growth 4–6%
- Average EBIT growth above volume growth*

* In local currencies and barring any major unforeseen events

General market

Global economic growth (GDP) in 2014 was 3.4%, according to the International Monetary Fund (IMF), reflecting a pickup in growth in advanced economies relative to the previous year and a slowdown in emerging markets and developing economies. Growth was projected to be stronger in 2015 relative to 2014 in advanced economies, but weaker in emerging markets, reflecting more subdued prospects for some large emerging market economies and oil exporters. Medium-term prospects have become less optimistic for advanced economies, and especially for emerging markets.

These considerations are taken into account in Barry Callebaut's planning process, as is the higher volume base in light of the growth and after the acquisition of the cocoa business from Petra Foods. Nevertheless, the Group continues to follow its path of sustainable growth, consistently outperforming the market.

Increased volatility in raw material prices

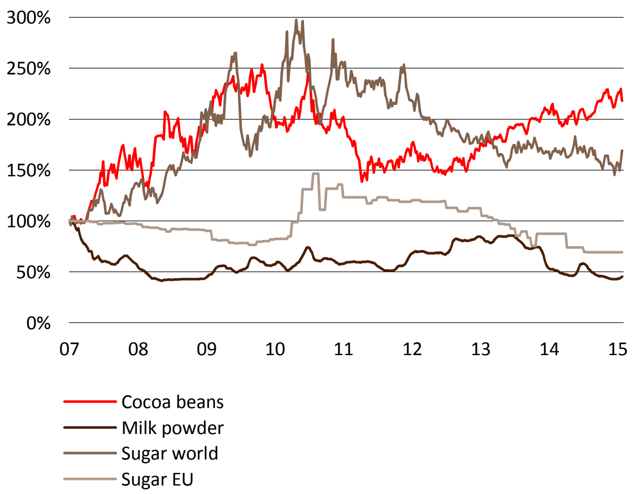
Despite a supply surplus for the 2014/15 cocoa season, cocoa bean prices further increased in fiscal year 2014/15 by around +5% to GBP 2,101 on August 28, 2015. In a volatile price environment, a shortfall in cocoa production in Ghana was more than compensated for by a slowdown in cocoa grinding (circa –4% year-on-year) and a record mid-crop in Ivory Coast.

Low market prices did not impact global milk powder production, which remained stable at high levels globally. Demand for milk powder did not recover, resulting in the lowest prices since 2009 in the EU and, after a short rally, since 2002 on the world market. Prices closed around 15% lower than prior year.

The world sugar market continued its downward trend, reaching its lowest point since 2008 on August 24, 2015. The constant weakness of the Brazilian Real (weakest level since 2002) combined with oversupply and the short position of funds were the main drivers of this price fall.
In Europe, the reduction of preferential imports have eroded stock levels to 1.2 million tonnes vs 2 million tonnes for the previous year, leading to a price recovery.

Financial Review

Raw material prices
September 2007–September 2015



Increased volatility in currencies

In fiscal year 2014/15, significant foreign currency exchange volatility was predominant. The Group is either naturally hedged to the extent it produces and sells products locally, or the Group hedges any remaining currency exposure that could arise from commercial transactions. However, as the Group reports its results in Swiss Francs, there is a translation impact which is not hedged.

On January 15, 2015, the Swiss National Bank stopped protecting a floor of CHF 1.20 against the Euro. For the fiscal year under review, the Euro which accounts for around half of the Group's sales revenue, depreciated by 10% against the Swiss Franc. The second most important currency for the Group, the U.S. dollar, appreciated by 5% against the Swiss Franc. Many other currencies lost ground against the Swiss Franc during the same period with a stronger impact in the second half of the year: the British Pound declined 3%, the Brazilian Real dropped 35%, the Russian Ruble fell 40%, the Mexican Peso dropped 18%, the Polish Zloty lost 11% and the Japanese Yen declined 9%, amongst others.

The currency translation effects mentioned above represented a negative year-on-year impact of 5.7% on Sales Revenue and 7.7% (CHF 32 million) at EBIT level.

Sales Revenue in functional currency

Slow growth in the chocolate market

The chocolate confectionery market for the period between September 2014 and August 2015 showed sluggish demand. Several countries across different regions recorded negative growth compared to prior year. There were two main reasons for the decline in demand: high cocoa bean prices which resulted in price increases to consumer products and a challenging economic environment in different countries, in particular some emerging markets.

According to Nielsen, the market for the period under review declined by 2.7%, with an improvement in the last quarter.

Consolidated Income Statement

Volume growth driven by all Regions / Product Groups

After a slow start, **sales volume** improved during the fiscal year 2014/15 and achieved 1,794,782 tonnes. This represents growth of 4.5% versus prior year, with a strong acceleration in the last quarter. All regions contributed to this growth. Main drivers in absolute terms were the developed markets in Western Europe and North America, while emerging markets contributed at somewhat lower rates than in prior years.

In absolute terms, volume growth was fueled by additional outsourcing deals in the Food Manufacturing and Global Cocoa business, but also by market share gains in Central Europe and in the U.S. In relative terms, the Group's Gourmet & Specialties Product Group showed the fastest growth rate.

Sales Revenue significantly above prior year

Sales Revenue rose by 12.1% in local currencies (6.4% in CHF) to CHF 6,241.9 million, representing an even higher growth rate than volume. This is due to the price increase for Cocoa-related products, which the Group largely passes on to its customers through its cost plus business model. These price increase more than outweighed the significant negative currency effects stemming from translation into the Group's reporting currency CHF. All regions and product groups contributed to this increase with the exeption of Region Europe, for which the translation effects caused by the aforementioned strengthening of the Swiss Franc had the highest impact.

Financial Review

Improved Gross Profit

Gross Profit grew 4.8% in local currencies to CHF 846.8 million (–1.7% in CHF due to significant currency translation effects). Gross profit was heavily impacted by the exceptionally low combined cocoa ratio, which was compensated for by the company's greater focus on margins as well as product and customer mix, bolstered by the growth in the Gourmet & Specialities business.

Fixed costs under control – cost-saving initiatives

Marketing and sales expenses amount to CHF 121.3 million, almost unchanged compared to prior year, despite investments in certain emerging markets.

General and administration expenses decreased by CHF 13.1 million to CHF 316.7 million, partly due to the absence of the one-time effect related to the Group's long-term incentive plan that had affected prior year. The positive development of these cost blocks is partly also the result of the Group's increased focus on fixed costs and related saving initiatives as well as currency translation effects, and despite on-going investments in emerging markets and quality and sustainability initiatives.

Other income amounts to CHF 38.9 million compared to CHF 18.2 million in the prior year. This position contains non-sales-related income such as income from the Group's Training Center, sale of waste products, claims from insurances and suppliers. The increase compared to prior year is due to recognition of part of the settlement of the dispute with Petra Foods related to the acquired Cocoa Ingredients business.

Other expense amounts to CHF 32.9 million compared to CHF 12.3 million in prior year. This position comprises litigation, claims, impairment charges, restructuring and severance costs and some other non-recurring items. The increase is due to impairments, relocation and severance costs in light of the Group's decision to centralize shared services in Europe and reorganize its Asian Cocoa business.

Operating income above prior year in local currencies

Operating profit (EBIT) rose 7.4% in local currencies (–0.3% in CHF) to CHF 414.8 million, thereby outpacing volume growth.

The EBIT decrease in Global Cocoa was compensated by the positive EBIT contribution of all other regions and product groups. This is the result of the good gross profit development in local curencies and fixed cost discipline to which the headquarter functions also contributed.

As a consequence, EBIT per tonne in local currencies also showed an improvement of 2.9%. However, due the strong currency translation effects, the reported EBIT per tonne declined by 4.7% to CHF 231.

Net Profit affected by higher finance expense

Whereas **finance income** was almost constant and amounted to CHF 3.7 million (prior year CHF 3.2 million), **finance expense** substantially increased to CHF 134.5 million (prior year CHF 122.0 million). This is partly due to a foreign exchange loss and partly due to higher average financing requirements for net working capital caused by higher average cocoa bean prices throughout the year.

Income tax expenses slightly increased to CHF 44.3 million, compared to CHF 42.4 million in prior year, despite a lower profit before tax. This is due to a less favorable global mix of taxable income per jurisdiction leading to an increase of the Group's effective tax rate to 15.6%, compared to 14.3% in prior year.

As a consequence, **Net Profit for the year** decreased by 5.9 % to CHF 239.9 million. Adjusted for currency translation impacts, it decreased by 2.7%.

Balance Sheet

Total assets at the end of August 2015 grew by 5.1 % to CHF 5,429.4 million, compared to CHF 5,167.5 million at the end of last year. The increase is mainly due to higher receivables and a higher fair value of hedging instruments in light of high and volatile cocoa-product-related prices, partly offset by lower inventories. The effect on net working capital, however, was more than offset by a similar increase of derivative financial liabilities and by currency translation effects.

Net working capital decreased by CHF 144.9 million to CHF 1,529.7 million as at August 31, 2015, compared to CHF 1,674.6 million the year before. This is mainly due to currency translation effects as a result of the strengthening Swiss Franc.

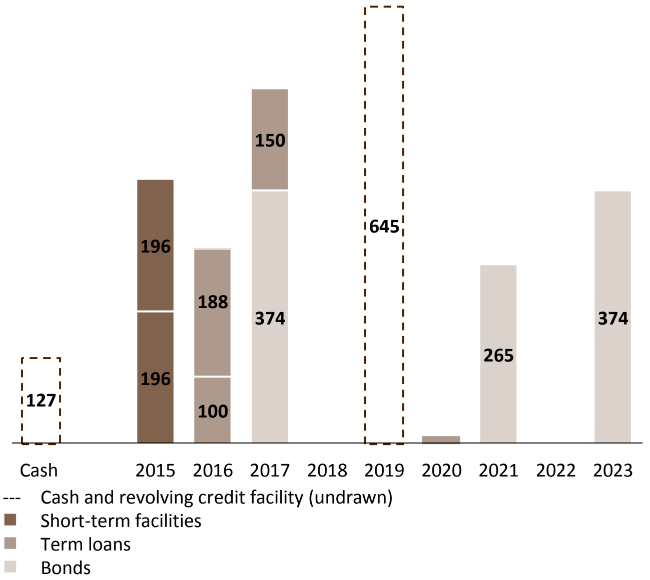
For the same reason, **Net debt** decreased from CHF 1,803.5 million to CHF 1,728.0 million at August 31, 2015. The weighted average maturity of the Group's total debt portfolio declined from 5.3 to 4.8 years.

Equity – including equity attributable to the shareholders of the parent company and non-controlling interests – amounted to CHF 1,787.1 million almost level with the CHF 1,795.7 million at the end of August 2014. Equity attributable to the shareholders of the parent company amounted to CHF 1,772.8 million compared to last year's CHF 1,790.6 million. The small decline results from the fact that the increase resulting from the net profit was more than offset by the change in cumulative currency translation adjustments, the payout of a dividend to shareholders out of reserves from capital contributions and some other minor items.

Financial Review

Due to the afore-mentioned lower net debt, the debt-to-equity ratio improved from 100.7 % to 97.5 %. The solvency ratio decreased from 34.7 % to 32.7 %. The return on invested capital (ROIC) remained basically flat at 9.8 % from 10.5 % in the prior year.

Liquidity – debt maturity profile



Cash flow statement

Operating cash flow before working capital changes was almost stable at CHF 472.6 million compared to CHF 473.7 million in the prior year, as the negative currency translation effects could be compensated by the above-mentioned effects from the good gross margin development and fixed cost discipline. Cash outflow for working capital changes amounted to CHF –100.9 million, compared to CHF –279.4 million in prior year. Whereas last year was largely impacted by a significant spike in cocoa bean prices, this year's amount was partly related to higher cocoa prices and partly to business growth.

Cash outflow for interest was CHF 105.7 million compared to CHF 98.9 million in prior year. It was higher due to the increased average financing requirements throughout the year.

Cash outflow for tax was somewhat lower than last year and amounted to CHF -39.3 million.

Overall, this resulted in an increase in the net cash flow from operating activities to CHF 226.7 million compared to CHF 52.4 million the year before.

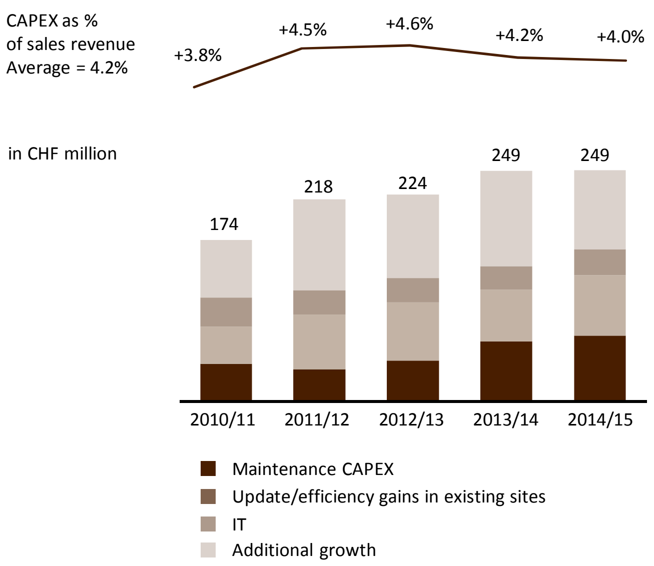
Net cash flow from investing activities amounted to CHF -204.9 million, compared to CHF -226.8 million in the preceding year. The amount was largely related to the Group's significant investments of CHF -249.2 million in property, plant and equipment as well as in intangibles. It also contained a cash inflow of CHF 37.5 million related to the settlement of the dispute related to the Cocoa Ingredients Division acquired from Petra Foods in 2013. The rest was related to disposals and the acquisition of a business and a few other minor items.

Net cash flow from financing activities amounted to CHF 15.2 million, compared to CHF 192.3 million in prior year. The net inflow of the current year mainly resulted from the net debt issue of CHF 118.8 million (prior year CHF 291.4 million) which more than covered the cash-out for dividends out of paid-in capital reserves in the amount of CHF –85.1 million (prior year CHF –79.6 million) and the cash outflow for the purchase of treasury shares of CHF –16.3 million (prior year CHF –18.6 million).

Investments – CAPEX

Capital expenditure approved for the year was below the levels of prior years, close to CHF 200 million. However, the CAPEX reflected in the cash flow statement amounted to CHF 249.2 million, due to the timing of the execution of the projects approved the year before (fiscal year 2013/14: CHF 248.8 million). The Group aims to continue its path of being more restrictive on the hurdles for approving CAPEX in the future and has a consistent CAPEX target of CHF 200 million for fiscal year 2015/16.

Capital expenditures



Financial Review

Outlook

Barry Callebaut sees significant growth opportunities ahead and is committed to achieve consistent above-market volume growth based on its three key growth drivers outsourcing & partnerships, emerging markets and Gourmet & Specialties. The Group will strike a balance between volume growth and enhanced profitability as well as free cash flow generation – in brief: "smart growth."

Fiscal year 2015/16 is expected to be challenging due to the current cocoa products market, which will temporarily affect profitability. Through a number of strategic initiatives, such as the Cocoa Leadership project, the Group aims to fully leverage its global scale in cocoa, optimize its footprint and strengthen its profitability in the mid-term.

Accordingly, the Group adapts its mid-term guidance: 4–6% volume growth, and EBIT above volume growth in local currencies on average for the 3-year period 2015/16 to 2017/18, barring any major unforeseen events.

Investors' information

Stock markets during the period September 2014 until August 2015 were characterized by a high degree of volatility. The large drop in oil prices, the rise in the U.S. dollar, monetary policy easing from several major central banks and concerns about growth in China and other emerging markets were some of the factors affecting the stock markets globally.

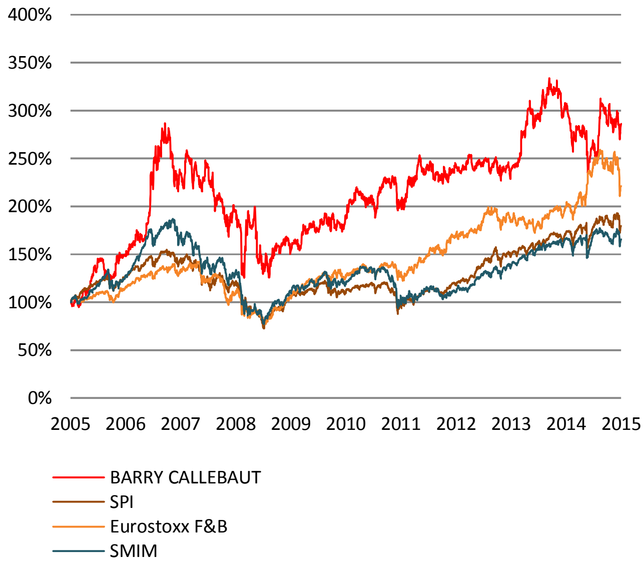
Barry Callebaut share performance

Barry Callebaut shares traded at CHF 1,061 at the end of August 2015, 5.7% below the previous year's closing price. This did not match the performance of the European and Swiss indices, for the same period. Eurostoxx gained 11.0%, Swiss SPI 4.9% and SMIM –0.3%.

Following the announcement of the Swiss National Bank on January 15, 2015, removing the floor of CHF 1.20 against the EUR, the stock experienced a significant decline until the end of March. In April, after a strong half-year result and progress made on profit improvement, the share price made a very positive recovery. Continuing the year with a flow of positive corporate news, the share price maintained a good performance in line with the rest of the market. Barry Callebaut's market capitalization amounted to CHF 5,823.7 million as at August 31, 2015.

The chart below illustrates the long-term performance of Barry Callebaut shares compared to indices (2005–2015):

Share price development Barry Callebaut vs. indices



Over a ten-year period (2000–2015), the long-term performance of Barry Callebaut shares clearly surpasses these indices, placing Barry Callebaut shares above the returns for the Swiss Indices (SPI and SMIM) and Eurostoxx Food & Beverages.

Dividend

The Board of Directors will propose a payout to shareholders of CHF 14.50 per share at the Annual General Meeting of Shareholders on December 9, 2015. This represents a stable payout ratio of 33% of the net profit. Again, the payout will be effected through a dividend payment from reserves from capital contributions. The distribution of these funds to shareholders will not be subject to withholding tax and – for individuals who are taxed in Switzerland and hold the shares privately – income tax. The dividend will be paid to shareholders on March 2, 2016, subject to approval by the Annual General Meeting of Shareholders.

Financial Review

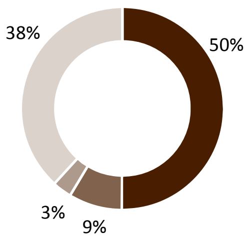
Key share data

The share capital of Barry Callebaut AG as at August 31, 2015 amounts to CHF 102,092,759 consisting of 5,488,858 fully paid-in shares at a nominal value of CHF 18.60. There is one single class of shares in which every share has the same voting power and grants the same entitlement to dividends.

The free float, excluding the majority shareholders (Jacobs Holding and Renata Jacobs) at the end of August 2015 was 41% with the majority of the institutional shareholders based in Switzerland, followed by the U.S., U.K., France and others.

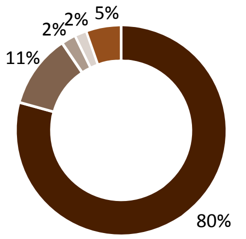
Ownership structure August 2015

Jacobs Holding AG	50.1%
Renata Jacobs	8.5%
Massachusetts Mutual Life Insurance Company	3.1%
Others	38.3%



Country split of institutional shareholders

Switzerland	80%
United States	11%
United Kingdom	2%
France	2%
Others	5%



Analysts' recommendations

Currently, 12 financial analysts regularly cover Barry Callebaut. At the end of fiscal year 2014/15, 82% recommended to hold our shares and 18% had a buy recommendation. At the end of August 2015, the average target price according to consensus estimates was CHF 1,035.

Credit rating

Barry Callebaut has active relationships with Standard & Poor's and Moody's, current ratings are:

Standard & Poor's: BB+/Stable & Moody's: Ba1/Stable.