

Business Review | Global Cocoa

Challenging market environment, impacting profitability

Sales volume increased. A historically weak cocoa products market impacted profitability. In response to market conditions and to fully leverage our global scale in cocoa, we will adapt our business model through the Cocoa Leadership project.

Sales volume went up 5.1% to 496,089 tonnes, accelerating in the last quarter. Cocoa powder sales were strong, but cocoa butter demand was weaker than expected.

Sales revenue grew significantly by 13.9% in local currencies (+8.2% in CHF), driven by higher cocoa powder prices.

A challenging market environment characterized by a historically low combined cocoa ratio had a negative impact on profitability. Weaker butter demand combined with overcapacity weighed on margins. As a result, Global Cocoa recorded an operating profit EBIT of CHF 47.2 million, which represents a decrease of 33.7% in local currencies (-42.4% in CHF) compared to prior year.

Cocoa Leadership Project

In response to market conditions and to fully leverage our global scale in cocoa, we will adapt our business model.

This multi-year project, which is one of our strategic initiatives announced a year ago, comprises three main building blocks: 1) differentiating and repositioning the product offering with a focus on commercial excellence; 2) centralizing key strategic activities such as combined cocoa ratio management; and 3) optimizing our cocoa manufacturing footprint and global product flows. This includes the closure of the cocoa factory in Bangpakong, Thailand, in February 2016, and the immediate reduction of production capacity in Port Klang/Malaysia.

Through the Cocoa Leadership Project, we strive to become the undisputed leader in Cocoa and to strengthen our profitability in the mid-term.

Committed to improving farmer livelihoods

There is no chocolate without cocoa. We are committed to sustainable cocoa production and actively engaged to improve the livelihoods of cocoa farmers and their communities.

To address the challenges faced by cocoa farmers and achieve real progress, we focus on farmer productivity and community development. This approach is aligned with the industry's CocoaAction strategy.

In the last fiscal year, we trained 70,500 farmers in good agricultural practices. We paid over CHF 20 million in farmer and farmer group premiums.

To scale our impact on the ground, pool investments and enable our customers and donors to contribute, we established the independent, non-profit Cocoa Horizons Foundation. 25,000 farmers are already enrolled in Cocoa Horizons Foundation activities.

We also partnered with two of our strategic global customers – The Hershey Company and Mondelez International – to support them in reaching their sustainability commitments.

Raw material price developments

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 out of Ivory Coast.

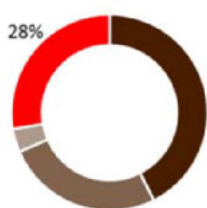
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Low market prices did not impact global **milk powder** production, which remained stable at high levels globally. Demand for milk powder did not recover, resulting in the lowest prices since 2009 in the EU and since 2002 on the world market after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

The world **sugar** market continued its downward trend, reaching on August 24, 2015 its lowest point since 2008.

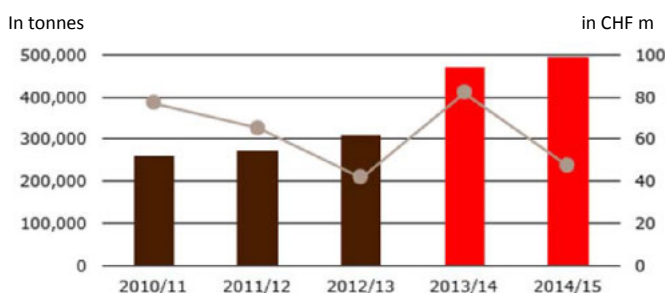
The constant weakness of the Brazilian Real (weakest level since 2002) associated with oversupply and the short position of funds were the main drivers of this price fall. In Europe, the reduction of preferential imports have eroded stock levels to 1.2 million tonnes vs 2 million tonnes for the previous year, leading to a price recovery.

Sales Volume per Region



- Global Cocoa
- Europe
- Americas
- Asia Pacific

Sales Volume



- Sales Volume
- EBIT



16
factories

Key figures for Global Cocoa

| | | Change % | | 2014/15 | 2013/14 |
|-------------------------|--------|---------------------|---------|---------|---------|
| | | in local currencies | in CHF | | |
| Sales volume | Tonnes | | 5.1% | 496,089 | 472,090 |
| Sales revenue | CHF m | 13.9% | 8.2% | 1,900.5 | 1,756.2 |
| EBITDA | CHF m | (16.8%) | (23.5%) | 100.3 | 131.1 |
| Operating profit (EBIT) | CHF m | (33.7%) | (42.4%) | 47.2 | 82.0 |