Financial Review

"Smart growth" getting traction, strong free cash flow generation

Business Performance Review fiscal year 2015/16

Summary

In 2015/16, market conditions remained challenging with volumes of the global chocolate confectionery market in decline (according to Nielsen –1.7%), and a historically weak cocoa products market, as well as continued volatility of key raw materials.

Barry Callebaut's Group volume increased by 2.2% to 1,834,224 tonnes.

Volume growth was driven by a strong Chocolate business, which went up by 7.6%, significantly out-performing the global chocolate market. The growth was broad-based, stemming from all regions and the key growth drivers Outsourcing, Gourmet & Specialties and Emerging Markets.

On the other hand, the Group intentionally phased out less profitable cocoa contracts, in line with its focus on "smart growth". Sales to third parties of the Global Cocoa segment thus shrank by 12.0%.

Operating profit (EBIT) was flat versus prior year at +0.1% in local currencies (–3.2% in CHF) and amounted to CHF 401.7 million. This is the result of the strong growth and profitability in the chocolate business on the one hand and the negative impact from the very low combined cocoa ratio mainly affecting the Group's cocoa business on the other hand. Net profit for the year decreased by 5.1% in local currencies and reached CHF 219.0 million.

The Group's greater focus on free cash flow (FCF) is one of the key elements in "smart growth". The FCF significantly improved to CHF 404.0 million, as a result of lower working capital and stricter discipline in capital expenditure.

Corporate strategy and mid-term guidance

Barry Callebaut's long-term strategy based on four pillars (Expansion, Innovation, Cost Leadership and Sustainability) remains unchanged. We continue to focus on a smart balance between consistent above-market volume growth and enhanced profitability. The mid-term guidance (until 2017/18) is as follows:

- 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 2015 was 3.1% based on data from the International Monetary Fund (IMF), reflecting a flat development in advanced economies relative to the previous year and a slight improvement in emerging markets and developing economies. Medium-term prospects have become less optimistic for advanced economies, in particular after the Brexit referendum, but a bit more positive for emerging markets and developing economies.

These considerations are taken into account in Barry Callebaut's planning process, together with the focus on "smart growth" as the Group continues to follow its path of sustainable growth, consistently outperforming the market.

Continued volatility in raw material prices

The 2015/16 cocoa crop was lower compared to prior year due to weak crops, in particular from Côte d'Ivoire and Brazil. London market trading was volatile, rallying approximately 28% from a low in the beginning of February 2016 to a level above GBP 2,500 in June, a price level last seen in the 1970's. A large part of this increase, however, was currency-driven. The Brexit referendum led to a depreciation of 12% in the British pound against the US dollar. Weak overall demand did not entirely offset the decline in supply, resulting in a considerable deficit for the entire season.

The combined cocoa ratio which was at a historical low over the course of the fiscal year, due to significant over-supply coupled with weak demand and high cocoa bean prices, has recently recovered, albeit with regional differences.

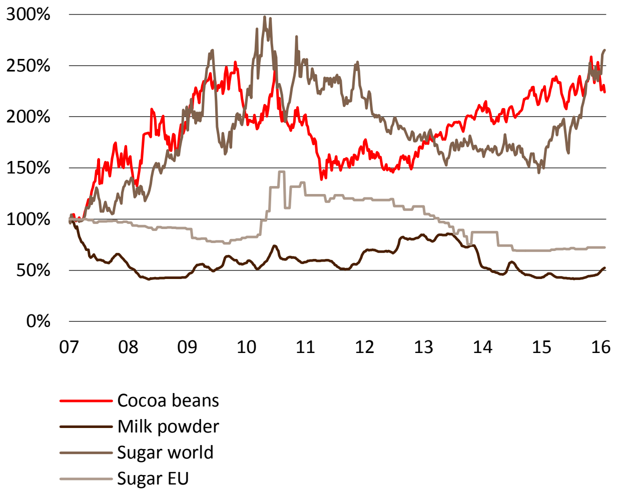
At the beginning of the fiscal year, milk prices moved up due to fears of droughts and slightly increased demand on the world market. Towards the end of the fiscal year, prices started dropping to record low levels as production was outpacing demand by far. Price levels have recently bounced back as low milk prices to farmers are leading to high slaughter rates and a rapid reduction of production volumes.

After five years of a downward trend, world sugar prices reversed direction and reached their highest levels since 2012, driven by a world deficit and an all-time record net long position of hedge funds.

Prices in Europe have also recovered vigorously, supported by historically low EU stocks as well as supportive world sugar prices.

Financial Review

Raw material prices
September 2007–September 2016



Further volatility in currencies

In fiscal year 2015/16, markets saw continued foreign currency exchange volatility, although on a smaller scale compared to prior year. The Group is naturally hedged to the extent that it produces and sells products locally and hedges any remaining currency exposure that arises from commercial transactions. Translation impacts arising from the translation of results into the Group's reporting currency Swiss francs are however not hedged.

For the fiscal year under review, the average rate for the euro, which accounts for around half of the Group's sales revenue, depreciated by 1.5% against the Swiss franc. The second most important currency for the Group, the US dollar, gained 3.1% against the Swiss franc. Some other currencies lost ground against the Swiss franc during the same period: the British pound declined on average by –4.2%, the Brazilian real depreciated 20.2%, the Mexican peso dropped 13.8%, the Polish zloty lost 5.0%, while other currencies like the Japanese yen appreciated by 7.9%.

The currency translation effects mentioned above represented a negative year-on-year impact of 1.8% on sales revenue and 3.3% (CHF 13.6 million) at EBIT level.

Sales revenue in functional currency

EUR	49.7%
USD	35.6%
BRL	6.0%
CHF	2.6%
RUB	1.7%
JPY	1.1%
Other	3.2%

Slow growth in the chocolate market

The chocolate confectionery market for the period between September 2015 and August 2016 continued to show sluggish demand, although a slight improvement in recent quarters was observed. Several countries across different regions recorded negative growth compared to prior year. Main reasons for the decline in demand were still high cocoa bean prices translating to high prices for consumer products and a challenging economic environment in several countries, in particular in emerging markets.

According to Nielsen, the market for the period under review declined by 1.7%, with a slight recovery in the last quarter of the fiscal year under review.

Consolidated Income Statement

Volume growth driven by strong growth of the Chocolate business

Sales volume for the fiscal year 2015/16 increased by 2.2% to 1,834,224 tonnes.

The Group's Chocolate business grew by a strong 7.6% outperforming the overall weak global chocolate markets significantly. All regions and all the key growth drivers Outsourcing, Gourmet & Specialties and Emerging Markets contributed to this growth.

On the other hand, the Group deliberately phased out less profitable contracts in its Cocoa business, which in turn declined by –12.0%. This happened in alignment with the Group's strategic focus on "smart growth" and generation of free cash flow.

Sales revenue significantly above prior year

Sales revenue rose by 8.8% in local currencies (by 7.0% in CHF) to CHF 6,676.8 million, partly driven by a better product mix, as well as higher prices of ingredients which the Group largely passes on to its customers based on its cost plus business model.

Financial Review

Improved Gross Profit

Gross profit grew at a higher rate than volume growth, i.e. 4.4% in local currencies to CHF 863.2 million (+1.9% in CHF). This is the result of the strong margin development in the chocolate business due to the company's greater focus on margins including product and customer mix, bolstered by the strong growth of the Gourmet & Specialties business. These positive effects outweighed the negative impact of the historically low combined cocoa ratio.

Continued discipline on fixed costs, with selective investments

Marketing and sales expenses increased by 6.8% to CHF 129.5 million, which is mainly the result of the Group's efforts undertaken to capture margin accretive growth in the Gourmet and Food manufacturers product groups, namely with specialties and decorations, as well as investments in select emerging markets.

General and administration expenses increased by 5.1% to CHF 332.8 million. This is partly the result of higher amortization expenses related to investments in processes and tools in recent years as well as continuous efforts related to quality and sustainability initiatives and the expansion in emerging markets.

Other income amounted to CHF 15.5 million compared to CHF 38.9 million in the prior year. This position contains non-sales-related income such as income from the Group's Training Center, the sale of waste products, claims towards insurances and suppliers. The decrease versus prior year is mainly due to the recognition of part of the settlement of the dispute with Petra Foods related to the acquired Cocoa Ingredients business affecting prior-year comparables.

Other expense amounted to CHF 14.7 million compared to CHF 32.9 million in prior year. This position comprises restructuring and severance costs, litigation, claims, impairment charges and some other non-recurring items. The decrease is due to reduced expenses for impairments, relocation and severance costs in light of the Group's decision to centralize shared services in Europe and reorganize its Asian Cocoa business, which had affected the comparable number of prior year.

Operating income flat in local currencies

Operating profit (EBIT) as anticipated was negatively affected by the challenging cocoa products market. It was flat 0.1% in local currencies (–3.2% in CHF) and amounted to CHF 401.7 million.

This is the result of the aforementioned strong growth, mix and profitability developments in the chocolate business on the one hand and the negative impact from the historically low combined cocoa ratio mainly affecting the Group's cocoa business on the other hand. EBIT per tonne declined by 2.0% in local currencies and amounted to CHF 219.

Net Profit affected by higher finance expense

Finance income slightly increased and amounted to CHF 4.3 million (prior year CHF 3.7 million).
Finance costs amounted to CHF 139.7 million, which corresponds to an increase of CHF 5.2 million mainly resulting from the ineffective part of the interest rate hedge related to the issue of the EUR 450 million Senior Notes in May 2016.

Income tax expenses increased to CHF 47.5 million, compared to CHF 44.3 million in prior year, despite a lower profit before tax. The Group's effective tax rate increased to 17.8% (prior year: 15.6%), as the mix of taxable income was less favorable than in the prior year.

Net profit for the year decreased by –5.1% in local currencies (–8.7% in CHF) to CHF 219.0 million. This is the consequence of the lower EBIT and somewhat higher finance costs and tax expenses.

Consolidated Balance Sheet

Total assets grew by 3.9% to CHF 5,640.8 million at the end of August 2016, compared to CHF 5,429.4 million the year before. The increase is mainly due to the combination of an increase of the cash position and of property, plant and equipment, partly compensated by lower receivables and derivative financial assets.

Net working capital decreased by CHF 155.5 million to CHF 1,374.2 million as of August 31, 2016, compared to CHF 1,529.7 million the year before. All main elements of working capital, i.e. inventory and derivatives, trade receivables and other current assets as well as trade payables and other current liabilities, contributed to the decrease. This is partly due to the increased focus on managing working capital, but partly also to the reduced availability of beans due to low crops in certain sourcing countries.

As a result, **net debt** decreased at August 31, 2016 from CHF 1,728.0 million to CHF 1,452.8 million. The weighted average maturity of the long-term debt (i.e. without any portion falling due in less than 12 months) increased from 4.8 to 6.9 years as a result of the issue of the EUR 450 million Senior Notes maturing in May 2024.

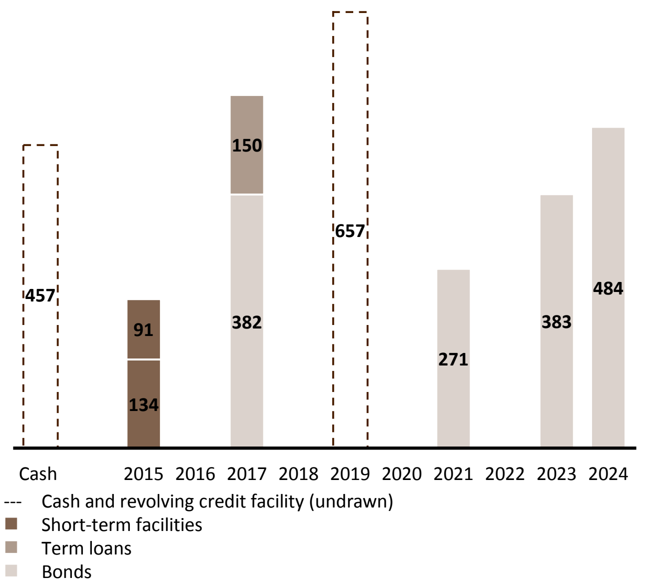
Equity – including equity attributable to the shareholders of the parent company and non-controlling interests – amounted to CHF 1,971.2 million, up CHF 184.1 million compared to the CHF 1,787.1 million at the end of August 2015. Equity attributable to the shareholders of

Financial Review

the parent company amounted to CHF 1,956.3 million compared to last year's CHF 1,772.8 million. The increase results from the net profit and a positive change in cumulative currency translation adjustments and cash flow hedging reserves. These effects were partly offset by the payout of a dividend to shareholders, the effects from the remeasurement of the defined benefit plans and movements related to the share plan and treasury shares.

Due to the aforementioned lower net debt and the higher equity, the debt-to-equity ratio improved from 97.5% to 74.3%. The solvency ratio increased from 32.7% to 34.7%. The return on invested capital (ROIC) slightly decreased to 9.5% from 9.8% in the prior year.

Liquidity – debt maturity profile



Consolidated Cash flow statement

Operating cash flow before working capital changes increased significantly to CHF 569.2 million compared to CHF 472.6 million in the prior year. Last year contained some non-recurring effects mainly related to significant currency movements and the settlement of the dispute with Petra Foods related to the cocoa business acquired in 2013.

Cash inflow for working capital changed significantly improved to CHF 193.1 million, compared to an outflow of CHF –100.9 million in prior year. This was partly the result of the Group's increased focus on managing working capital and generation of free cash flow and partly the consequence of the reduced availability of beans due to low crops in certain sourcing countries.

Cash outflow for interest was CHF 98.2 million compared to CHF 105.7 million in prior year. It was lower due to the lower average financing requirements throughout the year and lower interest rates.

Cash outflow for tax amounted to CHF –42.6 million compared to CHF –39.3 million in prior year.

Overall, this resulted in a strong increase in the net cash flow from operating activities to CHF 621.5 million compared to CHF 226.7 million the year before.

Net cash flow from investing activities amounted to CHF –217.5 million (prior year: CHF –204.9 million). The amount was largely related to the Group's investments of CHF –201.0 million in property, plant and equipment as well as in intangibles, which however were significantly lower than in prior year (CHF –249.2 million) due to stricter discipline on capital expenditure. On the other hand, last year had been affected by the non-recurring cash inflow of CHF 37.5 million from the settlement of the dispute related to the acquisition of the Cocoa Ingredients Division from Petra Foods in 2013.

Net cash flow from financing activities amounted to CHF –68.6 million, compared to CHF 15.2 million in prior year. The net outflow of the current year mainly resulted from the cash-out for dividends out of paid-in capital reserves in the amount of CHF –79.6 million (prior year CHF –85.1 million) and the cash outflow for the purchase of treasury shares of CHF –15.3 million (prior year CHF –16.3 million), partly offset by the net debt issue of CHF 27.8 million (prior year CHF 118.8 million).

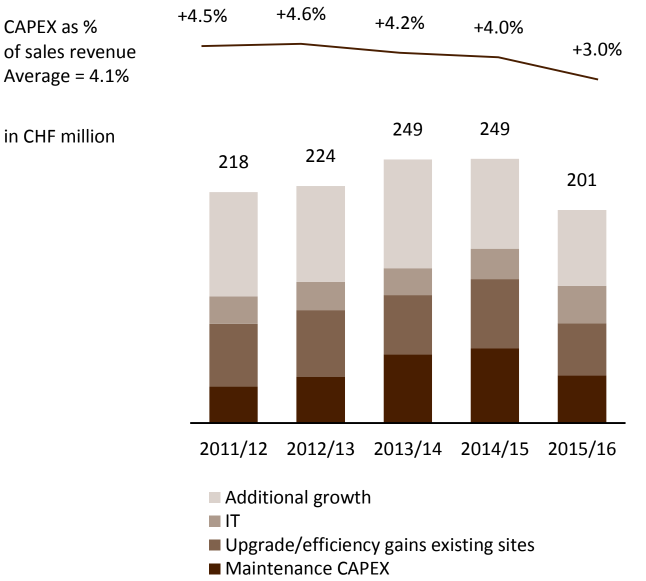
Free cash flow increased significantly to CHF 404 million, compared to CHF 21.8 million in the previous fiscal year, as a result of a lower working capital and stricter discipline in capital expenditure (CAPEX) for the fiscal year, in line with the target of CHF 200 million.

Financial Review

Investments – CAPEX

Capital expenditure reflected in the cash flow statement amounted to CHF –201.0 million (fiscal year 2014/15: CHF –249.2 million). The Group aims to continue its path of being more restrictive regarding the hurdles for approving CAPEX in the future.

Capital expenditure



Outlook

The Group will continue to focus on the further implementation of its "smart growth" strategy. There is good visibility on volume growth and expects to see a positive contribution in profitability from the Cocoa Leadership project, supported by some recent recovery in the cocoa products market. On this basis, the Group confirms its three-year guidance: On average 4–6% volume growth and EBIT growth on average above volume growth in local currencies, barring any major unforeseen events.

Investors information

Stock markets during the period from September 2015 until August 2016 were influenced by investor concerns over a perceived impending end to the US Federal Reserve policy of quantitative easing, along with the continued low oil prices, which decelerated investment in emerging markets, causing resonating negative global financial effects. Other issues include China devaluing its currency, as well as the Brexit referendum in which UK voters chose to leave the European Union.

Barry Callebaut share performance

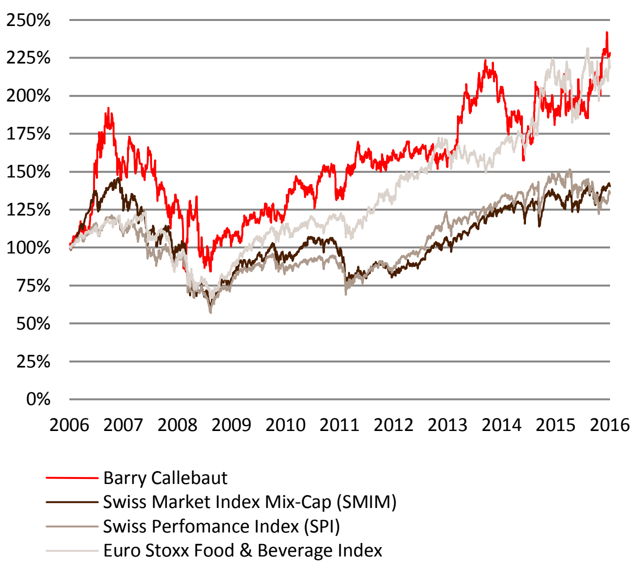
Barry Callebaut shares traded at CHF 1,264 at the end of August 2016, +19.1% above the previous year's closing price, thus outperforming the European and Swiss indices during the same period. Euro Stoxx gained +5.0%, Swiss SPI declined –4.3% and SMIM +6.6%.

On June 24, 2016, Swiss stocks fell sharply and the franc increased in strength as a result of the Brexit referendum. Stocks in the US and most of Europe fell sharply immediately after the referendum, but they rebounded almost as quickly.

Our stock also followed the general trend, but started to outperform the relevant indices as of April, thanks to a good set of half-year results and progress made on cash flow generation and concluded the fiscal year with a positive performance. Barry Callebaut's market capitalization amounted to CHF 6,937.9 million as of August 31, 2016.

The chart below illustrates the long-term performance of Barry Callebaut shares compared to the relevant indices (2006–2016):

Share price development Barry Callebaut vs. indices



Over a ten-year period (2006–2016), the long-term performance of Barry Callebaut shares (+128.2%) clearly exceeds the returns for the Swiss indices (SPI +35.7% and SMIM +40.4%) and the Euro Stoxx Food & Beverages (+118.9%).

Financial Review

Dividend

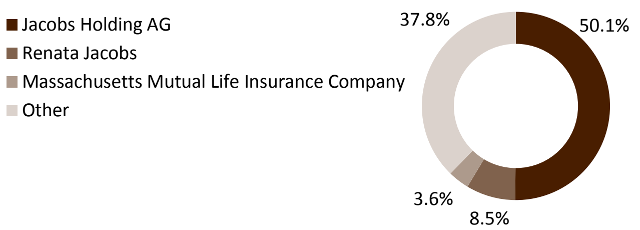
The Board of Directors will propose a payout to shareholders of CHF 15.50 per share at the Annual General Meeting of Shareholders on December 7, 2016. This represents an increased ratio of 39% of the net profit. The proposal foresees that the payout will be effected through a dividend payment partly from reserves from capital contributions (CHF 4.19 per share) and partly in the form of a capital repayment by way of par value reduction (CHF 11.31 per share). 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, 2017, subject to approval by the Annual General Meeting of Shareholders.

Key share data

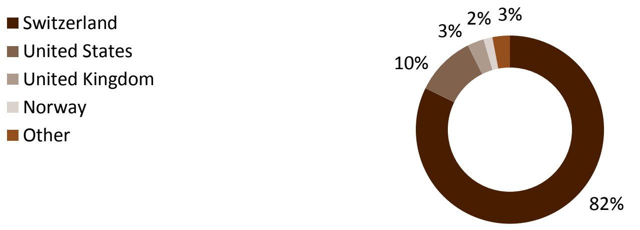
The share capital of Barry Callebaut AG as of August 31, 2016 amounted to CHF 102,092,759 consisting of 5,488,858 fully paid-in shares with a nominal value of CHF 18.60 each. There is one single class of shares in which every share has the same voting power and grants the same entitlement to dividends.

The free float, excluding the majority shareholders (Jacobs Holding and Renata Jacobs) at the end of August 2016 was 41% with the majority of the institutional shareholders based in Switzerland, followed by the US, UK, Norway and other countries.

Ownership structure August 2016



Country split of institutional shareholders



Analyst recommendations

Currently, 12 financial analysts regularly cover Barry Callebaut. At the end of fiscal year 2015/16, 67% recommended to hold our shares, 25% had a sell recommendation and 8% a buy recommendation. At the end of August 2016, the average target price according to consensus estimates was CHF 1,099.

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.