# Intentional phase-out of less profitable contracts

## In response to a historically weak cocoa products market and to fully leverage our global scale in cocoa, we continued to adapt our business model through the Cocoa Leadership project.

In light of a still challenging cocoa products market and while focusing on higher internal demand to support the strong growth of our chocolate business, we continued to intentionally phase out less profitable cocoa contracts. This led to a decline in our third-party sales volume of –12.0% to 436,537 tonnes.

Sales revenue grew by +10.1% in local currencies (+5.7% in CHF) to CHF 2,008.1 million.

As anticipated in November 2015, the challenging market environment for cocoa products and the historically low combined cocoa ratio had a significant negative impact on profitability. Operating profit (EBIT) declined by 60.3% in local currencies (–62.5% in CHF) to CHF 17.7 million.

In response to the historically weak cocoa products market and to fully leverage our global scale in cocoa, we continued to adapt our business model through the multi-year Cocoa Leadership project, which will allow us to bring our cocoa business to the next level.

The implementation of the Cocoa Leadership project made good progress around the following three focal points:

**Optimizing our operations:** We optimized our cocoa manufacturing footprint by closing a cocoa factory in Thailand in early 2016 and reducing production capacity in Malaysia in November 2015, introduced a more competitive direct sourcing model and worked on more efficient product flows and optimal stock levels.

**Leveraging our global scale:** We centralized the combined ratio management, with a new organization and governance in place, and upgraded our market intelligence in order to anticipate the trends.

**Driving Commercial Excellence:** We sharpened our focus on customers and product applications, introduced a new pricing model and reduced the number of stock keeping units (SKUs) by 25%.

# Business Review | Global Cocoa

## Raw material price developments

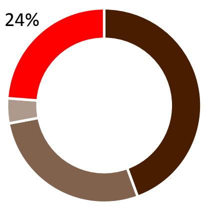
The 2015/16 cocoa crop dropped compared to the prior year due to weak crops, in particular in Côte d'Ivoire and Brazil. London market trading was volatile, rallying approximately 27% from the low at the beginning of February 2016 to a level above GBP 2,500 in June, a price level last seen in the 1970's. A large part of this increase, however, was currency-driven as the Brexit referendum led to a depreciation of 12% in the British pound against the US-dollar. Overall demand remained relatively weak, but this did not entirely offset the decline in supply. Therefore, the overall season ended with a considerable deficit.

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

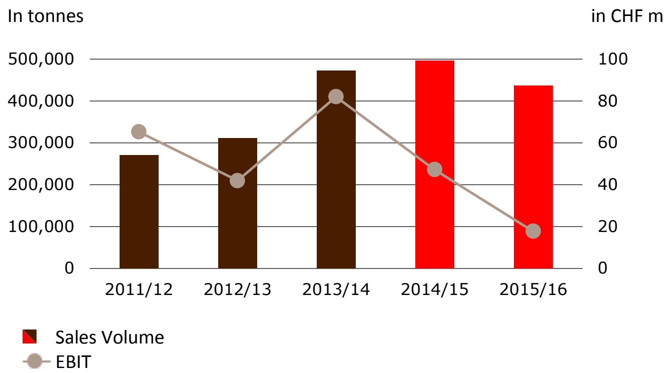
After five years of a downward trend, the world sugar market reversed strongly to reach its highest level since 2012 on the basis of a world deficit and an all-time record net long position of the Funds. Prices in Europe have also recovered, vigorously supported by historically low EU stocks as well as supportive world sugar prices.

At the beginning of the fiscal year, milk powder prices moved up due to fears of drought and a bit more demand on the world market. Towards the second half of the fiscal year, prices started dropping to record low levels as production was outpacing demand by far. They have recently bounced back as low milk prices to farmers are leading to high slaughter rates and a rapid reduction of production volumes.

## Sales Volume per Region




## Sales Volume | EBIT




**15**
factories

## Key figures for Global Cocoa

| | | Change % | | 2015/16 | 2014/15 |
|---|---|---|---|---|---|
| | | in local currencies | in CHF | | |
| Sales volume | Tonnes | | (12.0%) | 436,537 | 496,089 |
| Sales revenue | CHF m | 10.1% | 5.7% | 2,008.1 | 1,900.5 |
| EBITDA | CHF m | (27.0%) | (28.9%) | 71.3 | 100.3 |
| Operating profit (EBIT) | CHF m | (60.3%) | (62.5%) | 17.7 | 47.2 |