Financial Review

Successful year, delivering on strategy

Business Performance Review fiscal year 2016/17

Summary

In 2016/17, market conditions improved and volumes in the global chocolate confectionery rebounded in the second half of the year (according to Nielsen +0.1% volume growth in fiscal year 2016/17).

Cocoa bean prices were at a relatively low level due to a good crop and this supported consumer demand. At the same time the cocoa products market and related prices improved as a consequence of a more balanced supply and demand.

Barry Callebaut's Group volume increased by +4.4% to 1,914,311 tonnes.

Volume growth was driven by a strong performance across all Regions and Product groups. Overall the Group significantly outperformed the global chocolate market. The growth was fueled by our three key growth drivers Outsourcing, Gourmet & Specialties and Emerging Markets.

Operating profit (EBIT) was up versus prior year at +22.3% in local currencies (+21.5% in CHF) and amounted to CHF 488.2 million. Excluding a one-off effect from acquisitions, recurring EBIT was up +17.8% in local currencies and amounted to CHF 470.1 million. This is the result of the strong growth and good profitability in the chocolate business on the one hand and the significant improvement of the Group's cocoa business profitability, driven by the Cocoa Leadership initiative and the more favorable market conditions in the cocoa products market.

Net profit for the year increased by +39.6% in local currencies and reached CHF 302.9 million (CHF 284.8 million corresponding to an increase of +31.3% when adjusted for non-recurring effects).

The Group's continued focus on free cash flow (FCF) is one of the key elements of its 'smart growth' strategy.

Free cash flow was exceptionally strong and amounted to CHF 475.6 million, compared to CHF 430.9 million in the previous fiscal year. This is the consequence of the stronger operating profit, a lower working capital particularly due to the reduced prices for cocoa products, as well as some positive non-recurring items.

Corporate strategy and mid-term guidance

Barry Callebaut continues to execute its consistent long-term strategy based on four pillars (Expansion, Innovation, Cost Leadership and Sustainability). A smart balance between consistent above-market volume growth and enhanced profitability remains a key focus. The mid-term guidance has been extended to 2018/19:

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

* In local currencies and barring any major unforeseen events.

Low cocoa bean prices and continued volatility in other raw materials

The 2016/17 cocoa bean crop reached a record level due to favorable weather conditions, and an increase in farm gate prices for the main crop of top producers Côte d'Ivoire and Ghana. This led to an accelerated production and thus to the biggest surplus in the last six years, triggering a steep price erosion. Over the fiscal year 2016/17, cocoa bean prices experienced a steep drop of –34% to GBP 1,522 per tonne on August 31, 2017. On average for fiscal year 2016/17, cocoa bean prices declined by –21% versus prior year. This price correction ended a three-year bull market that had been driven mainly by speculation. Slightly improving demand did not offset the significant increase in supply, resulting in a surplus for the entire season.

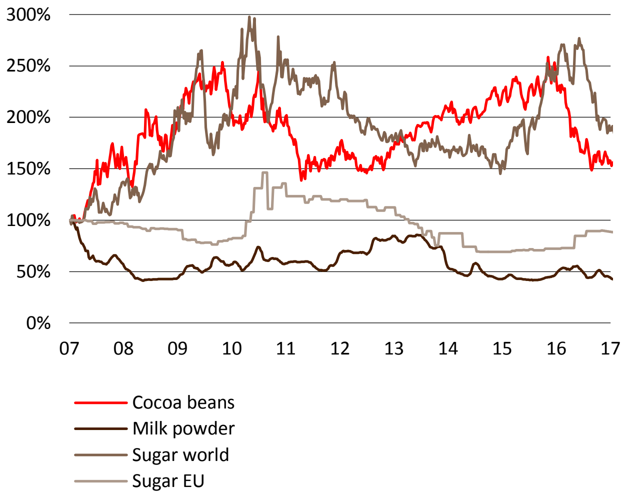
The combined cocoa ratio rebounded over the course of the fiscal year, due to a temporarily tight supply of cocoa products, low cocoa bean prices and slowly improving demand for chocolate products.

Sugar prices tumbled by –40% in view of a potential surplus of 5 million tonnes of sugar for 2017/18 compared to a deficit of 4.3 million tonnes in 2016/17. In Europe, the prospect of a bumper crop in 2017/18, combined with the change in the European sugar regime, eliminating production and export quotas, led to a progressive price decrease over the year.

There was a considerable decrease of global dairy production from autumn to spring, leading to an increase in prices. Beginning of 2017, producers around the globe started receiving higher payout prices for liquid milk, motivating them to increase production.

Financial Review

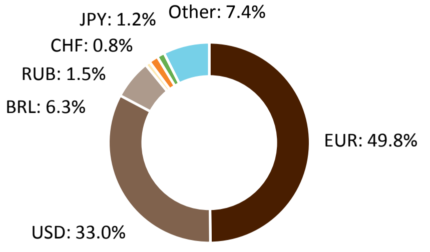
Raw material prices
September 2007–September 2017



Foreign currencies
In fiscal year 2016/17, markets saw less foreign exchange volatility 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.

In total, these currency translation effects mentioned above had a slightly positive year-on-year impact of +0.7% on sales revenue, but were slightly negative for EBIT (–0.8%) due to the different mix on this level.

Sales revenue in functional currency



Global chocolate demand rebounds
The chocolate confectionery market for the period rebounded in the second half of our fiscal year (September 2016 to August 2017). This recovery was supported by low cocoa bean prices and slightly improved market conditions in certain countries.

According to Nielsen, the market for the period under review was flat at +0.1%, with a recovery in the last two quarters of the fiscal year under review.

Consolidated Income Statement

Good volume growth, above the market
Sales volume for the fiscal year 2016/17 increased by +4.4% to 1,914,311 tonnes.

The Group's Chocolate business grew by a strong +5.6%, outperforming the overall global chocolate market significantly. All regions and all the key growth drivers Outsourcing, Gourmet & Specialties and Emerging Markets contributed to this growth.

In the Cocoa business, the intentional phase-out of less profitable contracts was concluded at the beginning of the year; volume growth for the year was at +0.4%.

Sales revenue significantly above prior year
Sales revenue rose by +1.2% in local currencies (by +1.9% in CHF) to CHF 6,805.2 million, driven by the volume increase and a better product mix. These effects were largely offset by lower cocoa bean and cocoa product prices, which the Group largely passes on to its customers based on its cost plus business model.

Improved Gross Profit
Gross profit grew at a higher rate than volume, up +14.6% in local currencies to CHF 986.7 million (+14.3% in CHF). This is the result of a further improved product and customer mix in the chocolate business, in particular related to the business with gourmet, specialties and decoration products, supported by the restored profitability and a more favorable combined cocoa ratio in the Global Cocoa business.

Focus on margin accretive growth and investing in structures to cater to future growth
Marketing and sales expenses increased by +6.4% to CHF 137.9 million. The Group continued its endeavors to attract margin accretive business, namely with specialties and decorations for both Gourmet and Food Manufacturers product groups. It also continued to invest in selected emerging markets.

General and administration expenses increased by +13.3% to CHF 377.1 million. This is partly due to increased efforts related to the Group's sustainability initiatives (Forever Chocolate), the expansion in emerging markets and due to the scope effect from recent acquisitions. It is also the result of continued investments

Financial Review

in structures, processes and tools to handle future growth and related higher amortization expenses.

Other income amounted to CHF 35.6 million compared to CHF 15.5 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 on insurances and suppliers. The increase versus prior year stems from the negative goodwill (badwill) in the amount of CHF 20.0 million recognized for a recent acquisition.

Other expenses amounted to CHF 19.2 million compared to CHF 14.7 million in prior year. This position comprises restructuring and severance costs, litigation, claims, impairment charges and some other non-recurring items. The increase is partly due to costs of CHF 1.9 million incurred in relation to an acquisition.

Strong increase in EBIT and EBIT/tonne

Operating profit (EBIT) grew significantly by +22.3% in local currencies (+21.5% in CHF) to CHF 488.2 million. On a recurring basis excluding the aforementioned effect of acquisitions, EBIT amounted to CHF 470.1 million. The strong increase is the result of good volume growth in the Group's chocolate business combined with increased margins from a better product and customer mix. This positive effect was reinforced by the restored profitability in the Global Cocoa business resulting from the Group's Cocoa Leadership project and the benefits of a higher combined cocoa ratio.

EBIT per tonne increased to CHF 255. On a recurring basis – i.e. excluding the one-off effect of the aforementioned acquisition, EBIT per tonne increased by +12.9% in local currencies (+12.1% in CHF) from CHF 219 to CHF 246.

Net profit growth in line with EBIT – increased income tax expenses offset by lower financing costs

Finance income slightly increased and amounted to CHF 5.2 million (prior year CHF 4.3 million).

Finance costs amounted to CHF 127.0 million, which corresponds to a decrease of CHF 12.7 million compared to previous year. The main difference stems from the fact that the prior year had been affected by expenses recognized for the ineffective part of the interest rate hedge related to the issue of the EUR 450 million Senior Notes in May 2016, and somewhat lower interest expenses.

Income tax expenses increased to CHF 63.6 million from CHF 47.5 million in the prior year due to the higher profit before tax. The Group's effective tax rate decreased to 17.4% (prior year: 17.8%) due to the increased profitability of the Group and an improved outlook, which led to lower ineffective current year tax losses.

Net profit for the year strongly increased by +39.6% in local currencies (+38.3% in CHF) to CHF 302.9 million. This increase can be attributed to the increased EBIT, while the increased tax expenses were almost offset by lower net finance costs.

Consolidated balance sheet – improved net working capital and net debt

Total assets decreased by –1.9% to CHF 5,534.1 million at the end of August 2017, compared to CHF 5,640.8 million the year before. While property, plant and equipment and derivative financial assets increased, this was more than offset by lower inventories and trade receivables, which benefitted in particular from lower cocoa bean prices.

Net working capital decreased by CHF 244.7 million to CHF 1,129.5 million as of August 31, 2017, compared to CHF 1,374.2 million the year before. While most of the main elements of working capital, i.e. inventory, trade receivables and other current assets as well as trade payables and other current liabilities, contributed to the decrease, this was partly offset by a significant increase in net derivative financial assets. All of the components were significantly impacted by the effect of lower bean prices compared to the year before.

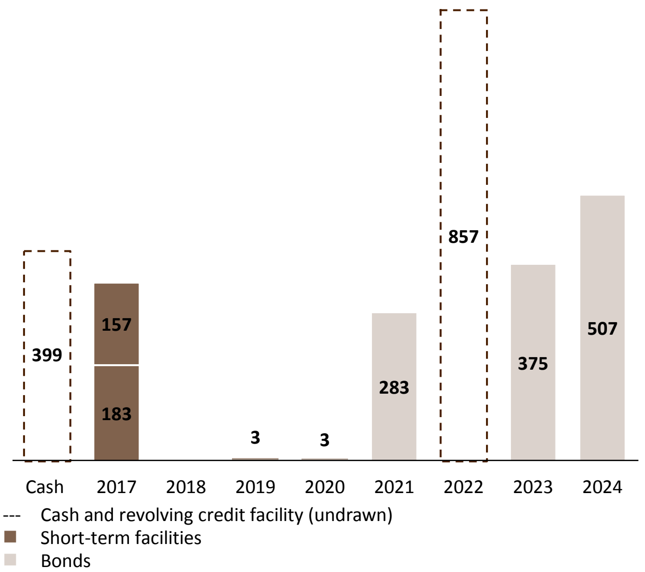
As a result of the increased profitability and reduced financing needs given the lower net working capital, **net debt** decreased from CHF 1,452.8 million to CHF 1,110.9 million at August 31, 2017. The weighted average maturity of the long-term debt (i.e. without any portion falling due in less than 12 months) decreased from 6.9 to 5.9 years.

Equity – including equity attributable to the shareholders of the parent company and non-controlling interests – amounted to CHF 2,193.6 million, up CHF 222.4 million compared to the CHF 1,971.2 million at the end of August 2016. Equity attributable to the shareholders of the parent company amounted to CHF 2,178.7 million compared to last year's CHF 1,956.3 million. The increase results from the net profit, the remeasurement of the defined benefit plans and a positive change in cumulative currency translation adjustments. These effects were partly offset by the payout to shareholders, the effects from cash flow hedging reserves and movements related to the share-based compensation plan (LTIP) and treasury shares.

Due to the aforementioned lower net debt and the higher equity, the debt-to-equity ratio improved from 74.3% to 51.0%. The solvency ratio increased from 34.7% to 39.4%. The return on invested capital (ROIC) increased to 11.5% compared to 9.5% in the prior year.

Financial Review

Liquidity – debt maturity profile



Consolidated Cash Flow Statement

Cash generated from operating activities increased to CHF 823.8 million compared to CHF 762.2 million in the prior year. This is mainly due to the higher profitability level. Changes in net working capital contributed CHF 192.6 million compared to CHF 210.3 million in prior year.

Whereas in the prior year, cash flow had been influenced by the reduced availability of beans due to low crops in certain sourcing countries and the Group's efforts to optimize working capital, this year's cash flow was positively affected mainly by the lower cocoa bean prices. This effect led to lower inventories and trade receivables, which was partly compensated for by higher net derivative financial assets resulting from the Group's hedging approach.

Cash outflow for interest was CHF 96.8 million compared to CHF 98.2 million in prior year. Cash outflow for tax was CHF –43.0 million compared to CHF –42.6 million in prior year.

Overall, this resulted in a strong increase in the **net cash from operating activities** to CHF 684.0 million compared to CHF 621.5 million the year before.

Net cash flow from investing activities amounted to CHF –205.7 million (prior year: CHF –217.5 million). The amount was largely related to the Group's investments of CHF –220.4 million in property, plant and equipment as well as in intangibles, which in light of the Group's growth were somewhat higher than in prior year (CHF –201.0 million). The other elements in investing cash flow resulted in a net inflow of CHF +14.7 million compared to an outflow of CHF –16.5 million in prior year, which contained cash outflows of CHF –26.9 million in relation to acquisitions.

Net cash flow from financing activities amounted to CHF –525.7 million, compared to CHF –68.6 million in prior year. The net outflow of the current year mainly resulted from the repayment of the 10 year EUR 350 million Senior Notes maturing in July 2017 and a term loan of CHF 150 million. In addition it contains the cash-out in the amount of CHF –85.1 million for dividends from paid-in capital reserves and the nominal capital reduction (prior year CHF –79.6 million all out of paid-in capital reserves) and the cash outflow of CHF –17.1 million for the purchase of treasury shares (prior year CHF –15.3 million), partly offset by the debt issue of CHF 121.5 million (prior year CHF 27.8 million).

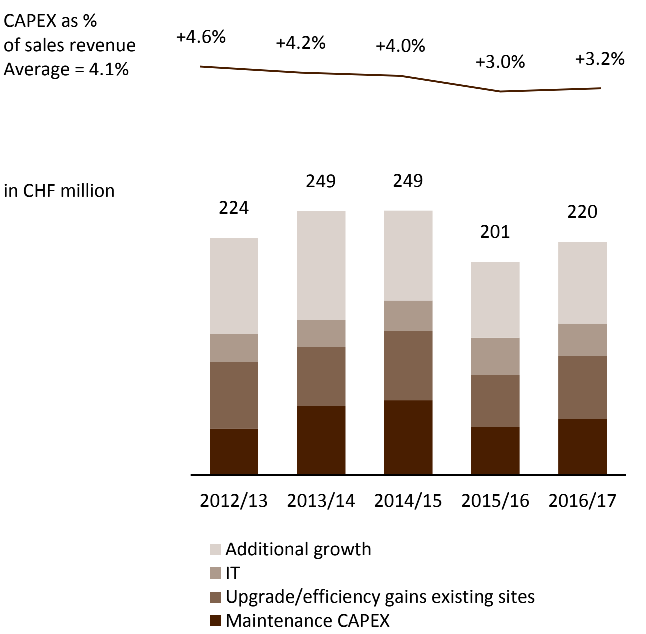
Free cash flow increased to CHF 475.6 million compared to CHF 430.9 million in the previous fiscal year. This is the consequence of the stronger operating profit, lower working capital particularly due to the reduced prices for cocoa products, as well as some positive non-recurring items.

Financial Review

Investments – CAPEX

Capital expenditure reflected in the cash flow statement amounted to CHF –220.4 million (fiscal year 2015/16: CHF –201.0 million). The Group maintained its restrictive policies regarding the hurdles for approving CAPEX and focused on investments that best support its strategy of 'smart growth' and selective expansion.

Capital expenditure



Outlook

The Group will continue to focus on the further implementation of its 'smart growth' strategy. A more supportive cocoa products market and slightly improving demand for chocolate, together with consistent execution of its strategy give the Group the confidence to extend its mid-term guidance one more year until 2018/19: On average 4–6% volume growth and EBIT growth on average above volume growth in local currencies, barring any major unforeseen events.

Barry Callebaut share performance

Barry Callebaut shares traded at CHF 1,380 at the end of August 2017, +9.2% above the previous year's closing price, and outperforming the European index. Euro Stoxx Food & Beverages declined –2.0%, for the same period Swiss SPI increased +14.1% and SMIM +22.6%.

On September 19, 2016, Barry Callebaut joined the SXI Switzerland Sustainability 25® index basket. This index brings together the 25 most sustainable companies listed in Switzerland. The index is based on an annual assessment by Sustainalytics of all companies composing the SMI Expanded® index.

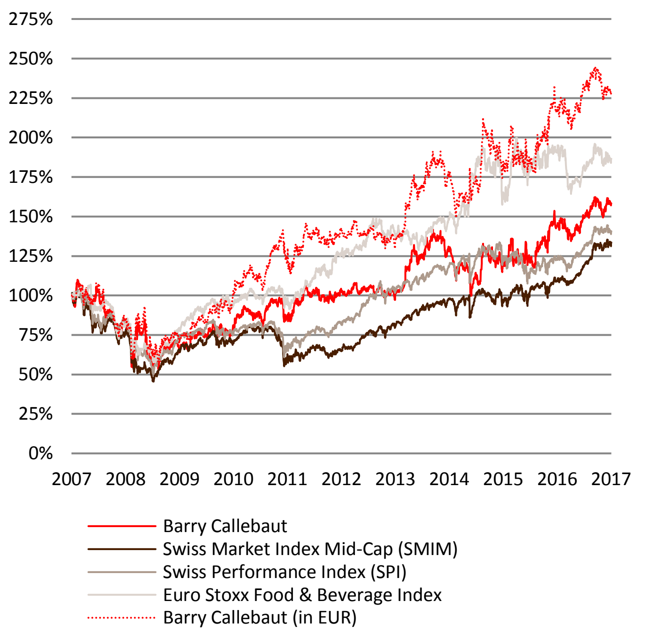
The most recent Sustainalytics performance of Barry Callebaut increased from 67 to 72. This score is an outstanding achievement that makes Barry Callebaut an Outperformer in its industry sector .

Key share data as of 31 August 2017

Shares outstanding	5.5 million
Closing share price	CHF 1,380
Market capitalization	CHF 7.6 billion
52-week high	CHF 1,416
52-week low	CHF 1,172
Average daily volume	5,970 shares

The chart below illustrates the long-term performance of Barry Callebaut shares compared to the relevant indices (2007–2017):

Share price development Barry Callebaut vs. indices



Over a ten-year period (2007–2017), the long-term performance of Barry Callebaut shares (+58.2%) clearly exceeds the returns for the Swiss indices (SPI +40.7% and SMIM +33.6%), and the Euro Stoxx Food & Beverages (+86.5%) when calculating Barry Callebaut shares in EUR (+128.0%).

Financial Review

Dividend

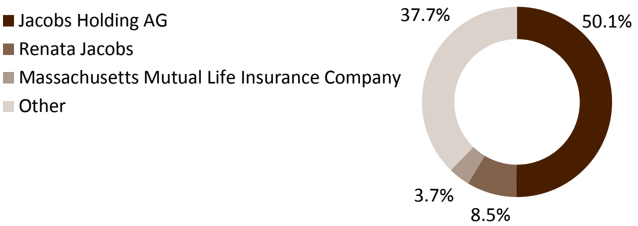
The Board of Directors will propose a payout to shareholders of CHF 20.00 per share at the Annual General Meeting of Shareholders on December 13, 2017. This represents a ratio of 36.3% of the net profit. The proposal foresees that the payout will be effected partly in the form of a capital repayment by way of par value reduction (CHF 7.27 per share) and partly through a dividend payment (CHF 12.73 per share). The distribution of the part related to capital reduction 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, 2018, subject to approval by the Annual General Meeting of Shareholders.

Key share data

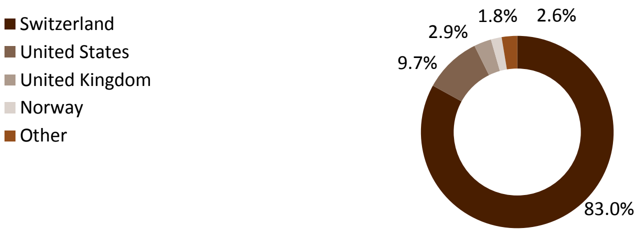
The share capital of Barry Callebaut AG as of August 31, 2017 amounted to CHF 40,013,775 consisting of 5,488,858 fully paid-in shares with a nominal value of CHF 7.29 each. There is one single class of shares in which every share has the same voting power and grants the same entitlement to dividends.

The free float, excluding the majority shareholders (Jacobs Holding and Renata Jacobs), at the end of August 2017 was 41%, with the majority of the institutional shareholders based in Switzerland, followed by the United States, United Kingdom, Norway and other countries.

Ownership structure as of August 2017



Country split of institutional shareholders



Analyst recommendations

Currently, 12 financial analysts regularly cover Barry Callebaut. At the end of fiscal year 2016/17, seven recommended holding our shares, four had a sell recommendation and one a buy recommendation. At the end of August 2017, the average target price according to consensus estimates was CHF 1,264.

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.