Investors & Analysts days - 2014

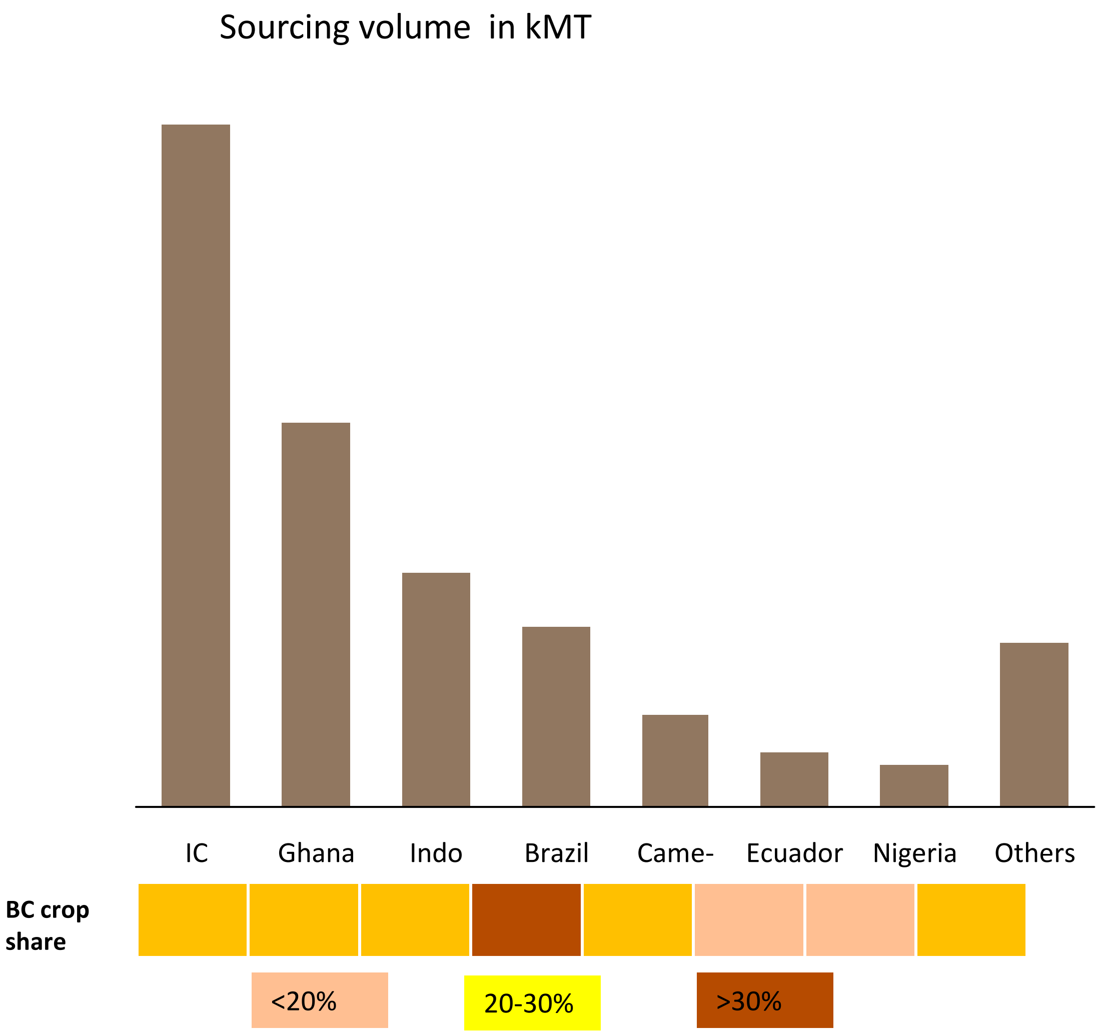
Victor Balli - CFO

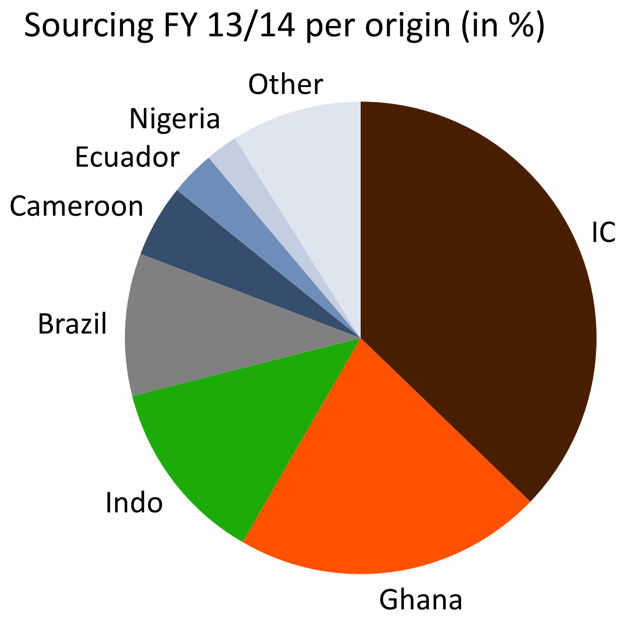
Belgium - October 22, 2014

Some additional information from the CFO

- Understanding commodity risk management at BC
- Working capital, capex, financing
- Wrap-up

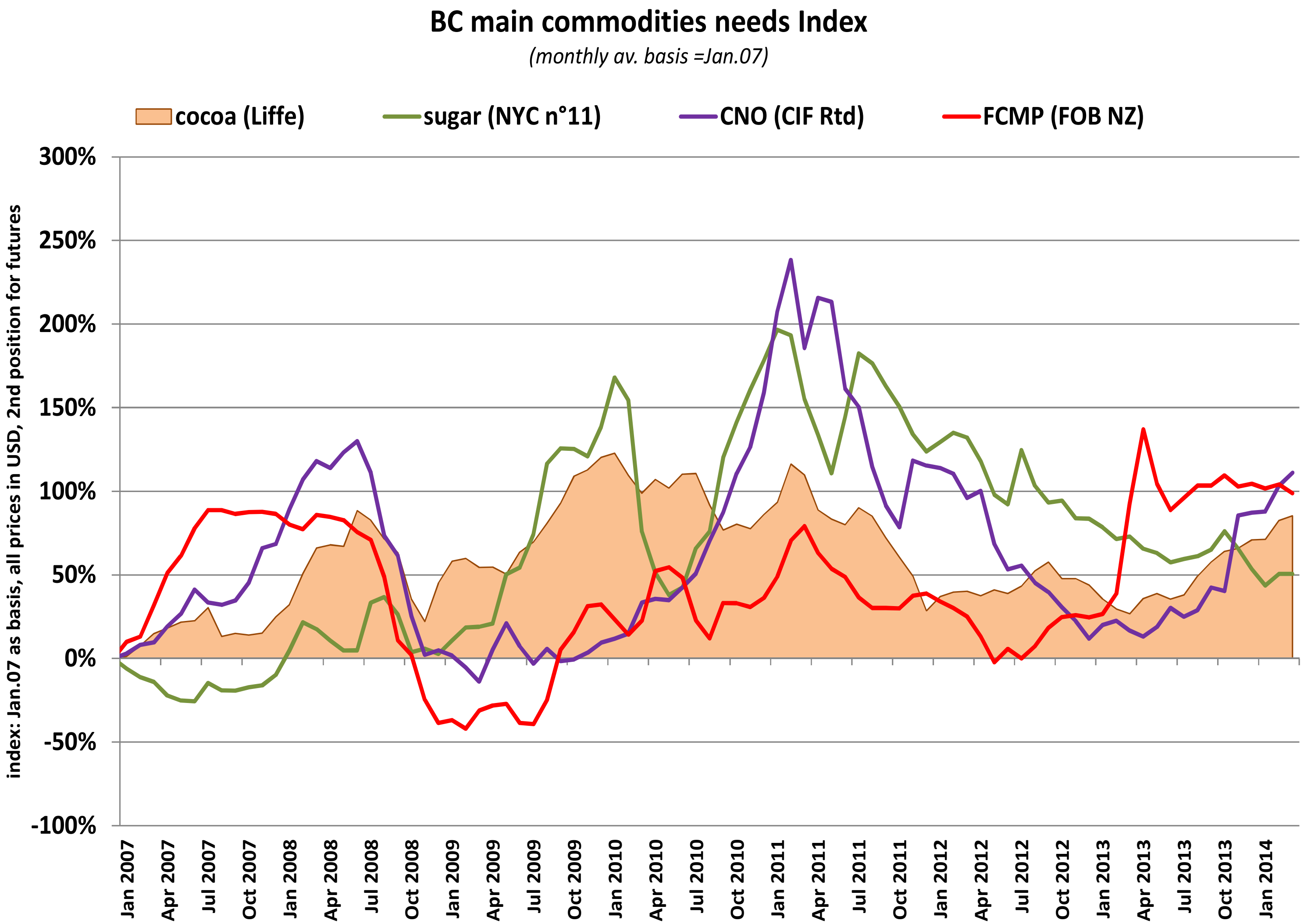
BC is sourcing >1000 KMT (25% of the World Crop). Exposure to the major origins is well balanced, respective to local crop size.





- Ivory Coast and Ghana are the largest sources of supply
- Indonesia consumption primarily driven by former Delfi factories
- Predominant BC share of the Brazilian crop
- Relatively low sourcing from other LA countries and Nigeria

Chocolate main ingredients past volatility



Major items to manage while sourcing beans

Next to physical risks (suppliers, quality, supply chain etc) following price risks are terminal market related

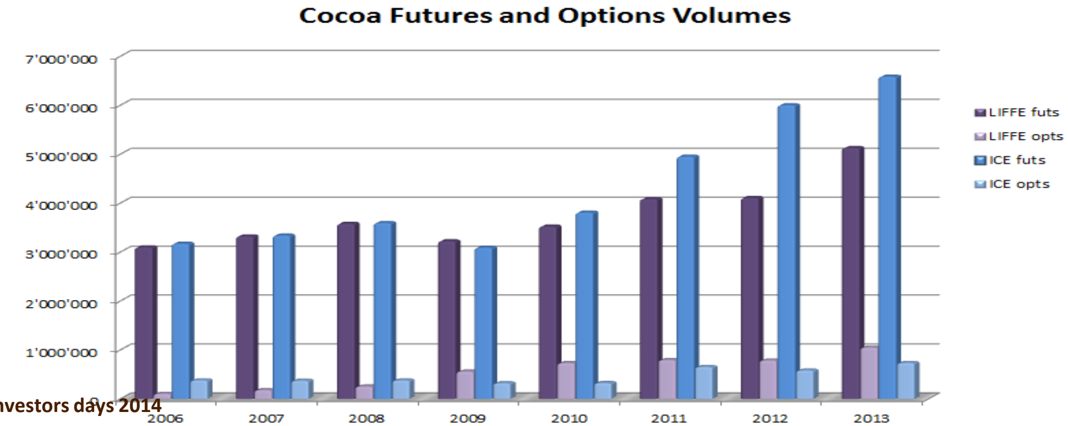
- **Bean equivalent (BE)**
- **Differentials (ratios)**
- **Structure**
- **Arbitrage**

The Cocoa Terminal Markets

- London's LIFFE futures exchange
  - Price in GBP/ton
  - 1lot =10mt
  - Futures volumes 2013: 5,125mio lots
  - Options volumes 2013: 1,048mio lots
- New York's ICE futures exchange
  - Price in USD/ton
  - 1lot =10mt
  - Futures volume 2013: 6,583mio lots
  - Options volume 2013: 0,733mio lots

x 29 crop

- Terminal market is always a buyer or seller – i.e. provider of liquidity
- Terminal markets are a tool to **offset our price risk** and for **price finding**
- On both market you can trade futures, options and OTCs
- Underlying are cocoa beans
- Cocoa stocks (graded & certified)/ physical deliveries



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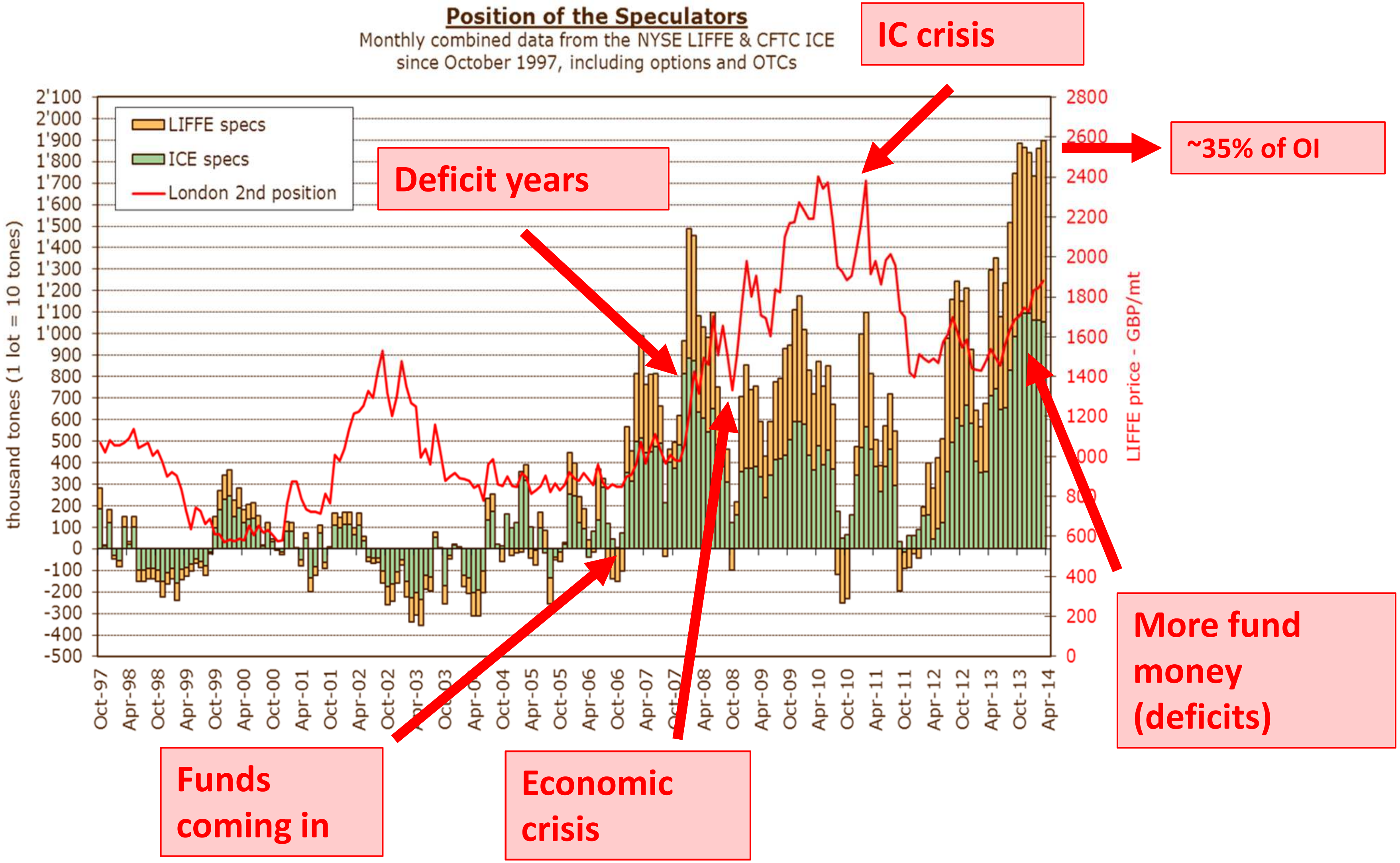
Cocoa Terminal Markets

Who's involved ?

- Commercials: industry, trade houses, grinders, origins / producers
- Speculators:
  - Hedge funds:
    - **Macro funds:** Actively managed, commodities specialists, fundamental analysis (upto $6billion under mngt)
    - **System funds:** Computers trading off indicators, following trends
    - **Algorithms:** Computer models, 90% is daytrading
  - **Index funds:** Long «only», basket of commodities, ICE focused
  - Various: Day traders, banks, market makers

Cocoa Sourcing Management

Cocoa Terminal Markets



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Hedging

What is hedging ?

- Hedging allows you to **lock in** a certain price level and **protects** you against adverse price movements
- Hedging is based on the principle that **physical markets** and **futures markets** tend to move **up and down together**
- Hedging is a form of **insurance against price volatility**, and provides price **protection**
- One hedges NOT to make money but to protect from potential losses and avoid uncertainty in the market

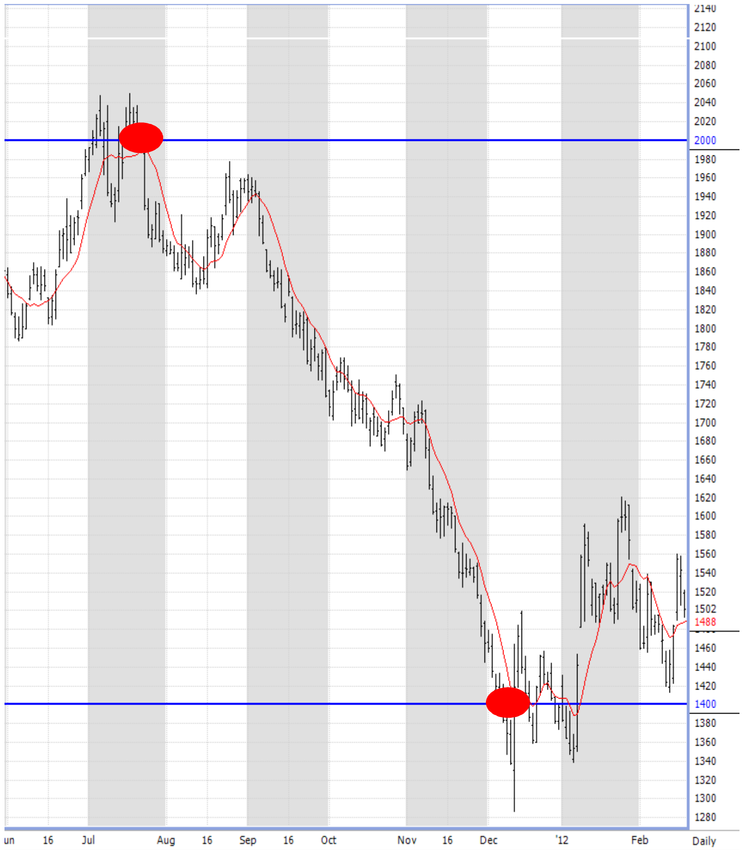
Why we operate at terminal market ?

- **Protect Margins** – excluding price risk
- Protect Market Share – avoid losing ground to competitors
- Secure Budgets – more **predictable** and profitable future
- **Stability** – mitigate moves in commodity prices

Cocoa Sourcing Management

Hedging

How can we buy at £2,000 and sell at £1,400 and not lose money ?



	Physical	Futures
1) Buy beans @ £2,000	+£2,000	
2) Hedge beans @ £2,000		-£2,000
3) Sell beans @ £1,400	-£1,400	
4) Sell hedge @ £1,400		+£1,400
	-£600	+£600

Overall: no profit/loss +/- £0

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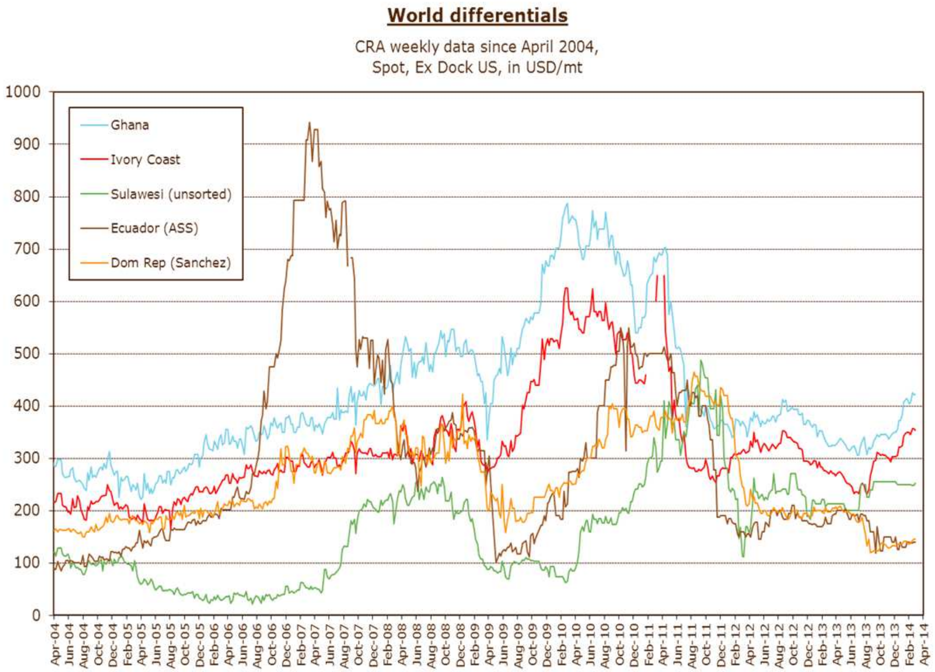
Differentials

(cannot be hedged)



Differentials are reflecting the **premium/discount** of a certain cocoa bean to the terminal market (standard bean)

BC buys/sells differential contracts on a forward basis **without fixing** the absolute price

The differential book is an integral part of our P&L

Differentials are influenced by:

Supply | Stocks | Butter prices | Powder prices | Color

Demand | Availability | Logistics | Yields | Quality

Taxes | Regulation | Political situation | Country risk

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Major items to manage while sourcing beans

- Bean equivalent (BE)
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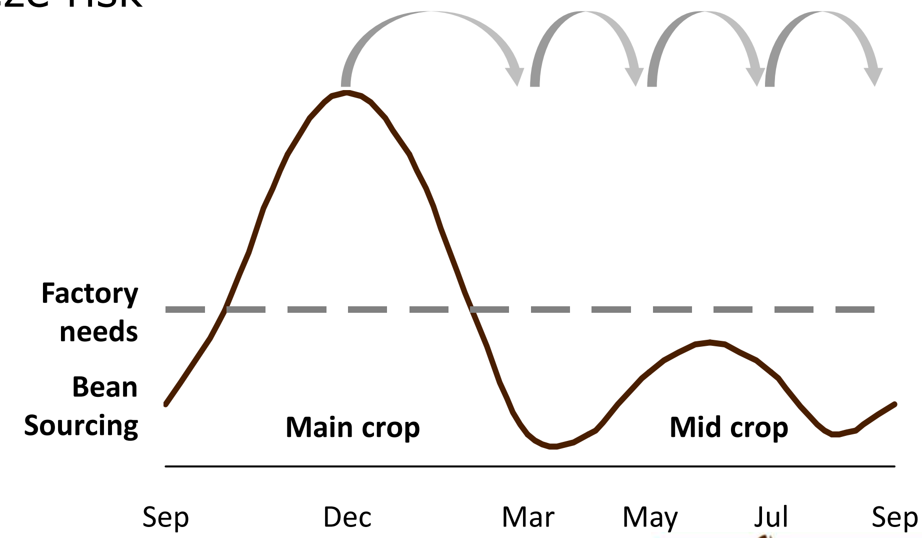
- **Structure**
- Arbitrage

Market Structure

- Traditionally and by nature of our business, **BC carries stocks** in beans and semi-finished products
- All these stocks are hedged, i.e. we are **short futures / options**
- Stocks are used for future production
- **At expiry** the future shorts normally need to be **rolled**

- Structure risk is inherent to our business => trying to mitigate and improve rolling costs via **diversification of rolling instruments**
  - Switches at market
  - Arbitrage to further avoid squeeze risk
  - Calendar spreads via options
  - OTC instruments

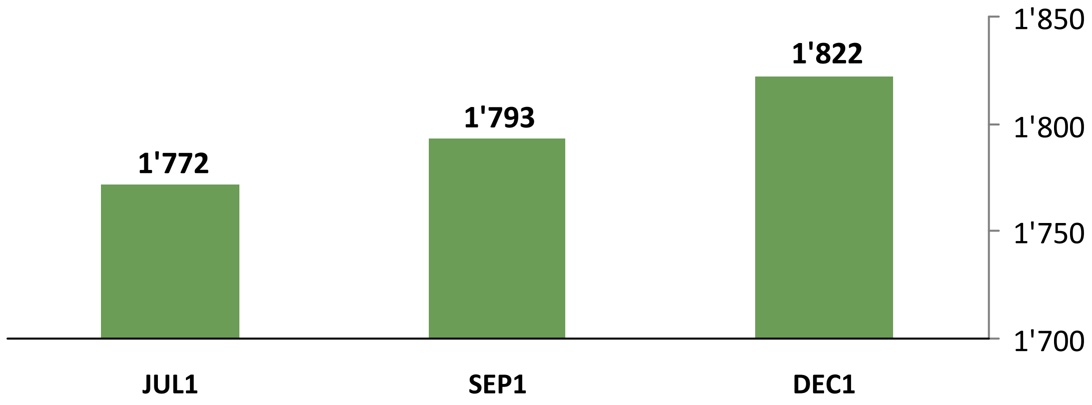
- **Carry cost**
  - Storage
  - Financing
  - Insurance

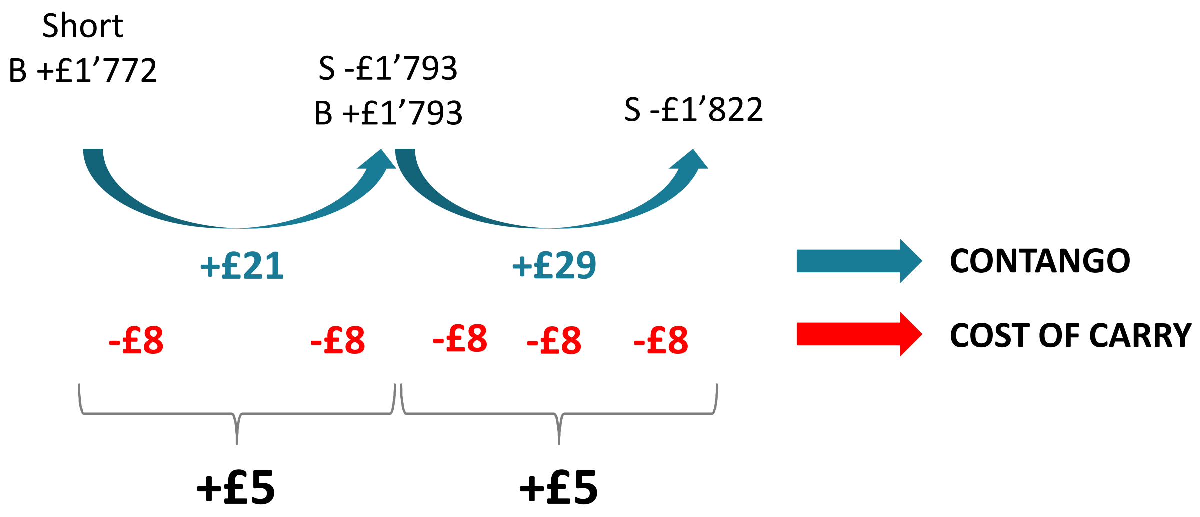


Cocoa Sourcing Management

Market Structure (Contango)

NYSE Liffe CLOSE		
JUL1	1772	-7
SEP1	1793	-7
DEC1	1822	-4
MAR2	1843	-5
MAY2	1858	-3
JUL2	1866	-1





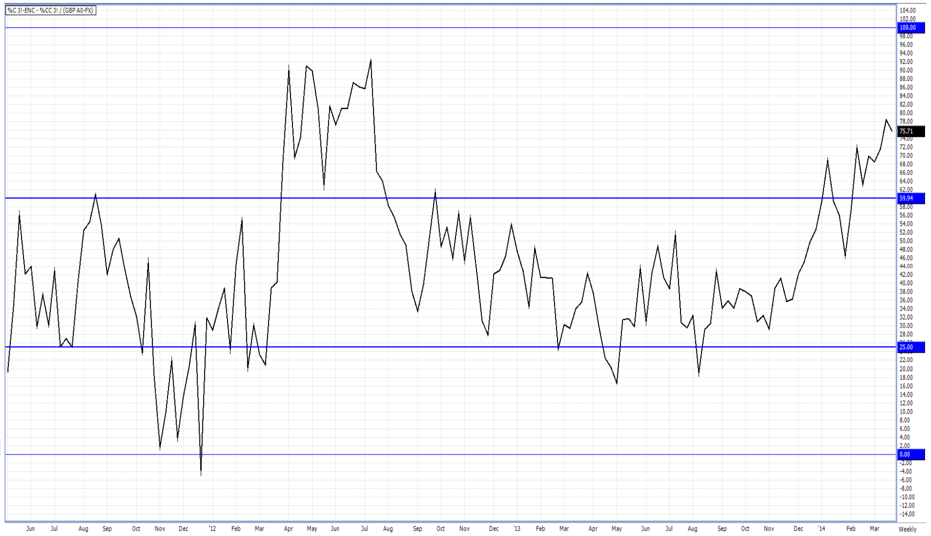
Major items to manage while sourcing beans

- Bean equivalent (BE)
- Differentials (ratios)
- Structure
- **Arbitrage**

Arbitrage

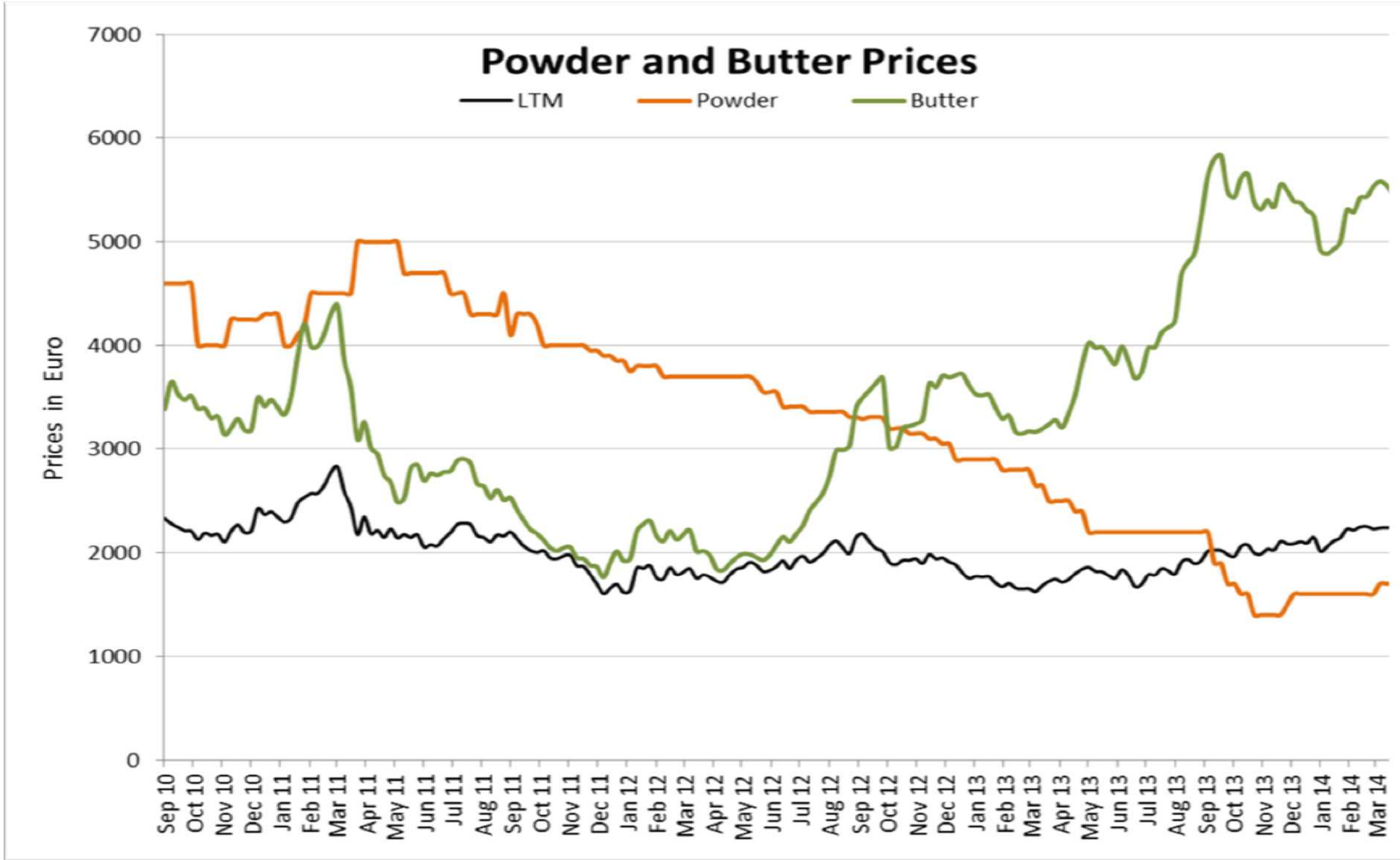
- Difference between the LIFFE – ICE market
- **Three components** define the arbitrage in cocoa
  - Market level on ICE (USD)
  - Market level on LIFFE (GBP)
  - Level of the cable (USDGBP)

- Main drivers behind the arbitrage
  - Quality of beans (IC vs Indo)
  - Regulations (FSA vs CFTC)
  - Stock levels/supply in both area
  - Logistics costs



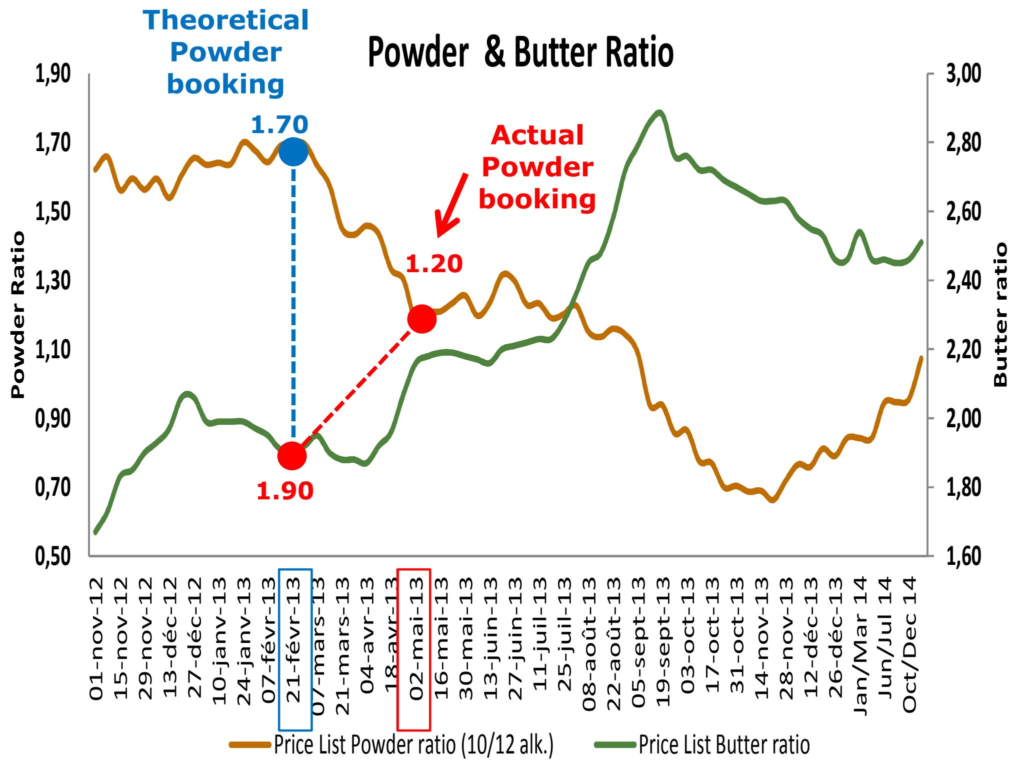
- Arbitrage is **embedded in BCs business** with the physical flows to NAFTA
- Mitigation of squeeze risk on LIFFE

As result of the cocoa pressing activities, the volumes of cocoa butter and powder need to be managed in parallel



Proactive management of combined cocoa ratio

Example



2 months time lag between butter an powder booking

- **Booking simultaneously** on Feb 21, 2013 would give a **combined ratio of 3.60** (attractive vs breakeven ratio)
- But in reality (example) **butter booking goes first** on Feb 21, 2013, and the **powder equivalent** comes on May 2, 2013. It gives **a combined ratio of 3.10.**
- If Terminal Market is constant at £1500, we **lose £400 EBIT opportunity per ton of pressed liquor**

How to manage that?

- Anticipate what butter/powder prices will do (market intelligence)
- Push or refrain butter / powder sales via active price management
- Offload the risks to external party (e.g. buy external butter or cake)

BC uses the value-at-risk concept to assess potential exposures, if any

VaR

- Reference for assessing Group commodity risks
- Normal market conditions
  - 95% confidence level
  - 10 days time horizon
- 2000 days history

Value-at-Risk (VaR) gives an answer to the question:

How much can the (mark-to-market) value of our portfolio decline with a probability of 95% within next 10 days?

Commodity Risk Organization and Responsibilities

- Approve GCRM Policy
- Approve Group VaR limit adjustments

6 meetings per year

- Assess risks and make proposals to BoD
- Approve GCRC requests

6 meetings per year

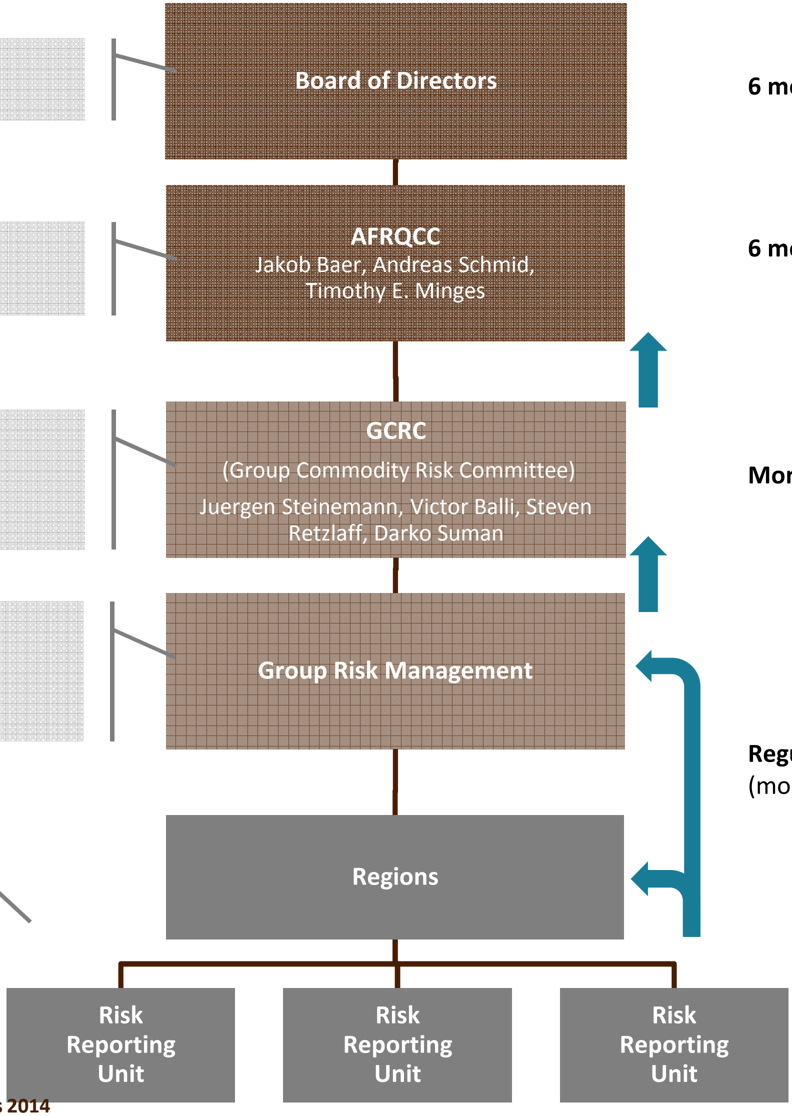
- Review exposures and assess strategies
- Approve limit adjustments to RRU's
- Acts as decision taking body related to commodity risks

Monthly meetings

- Identifying, assessing, monitoring and reporting of risks
- Making proposals for actions
- Coordinate execution of GCRC decisions

Regular Reporting
(monthly, weekly or daily)

- Manage commodity positions
- Independent identification, assessment and reporting of risks by Risk Controllers (daily)
- Reporting of risks to GRM at least monthly



Some additional information from the CFO

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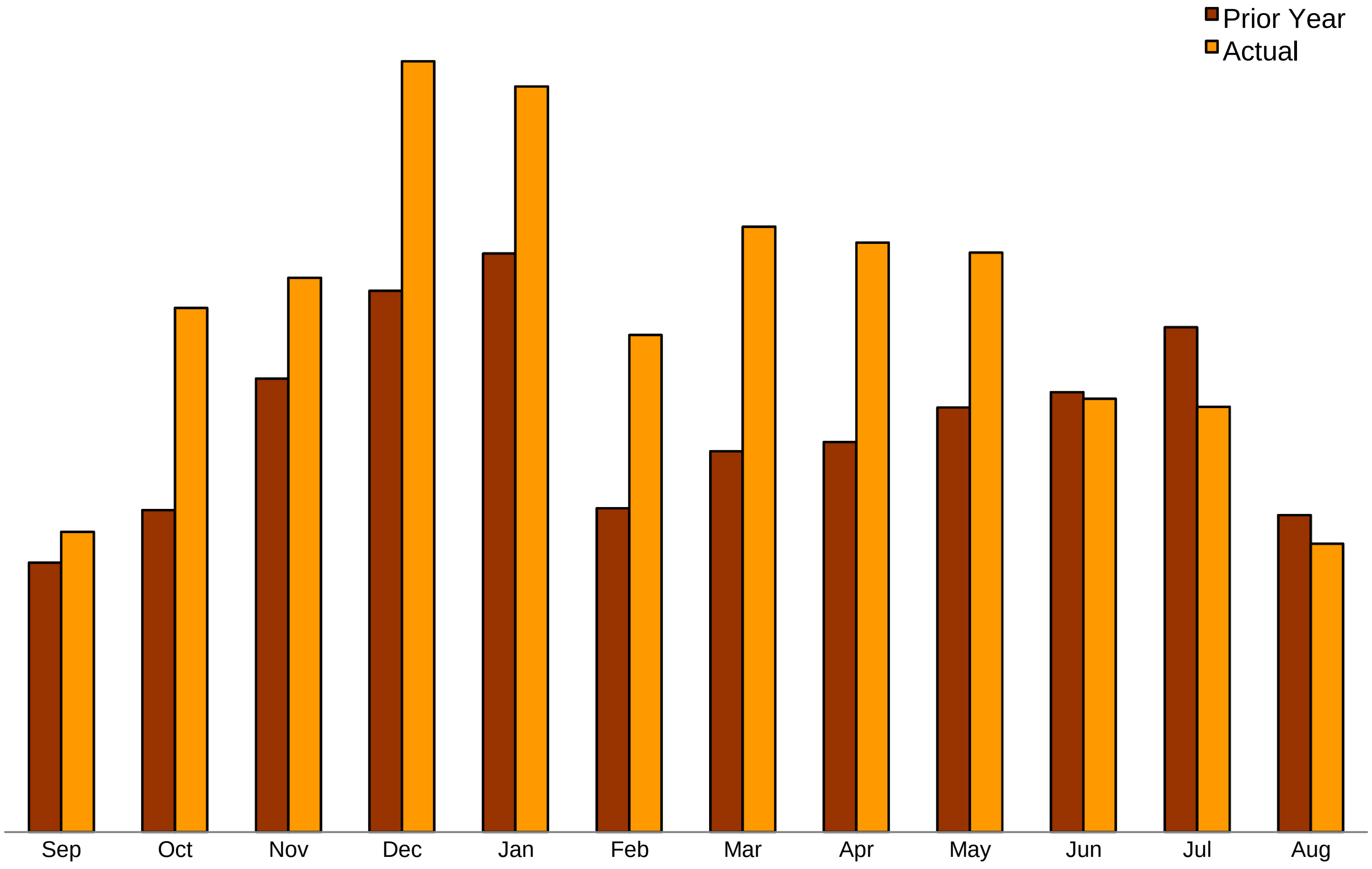
Bean inventory

Seasonal development driven by harvest

In MT



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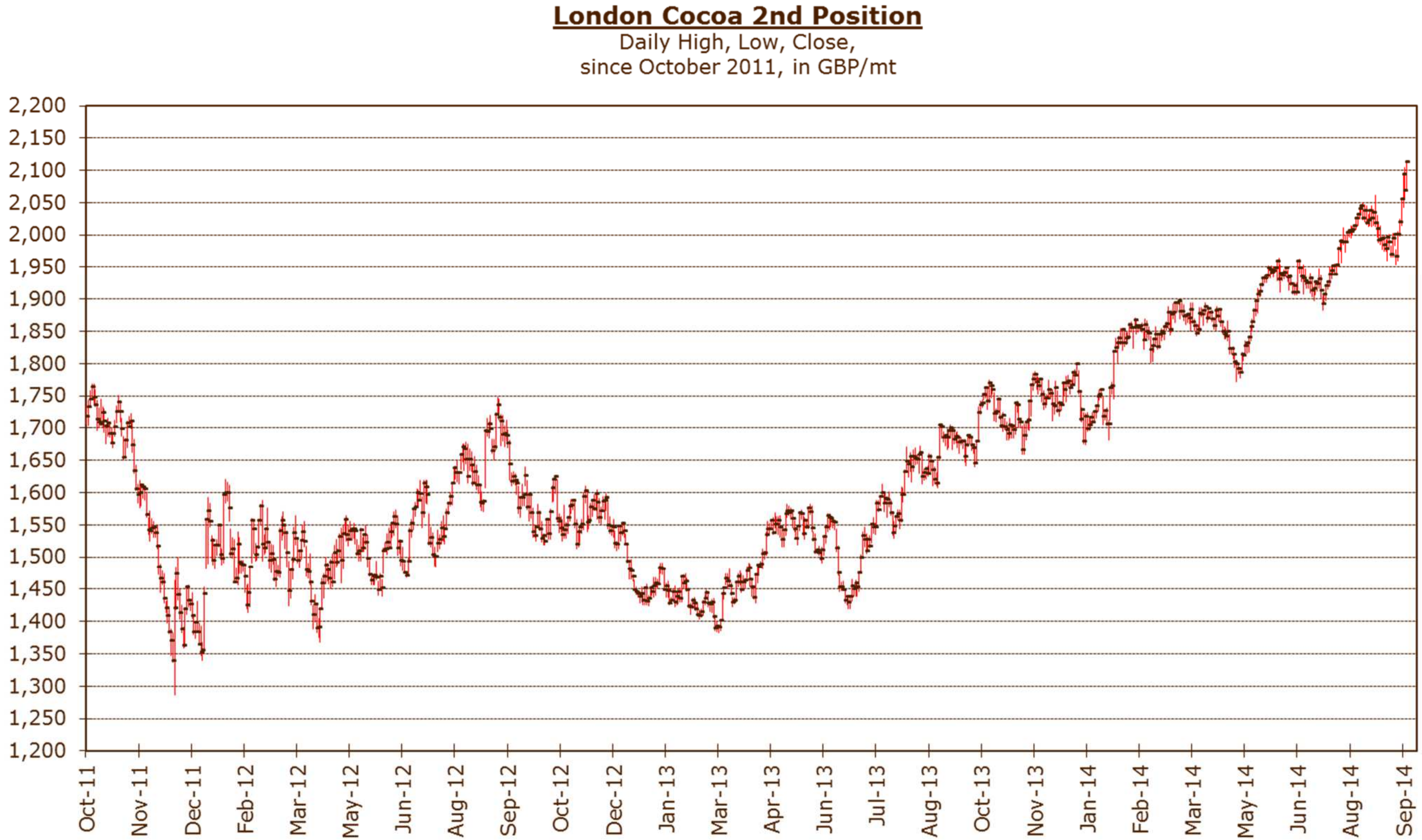
Bean sourcing

Cocoa bean prices increased significantly



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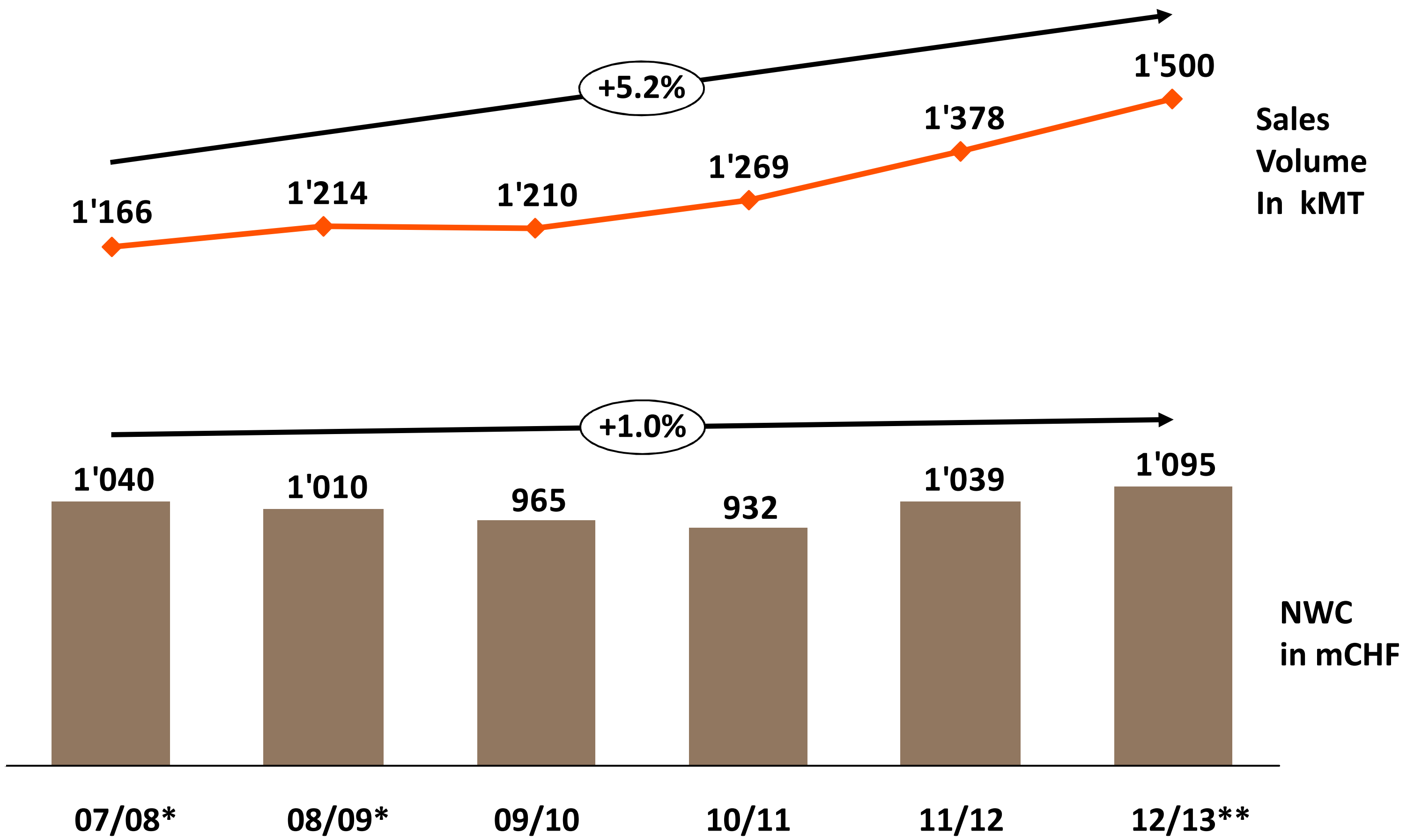
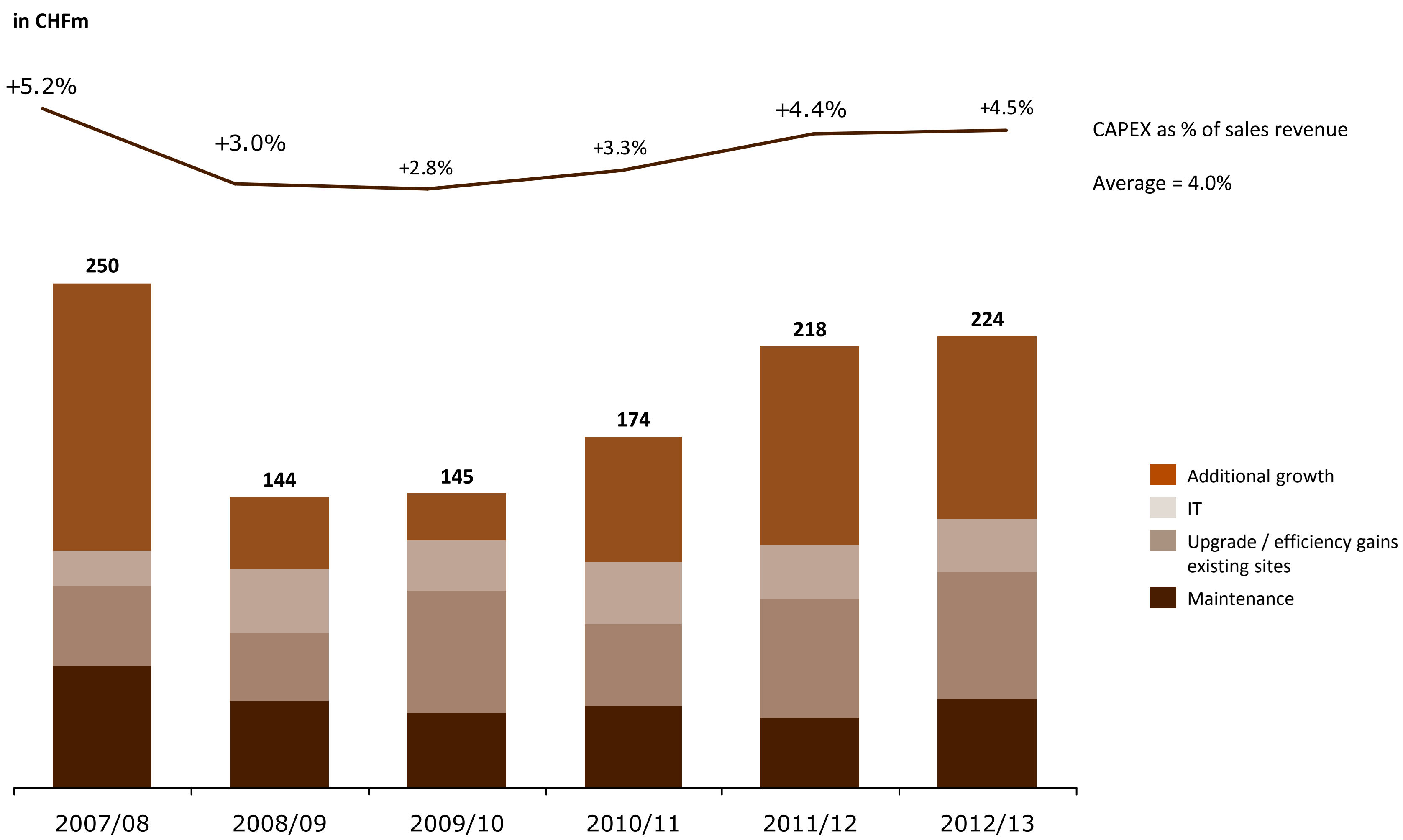
BC has a good track record in managing the working capital (volumes). Mitigation of raw material effects however is limited

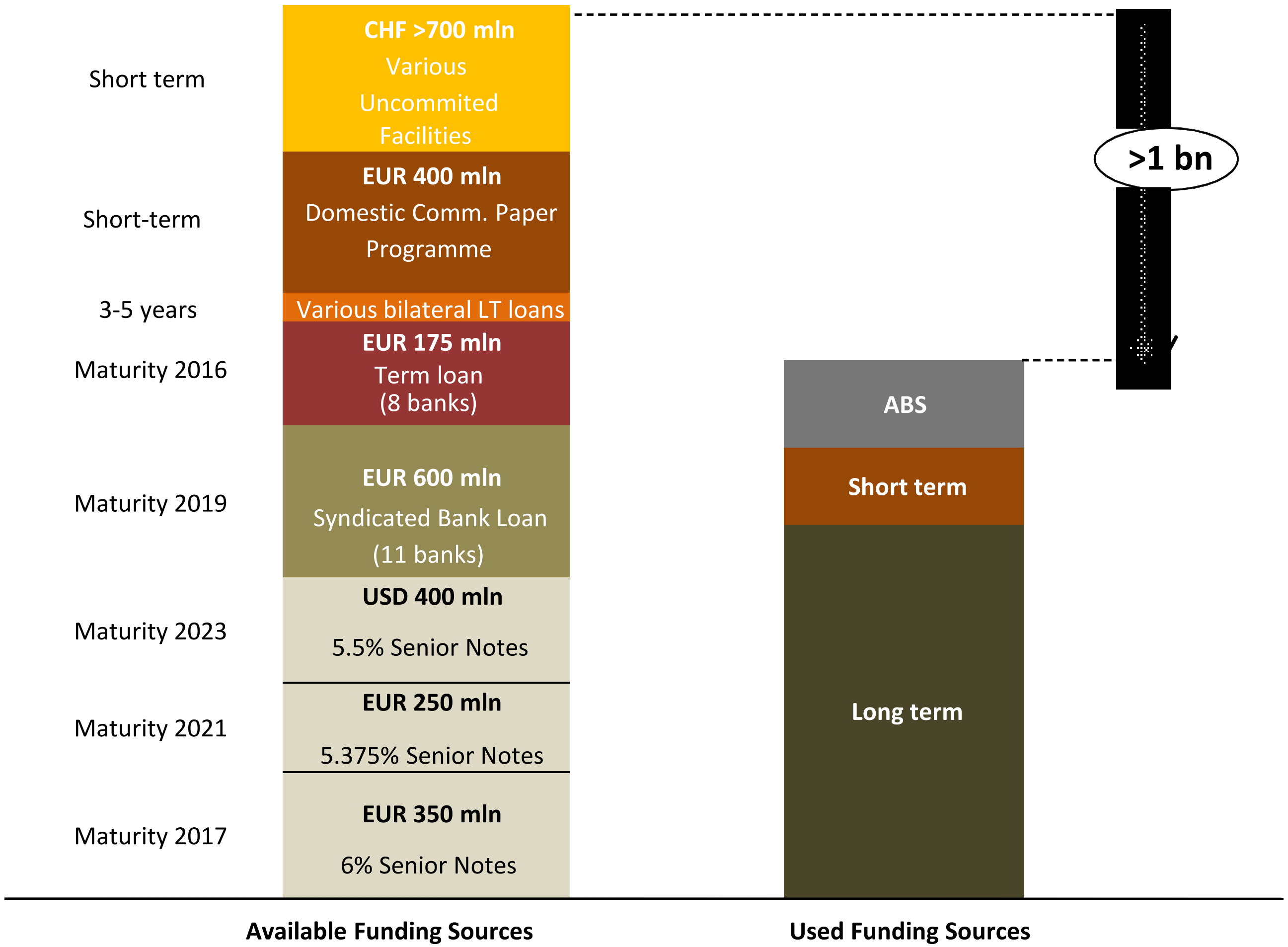


* Incl Stollwerck
** Ex-Delfi is excluded

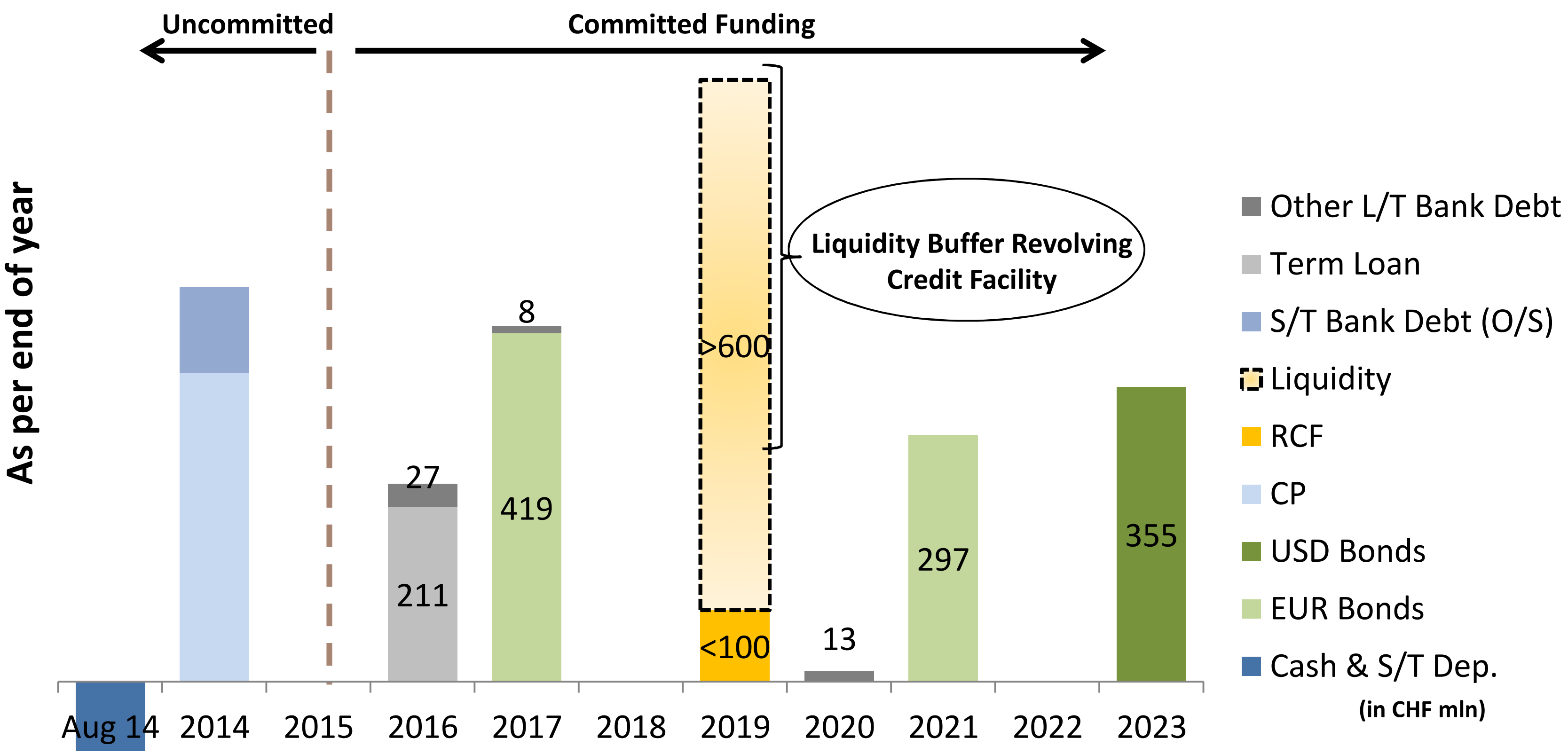
Capex investments support the growth of our business



1 bn CHF room for additional financing available to be prepared for raw material price fluctuations



Good maturity profile



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Wrap-up

- BC uniquely positioned to benefit from opportunities in the industry and to further grasp market growth
- Chocolate and cocoa powder, as resilient long-term growth categories
- Significant opportunities in both emerging and developed markets
- Gourmet business as a key growth driver
- Chocolate market 50% integrated offers further outsourcing opportunities
- Innovation a key enabler for future growth
- Integrated into cocoa as a competitive advantage for our chocolate business
- BC has the structure and size to be the cost leader in the industry
- Sustainable cocoa- the only way forward