

INTERVIEW WITH THE CFO

Barry Callebaut
Annual Report 2010/11

The CFO's view



Victor Balli
Chief Financial Officer

What were the major external challenges you faced this year?

Victor Balli, Chief Financial Officer (VB) This year, we faced several issues: a rather uncertain macroeconomic and financial environment, months of severe political crisis in Côte d'Ivoire combined with an export ban, high and volatile raw material costs and, of course, the strengthening of the Swiss franc. Fortunately, there were also some positive factors, such as the recovery of global chocolate consumption driven by emerging markets and the strong cocoa combined ratio.

What are the key learnings from the recent crisis situation in Côte d'Ivoire?

VB Most important: We were in constant, close contact with our local teams, which, with the support of the Group, were in the best position to assess risk and the appropriate strategies and actions. The situation also confirmed that while risk and cash management are important, when things really get tough, for example no working banking system in place, you need people and the will to make bold and fast decisions. While Côte d'Ivoire will remain an important cocoa bean sourcing and processing country for us, the crisis confirmed that our strategy of reducing our dependency on individual countries and regions is the right one.

How did the strengthening of the Swiss franc affect your operations?

VB We are organized in a way that we produce and sell locally, so there is a natural Foreign Exchange (FX) hedge for most cost items. Input costs in different currencies, such as cocoa beans, are hedged vs. the sales portfolio on a daily basis. With this approach, we basically eliminate all transactional FX exposure. However, with the Swiss franc being our reporting currency, there can be significant translation effects.

Why did you refinance the company this year, and can we expect lower financial expenses because of that?

VB In 2007, we refinanced the company just before the outbreak of the first financial crisis. This year, the average duration of our committed credit facilities dropped below 3.5 years; we carefully monitored the capital market and decided in spring that the timing for a major refinancing was attractive. Looking back, this seemed to be another good decision. We decided to shift some of our bank loans to the capital

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market to achieve a longer tenor and more balanced exposure. Average interest expenses will go up in the short term but, on the other hand, we have secured relatively low rates for a very long period.

You wanted to achieve investment grade for years, now that you have achieved it, what are your new targets?

vb We have received an investment grade rating from Moody's but not yet from Standard & Poor's. So there is still room for improvement. Second, in our capital intensive industry, balance sheet and cash flow discipline is and will remain important. In that sense, we have to consolidate our targets of net debt to EBITDA below 2, return on invested capital (ROIC) of at least 15%, return on equity (ROE) of more than 20% and free cash flow to net debt of above 25%.

Are you planning to increase the dividend payout or initiate a share buyback program?

vb A share buyback program is not an option for me, first because our free float is only 33% and would shrink even more; second, we still have many projects and ideas to further invest in our business over the next few years. A gradual potential increase in the dividend payout may be an option, but this is to be decided by the Board and the Annual General Meeting of Shareholders.

What impact does the divestment of the European Consumer Products business have on the Group?

vb Our operational setup will be simplified; our management will have more time to concentrate on the core business and we divested a business with weaker financial metrics. In financial terms, we will receive a significant cash injection but we also took a substantial write-off. Overall, I am happy that we completed this important and challenging project.

What is your outlook for fiscal year 2011/12?

vb Personally, I am worried about the economies in Western Europe and the U.S. The financial industry is going through a period of fundamental change. At the same time, I am convinced that Barry Callebaut, with its entrepreneurial approach and focused strategy, will continue to outperform the markets.

Currency impact

FX transaction effect

Most of our operations are local, we do produce and sell locally. Most raw materials are bought locally as well. FX exposures from cocoa beans (in British pounds and U.S. dollars) are hedged on a daily basis. Therefore, we have very limited transactional currency exposures, and FX effects are minimal. Our sales from Switzerland represent only 1% of the total Group and only 3% of total costs are in Swiss francs.

FX translation effect

By translating our results (mainly EUR and USD) in Swiss francs, our reporting currency, there was a negative effect during the past years. See chart below (EBIT incl. discontinued operations).

In CHF million

