

FINANCIAL REVIEW

Barry Callebaut
Annual Report 2010/11

Consolidated Income Statement

Explanatory comments to the Consolidated Financial Statements:

On July 8, 2011, the Group signed an agreement to sell its European Consumer Products business (Stollwerck) to Baronie Group in Belgium with closing of the transaction on September 30, 2011. Consequently, the results of this business are no longer included in the Group's financial performance figures for the continuing business. Instead, they are reported separately in the Consolidated Income Statement under the line "Net result from discontinued operations". Prior-year figures have been restated accordingly. In the Consolidated Balance Sheet, assets and liabilities related to the discontinued operation are reported under "Assets held for sale" and "Liabilities directly associated with assets held for sale". However, in accordance with IFRS 5, the comparative prior-year figures have not been restated in the Consolidated Balance Sheet. In accordance with IFRS 5, the Consolidated Statement of Cash Flows includes the cash flows from discontinued operations. Additional details related to the Income Statement, Balance Sheet and Cash Flow Statement of the discontinued operations can be found in note 26 to the Consolidated Financial Statements.

Sales volume grew strongly by 72% from 1,209,654 tonnes to 1,296,438 tonnes. All Regions contributed to this growth as did all Product Groups.

Revenue from sales and services grew by 0.7% from CHF 4,524.5 million to CHF 4,554.4 million. The positive impact from the volume growth was almost entirely offset by extraordinarily high foreign currency translation effects as most currencies weakened against the Group's reporting currency, the Swiss franc. Adjusted for these effects, revenues from sales and services grew by 13.3%, driven by the volume increase as pointed out above and by higher raw material prices that could be passed on to customers.

Gross profit grew by 1.5% to CHF 659.0 million from CHF 649.5 million in prior year. Gross profit was negatively affected by significant translation effects due to the strong Swiss franc but the strong volume growth more than compensated for these effects. In local currencies, gross profit grew by 11.4%. Gross profit in relation to revenue from sales and services edged up to 14.5% from 14.4% in the prior year. Gross profit per tonne decreased by 5.3% to CHF 508.3 from CHF 537.0 the year before. This is the result of the above-mentioned translation effects, without which gross profit per tonne would have grown by 3.9%.

Marketing and sales expenses amounted to CHF 88.1 million, down by 74% compared to last year (CHF 95.1 million). Additional costs related to acquisitions, the further expansion of the gourmet business and the growth in sales were more than compensated for by positive foreign currency effects and, to a lesser extent, by cost-saving measures. The group continued to pursue its strategy of further strengthening its relationship with customers.

General and administration expenses increased slightly to CHF 219.4 million from CHF 217.7 million. The effects from growth and acquisitions and the strengthening of the Gourmet organization were almost entirely offset by positive effects from currency translation and cost savings.

Other income of CHF 19.5 million was recorded compared to CHF 17.5 million in the prior year. In both years, this position included operating but non-sales-related income items, such as gains on disposals of assets, sales of waste products, income generated by the Group's Training Center, Schloss Marbach, income from the reversal of unused accruals and provisions and claims related to insurance companies and suppliers.

Other expenses amounted to CHF 10.5 million compared to CHF 13.0 million in the prior year. This position comprises restructuring costs, litigation, claims and severance payments, impairment charges and losses on sales of property, plant and equipment as well as some other non-recurring items.

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Operating profit (EBIT) increased by 5.7% to CHF 360.6 million, compared to CHF 341.1 million in the prior year. Excluding the impact from foreign currency translation, the EBIT growth amounted to 15.3%. All Regions and Product Groups contributed positively to EBIT and EBIT growth, the latter with the exception of Region Americas. The biggest absolute contribution to EBIT came from Region Europe in terms of geography and from Food Manufacturers Products in terms of Product Groups. The biggest contributions to EBIT growth came from Global Sourcing & Cocoa. EBIT per tonne receded slightly to CHF 278.1 from CHF 282.0 due to currency translation effects. Global Sourcing & Cocoa benefited from a positive combined cocoa ratio effect.

Financial income amounted to CHF 1.4 million, down from CHF 2.0 million in the preceding year mainly as a result of lower interest income.

Financial expenses were up slightly at CHF 74.4 million compared to CHF 73.0 million in the prior year. The increase in interest expenses and structuring fees in light of the debt restructuring in July 2011 were largely offset by lower losses on derivatives and foreign exchange transactions.

Result from investment in associates and joint ventures amounted to CHF 1.2 million compared to CHF -0.2 million in the year before and contains the Group's share in equity movements of equity accounted investees, i.e. participations in companies over which the Group has significant influence but not control.

Income taxes decreased from CHF 32.4 million in prior year to CHF 29.8 million, despite a higher profit before income taxes. This is the result of a favorable change of the tax mix and a structural change in light of the disposal of the European Consumer Products business leading to a decrease of the Group's effective tax rate to 10.3% compared to 12.0% the year before.

Net profit for the year from continuing operations amounted to CHF 258.9 million, a strong growth of 9.0% compared to CHF 237.5 million in prior year. In local currencies, the increase amounted to 19.8%. This is the result of the higher operating result in combination with lower income taxes.

Net result from discontinued operations (i.e. result from the discontinued European Consumer Products business) amounted to CHF -82.1 million. This loss resulted from an operating profit of the discontinued operations of CHF 10.3 million in combination with an impairment charge on assets of CHF -47.2 million, cumulative foreign exchange effects of CHF -12.0 million thereon, transaction and separation costs related to the disposal in the amount of CHF -16.8 million and financial and income tax expenses of CHF -16.5 million. The prior-year net profit from discontinued operations amounted to CHF 14.3 million.

Net profit for the year (including discontinued operations) amounted to CHF 176.8 million, compared to CHF 251.7 million in prior year. The reduction is attributable to the high non-recurring loss of CHF -82.1 million for the discontinuation of the Consumer Products business. Net profit for the year attributable to the shareholders of the parent company amounted to CHF 177.6 million, compared to CHF 251.2 million in the preceding year.

Basic earnings per share (from continuing operations) increased by 9.7% to CHF 50.29, up from CHF 45.86 last year. **Cash earnings per share**, defined as operating cash flow before working capital changes divided by basic shares outstanding, amounted to CHF 87.25, almost at the prior-year level of CHF 88.60.

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Consolidated Balance Sheet and financing structure

Total assets at the end of August 2011 amounted to CHF 3,263.1 million, which represents a decrease of CHF 307.7 million or 8.6% compared to the prior year's amount of CHF 3,570.8 million. This is mainly the result of the positive impact from currency translation effects and operational improvements related to working capital management, which more than offset the impact from the growth of the business.

Net working capital was further reduced during this fiscal year by CHF 76.8 million or 8.0% to CHF 888.1 million at the end of August 2011 compared to CHF 964.9 million at the end of the prior year. This is mainly the result of the favorable impact from foreign currency translation, and operational improvements and the effect from the discontinuation of the European Consumer Products business, since the related working capital has been reclassified as assets held for sale. On the other hand, these positive effects were partly offset by the effects of the volume growth and high raw material prices and there was still a negative effect from higher (safety) inventory resulting from the crisis in Côte d'Ivoire.

Net debt at August 31, 2011 amounted to CHF 789.8 million, a decrease of CHF 81.0 million versus CHF 870.8 million in prior year. This is mainly the result of currency effects due to the strong Swiss franc, supported by lower financing needs due to the reduced working capital for the continuing operations as mentioned above. The weighted average maturity of the Group's total debt portfolio including undrawn committed facilities increased from 5 to 7 years as a result of the refinancing project and related bond issuance in June 2011.

Equity – including equity attributable to the shareholders of the parent company and non-controlling interests – amounted to CHF 1,216.8 million. This represents a decrease of CHF 86.4 million or 6.6% compared to the CHF 1,303.2 million at the end of August 2010. Equity attributable to the shareholders of the parent company amounted to CHF 1,217.1 million compared to last year's CHF 1,302.3 million. The decline was triggered by currency translation effects and the share capital reduction in lieu of a dividend which were only partly compensated for by the net profit for the year.

Despite the aforementioned overall reduction of equity, the debt-to-equity ratio improved from 66.9% to 64.9% and the solvency ratio improved from 36.5% to 37.3%. The return on invested capital (ROIC) from continuing operations increased to 15.5% from 14.8% in the prior year.

Consolidated Cash Flow Statement

Operating cash flow before working capital changes amounted to CHF 450.7 million, which is almost at the same level as the prior year's amount of CHF 457.8 million. Cash outflow for working capital changes amounting to CHF 179.8 million was also close to the prior-year level of CHF 177.0 million. The effect of higher inventories as a result of the business growth and higher raw material prices was largely offset by currency translation impacts as a result of the strong Swiss franc. Cash outflow for interest and taxes was slightly lower than in prior year, partly due to currency effects. Overall, this resulted in a moderate decline in the **Net cash flow from operating activities** to CHF 172.8 million compared to CHF 177.7 million the year before.

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Net cash flow from investing activities amounted to CHF –182.8 million, compared to CHF –156.1 million in the preceding year. This year's amount included the cash outflow of CHF –16.1 million for the acquisition of a business in Mexico and was also affected by higher investments in software and other intangible assets. The biggest outflow in both years, however, related to capital expenditures for operations such as capacity expansions, replacements, modernizations and information technology (CHF –144.6 million in the current and CHF –145.1 million in the prior year). The position also includes proceeds from the sale of assets (CHF 4.9 million in the current and CHF 19.6 million in the prior year) as well as some other minor items.

Net cash flow from financing activities amounted to CHF 33.2 million compared to CHF –23.0 million in prior year. This position mainly includes the net proceeds from the issue of new debt in the amount of CHF 114.7 million (in prior year CHF 47.4 million), the repayment of share capital of CHF –72.3 million (in prior year CHF –64.6 million) and the net purchase of treasury shares in the amount of CHF –9.0 million (prior year CHF –5.7 million).