



Letter to Shareholders.

Dear Shareholders

Consolidated sales revenue in fiscal 2003/04 surpassed the four billion Swiss franc threshold for the first time (up 13.4%). Sales volumes rose by 13.5%. Operating profit EBIT (+9.4%) and net profit (+12.0%) showed solid growth rates too. We are pleased that we were able to achieve this growth despite an unsatisfactory third quarter in the Consumer Products Europe unit. The fiscal year ended with a strong fourth quarter in all business units, driven by good sales thanks to favorable weather conditions and the initial success of the corrective action taken in the consumer business in Germany. Detailed information about our business in fiscal 2003/04 is provided in the “Business Performance” and “Consolidated Financial Statements” sections.

The strategic highlights of the last year were:

- The acquisition of Brach’s Confections Holding, Inc. in the U.S. in September 2003. Brach’s serves as the platform for expanding into the attractive consumer confectionery business in the U.S., the world’s largest consumer confectionery market, and complements Barry Callebaut’s presence in the European consumer market.
- The opening of sales offices in Moscow and Tokyo to better cover these important markets.
- The strengthening of our position in Europe’s rapidly growing out-of-home consumption market through the acquisition of AM Foods, a supplier of high-quality chocolate and cappuccino blends for vending machines, in September 2004.
- The development of a variety of innovative, “better for you” products in response to the growing consumer demand for low-carb and low-sugar alternatives to chocolate and confectionery.

The food industry is undergoing rapid change, and competition is very intense. The past fiscal year was marked by strong growth in the Far East and North America, and sluggish growth as a result of low consumer sentiment in large parts of Europe. Mastering these challenges determines the sustainability of a company’s strategy. Our strategy is to be the preferred supplier of chocolate solutions from the bean to the shelf to the entire food industry. This strategy has proven successful with our industrial and artisanal customers, and it has reinforced our position as the leader in these two segments. The implementation of the same strategy is now being accelerated in our consumer business with the objective of positioning Barry Callebaut as the service partner of choice for food retailers on the basis of our cost leadership and innovation capability.

Cost leadership and innovation ensure future growth

We want to continue growing twice as fast as the market. This is contingent on two factors: cost leadership and innovation.

As a result of the international expansion of large retailing chains and ever-increasing consumer demand for good quality at low prices, the current retail situation in Germany – marked by the strong growth of private label products and growing price pressure on suppliers – is likely to spread to other countries. Cost leadership is imperative in order to benefit from the growth of the private label segment. Key to cost leadership is the concept of dedicated factories or “Centers of Excel-



lence.” This concept has already been successfully implemented in our Industrial Business Segment. As announced on September 10, 2004 after the close of fiscal 2003/04, it is now being expanded to encompass our entire production network. The more than 30 production sites worldwide – previously managed by the respective business unit – were completely integrated into a centrally managed “Operations” unit at the beginning of the current fiscal year. The “Operations” unit will supply all of Barry Callebaut’s business units. Product manufacturing is being centralized, and each factory will serve as a “Center of Excellence,” focusing on making the products for which it is best suited. The advantages of this approach for each factory are highly developed specialist skills, longer production runs, optimized stock management as well as capacity management. In addition, the separation of production from sales and marketing enables each business unit to focus its resources on serving its specific customer segments.

In terms of innovation in the broadest sense of the word, we are concentrating on three areas that offer good opportunities for above-average growth: new geographic markets and increased market penetration, new products, and new buyer groups.

- **New geographic markets and increased market penetration.** To better cover important markets in Eastern Europe and the Far East, we opened sales offices in Moscow and Tokyo last year. Chocolate consumption per capita in Russia and Japan is far below the levels seen in Western European countries, and consumer tastes and preferences are becoming increasingly sophisticated. The Gourmet & Specialties unit is pursuing a direct selling model in several countries by establishing its own sales teams as a complement to third-party distributors, with the aim of enhancing its direct contact with customers. The distribution activities of the Gourmet & Specialties and Consumer Products North America business units were merged to take advantage of the resulting synergies. Brach’s Direct Store Delivery system (DSD), which gives us direct access to thousands of stores in the most heavily populated states in the U.S., will be substantially expanded. The Consumer Africa division opened a sales office in Nigeria, a country with roughly 150 million inhabitants, to introduce to this market our consumer products specifically tailored to local eating habits. We also see new opportunities in the moves by large consumer goods companies to outsource the entire manufacturing process so they can fully concentrate on sales and marketing. Thanks to our know-how from the bean to the shelf, we have already signed several important contracts.
- **New products.** Millions of consumers today are choosing to eat food products that are wholesome and at the same time taste good. As part of our efforts to combine good taste and good health, we have introduced a range of enhanced cocoa and chocolate products, such as chocolate with added fiber and organic chocolate. Our lactose-free coating based on rice powder but tasting like milk chocolate was developed to allow consumers suffering from lactose-intolerance to indulge. We are conducting research and development activities and testing new products to give consumers more choices while taking into account their concerns about health and obesity issues. New low-carb and/or sugar-reduced products as well as smaller packaging sizes represent true alternatives.

- **New buyer groups.** Snacks, impulse purchases and out-of-home consumption are three areas that offer new opportunities for all of our business units. For example, we developed the chocolate used in the new kinds of fitness bars introduced by several large branded consumer goods manufacturers. Our acquisition of AM Foods has strengthened our position in the vending mix business. AM Foods, now known as Barry Callebaut Sweden, specializes in manufacturing top-quality chocolate and cappuccino blends for beverage vending machines. Such machines are still considerably underrepresented in Europe compared with North America or Japan. In view of the increasingly mobile lifestyle of Europeans, we anticipate strong growth opportunities.

Listening, learning and building lasting relationships

A special section in the center of this year's annual report is devoted to listening, learning and building lasting relationships. We believe listening and learning are the cornerstones of successful and productive relationships with our customers, employees and the communities in which we operate.

Enlargement of the Board of Directors

Two proven experts with a successful track record as executives – Dr. Urs Widmer, former Chairman and CEO of Ernst & Young Holding and active today as a lawyer and Mr. Markus Fiechter, CEO of KJ Jacobs AG – are the new Board members proposed for election. Dr. Johann Christian Jacobs has expressed his desire to focus on the chairmanship of the Jacobs Foundation; he will not stand for re-election at the coming Annual General Meeting. The members of the Board, the Senior Management Team and the employees of Barry Callebaut would like to thank Dr. Jacobs for his most active involvement and the valuable expertise he placed at the service of our company.

A word of thanks

We would like to thank our customers and shareholders for their loyalty and trust, and we extend our special thanks to our close to 9,000 employees throughout the world for their untiring efforts and dedication on behalf of Barry Callebaut.


Andreas Schmid
CHAIRMAN OF THE BOARD




Patrick G. De Maeseneire
CHIEF EXECUTIVE OFFICER

