Consolidated Financial Statements

Consolidated Income Statement

for the fiscal year		2017/18	2016/17 restated[1]
in thousands of CHF	Notes		
Revenue from sales and services		**6,948,411**	**6,805,156**
Cost of goods sold		(5,791,331)	(5,846,346)
Gross profit		**1,157,080**	**958,810**
Marketing and sales expenses		(149,956)	(137,862)
General and administration expenses		(441,040)	(377,073)
Other income	6	19,595	35,597
Other expenses	7	(31,655)	(19,248)
Operating profit (EBIT)[2]		**554,024**	**460,224**
Finance income	8	6,368	5,182
Finance costs	9	(107,687)	(126,985)
Share of result of equity-accounted investees, net of tax	17	171	158
Profit before income tax		**452,876**	**338,579**
Income tax expense	10	(95,517)	(57,431)
Net profit for the year		**357,359**	**281,148**
of which attributable to:			
shareholders of the parent company		356,133	280,512
non-controlling interests	25	1,226	636
Earnings per share			
Basic earnings per share (CHF/share)	11	64.93	51.15
Diluted earnings per share (CHF/share)	11	64.55	50.88

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.
2 Operating profit (EBIT) as used by the Group is defined as profit before finance income, finance costs, share of equity-accounted investees and taxes.

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

for the fiscal year		2017/18	2016/17 restated[1]
in thousands of CHF	Notes		
Net profit for the year		**357,359**	**281,148**
Cash flow hedges	26	(2,069)	(24,348)
Tax effect on cash flow hedges	26	(1,875)	(1,878)
Currency translation differences		(87,110)	10,632
Items that may be reclassified subsequently to the income statement		**(91,054)**	**(15,594)**
Remeasurement of defined benefit plans	24	12,468	33,936
Tax effect on remeasurement of defined benefit plans		(680)	(8,307)
Items that will never be reclassified to the income statement		**11,788**	**25,629**
Other comprehensive income for the year, net of tax		**(79,266)**	**10,035**
Total comprehensive income for the year		**278,093**	**291,183**
of which attributable to:			
shareholders of the parent company		276,678	290,550
non-controlling interests		1,415	633

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

Consolidated Financial Statements

Consolidated Balance Sheet

Assets

as of August 31,		2018	2017 restated[1]	as of September 1, 2016 restated[1]
in thousands of CHF	Notes			
Current assets				
Cash and cash equivalents		404,183	399,292	456,800
Short-term deposits		1,656	121	50
Trade receivables and other current assets	12	911,904	733,056	913,919
Inventories	13	1,476,667	1,279,330	1,600,944
Income tax receivables		29,685	30,377	12,099
Derivative financial assets	14	502,471	546,636	296,930
Total current assets		**3,326,566**	**2,988,812**	**3,280,742**
Non-current assets				
Property, plant and equipment	15	1,420,885	1,385,773	1,262,227
Equity-accounted investees	17	434	502	627
Intangible assets	18	991,510	926,150	927,289
Employee benefits assets	24	5,558	–	–
Deferred tax assets	19	65,679	121,818	119,250
Other non-current assets		21,410	43,485	4,909
Total non-current assets		**2,505,476**	**2,477,728**	**2,314,302**
Total assets		**5,832,042**	**5,466,540**	**5,595,044**

Liabilities and equity

as of August 31,		2018	2017 restated[1]	as of September 1, 2016 restated[1]
in thousands of CHF	Notes			
Current liabilities				
Bank overdrafts	20	26,267	21,264	25,314
Short-term debt	20	285,048	318,272	731,340
Trade payables and other current liabilities	21	1,121,082	1,178,174	1,123,198
Income tax liabilities		52,518	52,050	44,519
Derivative financial liabilities	14	641,997	288,319	332,651
Provisions	22	26,015	19,917	18,874
Total current liabilities		**2,152,927**	**1,877,996**	**2,275,896**
Non-current liabilities				
Long-term debt	23	1,168,797	1,170,743	1,153,027
Employee benefits liabilities	24	130,826	151,342	176,531
Provisions	22	8,735	30,275	5,475
Deferred tax liabilities	19	70,892	93,633	53,711
Other non-current liabilities		14,354	16,439	4,952
Total non-current liabilities		**1,393,604**	**1,462,432**	**1,393,696**
Total liabilities		**3,546,531**	**3,340,428**	**3,669,592**
Equity				
Share capital	25	110	40,014	102,093
Retained earnings and other reserves		2,269,686	2,071,173	1,808,435
Total equity attributable to the shareholders of the parent company		**2,269,796**	**2,111,187**	**1,910,528**
Non-controlling interests	25	15,715	14,925	14,924
Total equity		**2,285,511**	**2,126,112**	**1,925,452**
Total liabilities and equity		**5,832,042**	**5,466,540**	**5,595,044**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

Consolidated Financial Statements

Consolidated Cash Flow Statement

Cash flows from operating activities

for the fiscal year		2017/18	2016/17 restated[1]
in thousands of CHF	Notes		
Net profit for the year		357,359	281,148
Income tax expenses	10	95,517	57,431
Recognition of negative goodwill on acquisitions	1	–	(19,960)
Depreciation, amortization and impairment	15/18	181,259	149,943
Interest expenses/(interest income)	8/9	93,469	105,193
Loss/(gain) on sale of property, plant and equipment, net	6/7	7,479	(86)
Increase (decrease) of employee benefit obligations		(19,065)	2,906
Equity-settled share-based payments	4	14,464	12,256
Share of profit of equity-accounted investees, net of tax	17	(171)	(158)
Change in working capital:		(35,170)	220,581
Inventories	13	(194,897)	315,345
Derivative financial assets/liabilities	14	395,867	(319,063)
Trade receivables and other current assets	12	(197,163)	206,184
Trade payables and other current liabilities	21	(38,977)	18,115
Provisions less payments		(14,938)	(20,785)
Other non-cash effective items		(9,019)	35,331
Cash generated from operating activities		**671,184**	**823,800**
(Interest paid)		(93,120)	(96,840)
(Income taxes paid)		(62,557)	(42,967)
Net cash from operating activities		**515,507**	**683,993**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

Consolidated Financial Statements

Consolidated Cash Flow Statement

Cash flows from investing activities

for the fiscal year		2017/18	2016/17
in thousands of CHF	Notes		
Purchase of property, plant and equipment	15	(180,821)	(179,561)
Proceeds from sale of property, plant and equipment		4,422	3,844
Purchase of intangible assets	18	(37,111)	(40,876)
Proceeds from sale of intangible assets		3,731	–
Acquisition of subsidiaries/businesses net of cash acquired	1	(126,655)	2,678
Purchase of short-term deposits		(1,588)	(84)
Proceeds from sale of short-term deposits		551	–
Sale/(purchase) of other non-current assets		983	5,822
Dividends received from equity-accounted investees	17	239	138
Interest received	8	5,959	2,322
Net cash flow from investing activities		**(330,290)**	**(205,717)**

Cash flows from financing activities

for the fiscal year		2017/18	2016/17
in thousands of CHF	Notes		
Proceeds from the issue of short-term debt	20	31,362	121,450
Repayment of short-term debt	20	(65,177)	(539,160)
Proceeds from the issue of long-term debt	23	1,200	–
Repayment of long-term debt	23	(8,534)	(5,158)
Dividend payment	25	(69,873)	(22,998)
Capital reduction and repayment	25	(39,904)	(62,079)
Purchase of treasury shares		(22,783)	(17,070)
Dividends paid to non-controlling interests	25	(247)	(635)
Net cash flow from financing activities		**(173,956)**	**(525,650)**
Effect of exchange rate changes on cash and cash equivalents		(11,373)	(6,083)
Net increase (decrease) in cash and cash equivalents		**(112)**	**(53,458)**
Cash and cash equivalents at beginning of year		378,028	431,486
Cash and cash equivalents at end of year		377,916	378,028
Net increase (decrease) in cash and cash equivalents		**(112)**	**(53,458)**
Cash and cash equivalents		404,183	399,292
Bank overdrafts	20	(26,267)	(21,264)
Cash and cash equivalents as defined for the cash flow statement		**377,916**	**378,028**

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

Attributable to the shareholders of the parent company	Share capital	Treasury shares	Retained earnings	Hedging reserves	Cumulative translation adjustment	Total	Non-controlling interests	Total equity
in thousands of CHF								
Reported as of August 31, 2016	**102,093**	**(12,950)**	**2,394,678**	**13,914**	**(541,448)**	**1,956,287**	**14,924**	**1,971,211**
Restatement, net of tax[1]	**–**	**–**	**(45,759)**	**–**	**–**	**(45,759)**	**–**	**(45,759)**
Restated as of September 1, 2016[1]	**102,093**	**(12,950)**	**2,348,919**	**13,914**	**(541,448)**	**1,910,528**	**14,924**	**1,925,452**
Currency translation adjustments	–	–	–	–	10,635	10,635	(3)	10,632
Effect of cash flow hedges (note 26)	–	–	–	(24,348)	–	(24,348)	–	(24,348)
Tax effect on cash flow hedges (note 26)	–	–	–	(1,878)	–	(1,878)	–	(1,878)
Items that may be reclassified subsequently to the income statement	**–**	**–**	**–**	**(26,226)**	**10,635**	**(15,591)**	**(3)**	**(15,594)**
Remeasurement of defined benefit plans (note 24)	–	–	33,936	–	–	33,936	–	33,936
Tax effect on remeasurement of defined benefit plans (note 19)	–	–	(8,307)	–	–	(8,307)	–	(8,307)
Items that will never be reclassified to the income statement	**–**	**–**	**25,629**	**–**	**–**	**25,629**	**–**	**25,629**
Other comprehensive income, net of tax	**–**	**–**	**25,629**	**(26,226)**	**10,635**	**10,038**	**(3)**	**10,035**
Net profit for the year[1]	–	–	280,512	–	–	280,512	636	281,148
Total comprehensive income for the year	**–**	**–**	**306,141**	**(26,226)**	**10,635**	**290,550**	**633**	**291,183**
Payout to shareholders (note 25)	(62,079)	–	(22,998)	–	–	(85,077)	(635)	(85,712)
Capital increase (note 25)	–	–	–	–	–	–	3	3
Purchase of treasury shares	–	(17,070)	–	–	–	(17,070)	–	(17,070)
Equity-settled share-based payments (note 4)	–	14,915	(2,659)	–	–	12,256	–	12,256
Restated as of August 31, 2017[1]	**40,014**	**(15,105)**	**2,629,403**	**(12,312)**	**(530,813)**	**2,111,187**	**14,925**	**2,126,112**
Currency translation adjustments	–	–	–	–	(87,263)	(87,263)	153	(87,110)
Effect of cash flow hedges (note 26)	–	–	–	(2,069)	–	(2,069)	–	(2,069)
Tax effect on cash flow hedges (note 26)	–	–	–	(1,875)	–	(1,875)	–	(1,875)
Items that may be reclassified subsequently to the income statement	**–**	**–**	**–**	**(3,944)**	**(87,263)**	**(91,207)**	**153**	**(91,054)**
Remeasurement of defined benefit plans (note 24)	–	–	12,420	–	–	12,420	48	12,468
Tax effect on remeasurement of defined benefit plans (note 19)	–	–	(668)	–	–	(668)	(12)	(680)
Items that will never be reclassified to the income statement	**–**	**–**	**11,752**	**–**	**–**	**11,752**	**36**	**11,788**
Other comprehensive income, net of tax	**–**	**–**	**11,752**	**(3,944)**	**(87,263)**	**(79,455)**	**189**	**(79,266)**
Net profit for the year	–	–	356,133	–	–	356,133	1,226	357,359
Total comprehensive income for the year	**–**	**–**	**367,885**	**(3,944)**	**(87,263)**	**276,678**	**1,415**	**278,093**
Payout to shareholders (note 25)	(39,904)	–	(69,873)	–	–	(109,777)	(247)	(110,024)
Movements of non-controlling interests	–	–	–	–	–	–	(378)	(378)
Capital increase (note 25)	–	–	–	–	–	–	–	–
Purchase of treasury shares	–	(22,783)	–	–	–	(22,783)	–	(22,783)
Equity-settled share-based payments (note 4)	–	16,968	(2,477)	–	–	14,491	–	14,491
as of August 31, 2018	**110**	**(20,920)**	**2,924,938**	**(16,256)**	**(618,076)**	**2,269,796**	**15,715**	**2,285,511**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

Consolidated Financial Statements

Summary of Accounting Policies

Organization and business activity

Barry Callebaut AG ("The Company") was incorporated on December 13, 1994, under Swiss law, having its head office in Zurich, Switzerland, at Pfingstweidstrasse 60. Barry Callebaut AG is registered in Switzerland and has been listed on the SIX Swiss Exchange (BARN, ISIN Number: CH0009002962) since 1998. As of August 31, 2018, Barry Callebaut's market capitalization based on issued shares was CHF 9,484.7 million (August 31, 2017: CHF 7,574.6 million). The Group's ultimate parent is Jacobs Holding AG which holds 50.11% of the shares issued (August 31, 2017: 50.11%).

Barry Callebaut AG and its subsidiaries ("The Group") is the world's leading manufacturer of high-quality chocolate and cocoa products, serving the entire food industry, from food manufacturers to artisans and professional users of chocolate such as chocolatiers, pastry chefs or bakers, and products for vending machines. The Group offers a broad and expanding range of chocolate and other cocoa-based products with numerous recipes. It also provides a comprehensive range of services in the fields of product development, processing, training and marketing. The Group is fully vertically integrated along the entire value chain: from sourcing of raw materials to the production of the finest chocolate products.

The principal brands under which the Group operates are Barry Callebaut, Callebaut, Cacao Barry, Carma, Van Leer and Van Houten for chocolate products; Barry Callebaut, Bensdorp, Delfi, Van Houten and Chadler for cocoa powder; and Bensdorp, Van Houten, Caprimo, Le Royal and Ögonblink for vending mixes.

The principal countries, in which the Group operates, include Belgium, Brazil, Cameroon, Canada, China, Côte d'Ivoire, France, Germany, Ghana, Indonesia, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, Russia, Singapore, Spain, Sweden, Switzerland, Turkey, the UK and the US.

Basis of presentation

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

For consolidation purposes, Barry Callebaut AG and its subsidiaries prepare financial statements using the historical cost basis as disclosed in the accounting policies below, except for the measurement of derivative financial instruments, trade receivables and defined benefit obligations. Derivative financial instruments and trade receivables that are managed and sold under the asset-backed securitization program are measured at fair value. Defined benefit obligations are accounted for according to the projected unit credit method.

Due to rounding, the figures presented in the tables may not add up precisely to the totals provided.

Changes in accounting policies

The Group has adopted various new standards and amendments with a date of initial application of January 1, 2017. The adoption of these amendments did not have any material impact on the current reporting period.

Consolidated Financial Statements

Restatement and reclassification of prior year comparatives

As part of its ongoing process and system improvement initiatives, the Group undertook a detailed review of its intercompany transactions. Extensive flows of goods between subsidiaries are typical for companies with a fully vertically integrated value chain such as Barry Callebaut. As a result of this in-depth review, some improvements were required to the intercompany profit elimination process along the value chain. In accordance with IAS 8.41f, the Group has corrected for the identified error and adjusted its prior year Consolidated Financial Statements accordingly.

The adjustments include a related cumulative adjustment of the opening balance sheet and equity as of September 1, 2016 for the cumulative amount from prior periods as well as a related adjustment of the Consolidated Income Statement and Consolidated Balance Sheet and overall neutral reclassifications within Cash generated from operating activities for fiscal year 2016/17.

The restatement only affects the Group's Consolidated Financial Statements but not the statutory Financial Statements of the Group's parent company, Barry Callebaut AG. The amounts adjusted represent merely a timing mismatch of profit recognition. They do not have an impact on the Group's Cash generated from operating activities or Free cash flow and have no material impact on the Group's financial position, performance and key figures/ratios. They also do not have an impact on the Group's outlook for 2018/19, nor its mid-term financial guidance for the period 2015/16 to 2018/19.

In addition to this, and unrelated to the restatement, the Group has reclassified, in accordance with IAS 1.41, amounts related to Fair value of hedged firm commitments previously reported under note 12 – "Trade receivables and other current assets" and note 21 – "Trade payables and other current liabilities" to note 14 – "Derivative financial assets and Derivative financial liabilities", respectively. This reclassification was made in order to more appropriately reflect the nature of these amounts.

For comparative purposes and in accordance with the related provisions in IFRS (IAS 8 and IAS 1), all affected line items related to the adjustments and reclassifications mentioned above have been restated for the fiscal year 2016/17 in the Consolidated Balance Sheet (including restated Consolidated opening Balance Sheet as of September 1, 2016), Consolidated Income Statement 2016/17, Consolidated Cash Flow Statement 2016/17, Consolidated Statement of Changes in Equity 2016/17 and in the related accompanying Notes to the Consolidated Financial Statements 2016/17. The following tables summarize the impacts on the Group's consolidated financial statements:

Consolidated Financial Statements

Consolidated Balance Sheet

as of September 1, 2016	As previously reported	Adjustments	As restated
in millions of CHF			
Trade receivables and other current assets	929	(15)	914
Inventories	1,624	(23)	1,601
Derivative financial assets	318	(21)	297
Total current assets	**3,340**	**(59)**	**3,281**
Deferred tax assets	106	13	119
Total non-current assets	**2,301**	**13**	**2,314**
Total assets	**5,641**	**(46)**	**5,595**
Trade payables and other current liabilities	1,145	(22)	1,123
Derivative financial liabilities	310	22	332
Total current liabilities	**2,276**	**–**	**2,276**
Retained earnings and other reserves	1,854	(46)	1,808
Total equity attributable to the shareholders of the parent company	**1,956**	**(46)**	**1,910**
Total equity	**1,971**	**(46)**	**1,925**
Total liabilities and equity	**5,641**	**(46)**	**5,595**

as of August 31, 2017	As previously reported	Adjustments	As restated
in millions of CHF			
Trade receivables and other current assets	755	(22)	733
Inventories	1,318	(39)	1,279
Derivative financial assets	574	(27)	547
Total current assets	**3,076**	**(88)**	**2,989**
Deferred tax assets	102	20	122
Total non-current assets	**2,458**	**20**	**2,478**
Total assets	**5,534**	**(68)**	**5,466**
Trade payables and other current liabilities	1,207	(29)	1,178
Derivative financial liabilities	260	29	288
Total current liabilities	**1,878**	**–**	**1,878**
Retained earnings and other reserves	2,139	(68)	2,071
Total equity attributable to the shareholders of the parent company	**2,179**	**(68)**	**2,111**
Total equity	**2,194**	**(68)**	**2,126**
Total liabilities and equity	**5,534**	**(68)**	**5,466**

Consolidated Financial Statements

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

for the fiscal year ended August 31, 2017	As previously reported	Adjustments	As restated
in millions of CHF			
Cost of goods sold	(5,818)	(28)	(5,846)
Gross profit	**987**	**(28)**	**959**
Operating profit (EBIT)	**488**	**(28)**	**460**
Profit before income taxes	**367**	**(28)**	**339**
Income tax expenses	(64)	6	(57)
Net profit for the year	**303**	**(22)**	**281**
Net profit for the year attributable to shareholders of the parent company	302	(22)	281
Earnings per share			
Basic earnings per share (CHF/share)	55.12	(3.97)	51.15
Diluted earnings per share (CHF/share)	54.83	(3.95)	50.88
Total comprehensive income for the year	**313**	**(22)**	**291**
of which attributable to:			
shareholders of the parent company	312	(22)	291

Consolidated Cash Flow Statement

for the fiscal year ended August 31, 2017	As previously reported	Adjustments	As restated
in millions of CHF			
Profit for the year	303	(22)	281
Income tax expense	(64)	6	(57)
Change in working capital:	193	28	221
Inventories	300	16	316
Derivative financial assets/liabilities	(338)	20	(319)
Trade receivables and other current assets	185	21	206
Trade payables and other current liabilities	47	(29)	18
Cash generated from operating activities	**824**	**–**	**824**
Net cash from operating activities	**684**	**–**	**684**
Net cash flow from investing activities	**(206)**	**–**	**(206)**
Net cash flow from financing activities	**(526)**	**–**	**(526)**

Use of judgment and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information related to judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the Consolidated Financial Statements together with assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending August 31, 2018, are included in the following notes:

Note 1	Acquisitions: fair value measurement
Note 18	Intangible assets – Allocation of goodwill to CGU's/Impairment test: key assumptions underlying recoverable amounts
Note 19	Deferred tax assets and liabilities – Recognition of deferred tax assets: availability of future taxable profits against which tax loss carry-forwards can be utilized
Note 24	Employee benefit obligations – Measurement of defined benefit obligations: key actuarial assumptions
Note 22	Provisions: recognition of provisions

Consolidated Financial Statements

Scope of consolidation/subsidiaries

The Consolidated Financial Statements of the Group include all the assets, liabilities, income and expenses of Barry Callebaut AG and the companies which it controls. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Non-controlling interests are shown as a component of equity in the balance sheet, and the share of the net profit attributable to non-controlling interests is shown as a component of the net profit for the year in the Consolidated Income Statement. Newly acquired companies are consolidated from the date control is transferred (the effective date of acquisition), using the acquisition method. Subsidiaries disposed of are included up to the effective date of disposal.

All intragroup balances and unrealized gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Transactions with non-controlling interests

The Group applies the policy of treating transactions with non-controlling interests equal to transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

Interests in equity-accounted investees

Equity-accounted investees are those companies in which the Group has significant influence, but not control. This is normally presumed when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees from the date that significant influence or joint control commences until the date significant influence or joint control ceases.

Foreign currency transactions

The functional currency of the Group's entities is the currency of their primary economic environment. In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into respective functional currencies at the exchange rate prevailing at the reporting date. Any resulting exchange gains and losses are taken to the income statement. If related to commercial transactions or to the measurement of financial instruments in coverage of commercial transactions, such foreign currency gains and losses are classified as cost of goods sold. Otherwise, foreign currency gains and losses are classified as finance income and finance cost.

Consolidated Financial Statements

Foreign currency translation

For consolidation purposes, assets and liabilities of subsidiaries reporting in currencies other than Swiss francs are translated to Swiss francs at reporting date rates of exchange. Income and expenses are translated at the average rates of exchange for the period. Differences arising from the translation of financial statements using the above method are recorded as cumulative translation adjustments in other comprehensive income. When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve is reclassified to the Consolidated Income Statement as part of the gain or loss on disposal.

Major foreign exchange rates

	2017/18		2016/17	
	Closing rate	Average rate	Closing rate	Average rate
BRL	0.2311	0.2855	0.3034	0.3080
EUR	1.1305	1.1623	1.1428	1.0864
GBP	1.2617	1.3136	1.2393	1.2514
RUB	0.0142	0.0163	0.0164	0.0165
USD	0.9709	0.9749	0.9583	0.9889
XOF/XAF (unit 1,000)	1.6789	1.7186	1.6918	1.6470

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, checks, bank balances and unrestricted bank deposit balances with an original maturity of 90 days or less. Bank overdrafts that are repayable on demand, forming an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statement.

Trade receivables

Trade receivables, with the exception of those receivables that are managed under the asset-backed securitization program, are stated at amortized cost, less lifetime expected credit losses. For further information on impairment allowances refer to the section "Allowance for impairment losses of financial assets."

The Group maintains an asset-backed securitization program for trade receivables, transferring the contractual rights to the cash flows of third-party trade receivables at their nominal value minus a discount. These receivables are derecognized from the balance sheet. The net amount reported under "Other current assets" or "Other current liabilities" is the amount of the discount minus the receivables already collected at the balance sheet date, but not yet remitted to the asset-purchasing company (see note 12 – "Trade receivables and other current assets"). Before being sold, the receivables that are managed under the asset-backed securitization program are classified as financial assets measured at fair value through profit or loss.

Derivative financial instruments and hedging activities

Derivative financial instruments are accounted for at fair value with fair value changes recognized in the Consolidated Income Statement.

As the Group also acts as a cocoa bean trader, certain cocoa bean purchase and sales contracts are net cash settled and therefore, contracts allocated to the same portfolio are treated as derivative contracts.

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Additionally, the Group applies the fair value option for its third party executory forward purchase and sales contracts (available under IFRS 9 as an alternative to the off-balance sheet treatment). These exemptions are applied for those cocoa contracts where the measurement eliminates or significantly reduces an accounting mismatch that would otherwise occur on own use contracts.

Hedge accounting

The operating companies require cocoa beans and semi-finished cocoa products for manufacturing and selling of their products. Thus, the Group is exposed to the cocoa price risk on the purchase side due to increasing cocoa prices, on the sales side and inventory held to decreasing cocoa prices. The Group therefore applies fair value hedge accounting to hedge its cocoa price risk embedded in its chocolate stocks and sales contracts as well as in the cocoa stocks, purchase and sales contracts and uses cocoa bean futures to manage cocoa price risks (Contract Business – see note 26 – "Financial risk management").

The Group is also exposed to increasing sugar prices with regard to its forecasted sugar purchases. The Group therefore applies cash flow hedge accounting when it hedges its sugar price risk embedded in its forecasted sugar purchases with sugar futures.

The Group also enters into long fuel oil swaps to hedge its exposure to fuel oil price movements in its forecasted freight expenditures and it applies cash flow hedge accounting for this hedging relationship.

The Group and its subsidiaries enter into sales and purchase contracts and have highly probable transactions denominated in various currencies and consequently are exposed to foreign currency risks, which are hedged by the Group's centralized treasury department or – in case of legal restrictions – with local banks.

The Group's interest rate risk is managed with interest rate derivatives. Hedge accounting is applied to derivatives that are effective in offsetting the changes in fair value or cash flows of the hedged items. The hedge relationship is documented and the effectiveness of such hedges is tested at regular intervals, at least on a semi-annual basis.

Fair value hedging – for commodity price risks and foreign currency exchange risks related to the Contract Business

To reflect the Group's activities of hedging its cocoa price risk exposure embedded in the cocoa and chocolate stocks and unrecognized firm commitments, the Group applies fair value hedge accounting. In this fair value hedge accounting relationship, the chocolate stocks and unrecognized firm sales commitments and the cocoa stocks, unrecognized firm purchase and sales commitments, respectively, are designated as hedged items whereby cocoa bean futures are designated as hedging instruments. When cocoa and chocolate inventory is designated as a hedged item, the subsequent cumulative change in the fair value of the inventory attributable to the hedged cocoa price risk is adjusting the carrying amount of the hedged item (change of inventory cost value) with a corresponding gain or loss in the Consolidated Income Statement.

When unrecognized firm cocoa and chocolate commitments (purchase and sales contracts) are designated as hedged items, the subsequent cumulative change in the fair value of these contracts attributable to the hedged cocoa price risk is recognized as an asset or a liability (reported as "Derivative financial assets" and "Derivative financial liabilities") with a corresponding gain or loss in the Consolidated Income Statement. The hedging instrument is recorded at fair value under "Derivative financial assets" or "Derivative financial liabilities", and the changes in the fair value of the hedging instrument are also recognized in the Consolidated Income Statement.

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For foreign currency exchange risks related to firm purchase and sales commitments in certain entities, fair value hedge accounting is applied. The hedge relationship is between the unrecognized firm commitments (hedged items) and the foreign currency forward contracts and/or monetary items (hedging instruments). The changes in fair value of the hedging instruments (attributable to foreign currency exchange rate movements) are recognized in the Consolidated Income Statement. The cumulative change in the fair value of the hedged items (unrecognized firm commitments) attributable to the foreign currency risk is recognized as "Derivative financial assets" or "Derivative financial liabilities" with a corresponding gain or loss in the Consolidated Income Statement.

Cash flow hedging – for commodity price risks (cocoa price risk, sugar and fuel oil) and foreign currency exchange risks arising from forecasted purchase and sales transactions

The Group enters into sugar futures to hedge the sugar price risk exposure embedded in certain forecasted sugar purchases, and into foreign exchange forwards and futures contracts to hedge the currency risk arising from these forecasted sugar purchases.

The Group applies cash flow hedge accounting for these hedging relationships whereby the sugar futures and the foreign exchange forwards and futures are designated as hedging instruments to hedge the variability in cash flows attributable to the risk of sugar price movements and to the foreign currency risk, respectively, in the hedged forecasted sugar purchases.

The Group is also exposed to increasing fuel oil prices in its forecasted freight expenditures. Accordingly, it enters into long fuel oil swaps to hedge this fuel oil price risk exposure embedded in its forecasted freight expenditures, and into foreign exchange forwards and futures contracts to hedge the currency risk arising from these forecasted transactions.

The Group applies cash flow hedge accounting for these hedging relationships whereby the long fuel oil swaps and the foreign exchange forwards and futures are designated as hedging instruments to hedge the variability in cash flows attributable to the risk of fuel oil price movements and to the foreign currency risk, respectively, in its hedged forecasted freight expenditures.

Where no firm commitments exist, the Group also enters into exchange traded cocoa bean futures to hedge the cocoa price risk arising from forecasted sales of cocoa ingredients, and into foreign exchange forwards and futures contracts to hedge the currency risk arising from forecasted cocoa sales transactions denominated in foreign currencies.

The related entities apply cash flow hedge accounting whereby the cocoa bean futures and the foreign exchange forwards and futures are designated as hedging instruments to the underlying forecasted sales to hedge the variability in cash flow that is attributable to the risk of cocoa price movements and to the foreign exchange risk, respectively.

Cash flow hedging – for interest rate risks

Barry Callebaut applies cash flow hedge accounting for interest rate derivatives, converting a portion of floating rate borrowings to fixed rate borrowings.

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Accounting for cash flow hedges

For each cash flow hedge relationship, the effective part of any gain or loss on the derivative financial instrument is recognized directly in other comprehensive income. Gains or losses that are recognized in Other Comprehensive Income are transferred to the Consolidated Income Statement in the same period in which the hedged exposure affects the Consolidated Income Statement. The ineffective part of any gain or loss is recognized immediately in the Consolidated Income Statement at the time hedge effectiveness is tested.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is immediately transferred to the Consolidated Income Statement.

No hedge accounting designation

The Group's purchasing and sourcing centers and the Group's centralized treasury department have derivative financial instruments that are measured at fair value without being assigned to a hedge accounting relationship.

Price List Business commodity risk hedging is based on forecasted sales volume and excluded from hedge accounting, as no derivatives can be clearly designated to the forecasted price list sales. Therefore, these derivatives are carried at fair value with fair value changes recognized in the Consolidated Income Statement.

Other financial assets

Other financial assets are the items that are reported in the lines "Loans and other receivables" and "Other current financial assets" in note 12 – "Trade receivables and other current assets". Other financial assets are classified as measured at amortized cost less expected impairment losses. The Group's other financial assets have contractual cash flows that are solely principal, and the Group's interest and business model is to hold these assets to collect contractual cash flows.

All purchases and sales of financial assets are recognized on the trade date. Financial assets are recognized when the Group becomes a party to the contractual provisions and are initially measured at fair value, which represents the transferred consideration, plus transaction costs.

For further information on impairment allowances refer to "Allowance for impairment losses of financial assets."

Financial assets are derecognized when the Group loses control of the contractual rights to the cash flows of the assets. Such control is lost when the rights and benefits specified in the contract are realized, expired, or are surrendered.

Allowance for impairment losses of financial assets

At each reporting date, the Group recognizes an impairment allowance for financial assets measured at amortized cost.

The impairment allowance represents the Group's estimates of lifetime expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets.

Impairment losses are reflected in the allowance account of the respective financial asset class and recognized in the Consolidated Income Statement as followed:

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Financial asset class	Line item in Consolidated Income Statement
Cash and cash equivalents	Financial expenses
Deposits	Other expenses
Trade receivables	Revenue from sales and services
Other receivables	Other expenses
Other financial assets	Other expenses

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises the costs of materials, direct production costs including labor costs and an appropriate proportion of production overheads and factory depreciation. Those inventories that are allocated as hedged items in a fair value hedge relationship are adjusted for the change in the fair value attributable to the hedged cocoa price risk.

For movements in inventories, the average cost method is applied. Net realizable value is defined as the estimated selling price less costs of completion, direct selling and distribution expenses.

Intangible assets

Goodwill

Goodwill on acquisitions is the excess of acquisition date fair value of total consideration transferred plus the recognized amount of any non-controlling interest in the acquiree and the acquisition date fair value of assets acquired, liabilities and contingent liabilities assumed. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually on the same date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Negative goodwill is recognized directly in the Consolidated Income Statement.

At the acquisition date, any acquired goodwill is allocated to each of the cash-generating units (CGU). The Group defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill. The impairment tests are performed by comparing the carrying value of the assets of these CGU with their recoverable amount, based on their value in use, which corresponds to their future projected cash flows discounted at an appropriate pre-tax rate of return. The cash flows correspond to estimates made by Group Management in financial plans and business strategies covering a period of three years after making adjustments to consider the assets in their current condition. They are then projected to perpetuity using a multiple which corresponds to a steady growth rate. The Group assesses the uncertainty of these estimates by making sensitivity analyses. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized.

Research and Development costs

Research costs are expensed as incurred.

Development costs for projects related to recipes and product innovation are capitalized as an intangible asset if it can be demonstrated that the project is expected to generate future economic benefits, it is probable that those future economic benefits will flow to the entity and the costs of the asset can be measured reliably. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs that have been capitalized are amortized on a straight-line basis over the period of their expected useful life. The amortization periods adopted do not exceed eight years.

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Brand names, licenses and other intangible assets

Other acquired intangible assets include brand names, licenses, customer relationships, patents and trademarks, software and projects to improve the processes. Patents and licenses are amortized over their period of validity. All other intangible assets are amortized on a straight-line basis over their anticipated useful life not exceeding 20 years. The amortization charge is included in the positions “General and administration expenses” and “Cost of goods sold” in the Consolidated Income Statement.

Property, plant and equipment

Property, plant and equipment are measured at the acquisition or construction cost less accumulated depreciation and accumulated impairment losses. A straight-line method of depreciation is applied through the estimated useful life.

Estimated useful lives of major classes of depreciable assets are:

Buildings (including warehouses and installations)	20 to 50 years
Plant and machinery	10 to 20 years
Office equipment, furniture and motor vehicles	3 to 10 years

Maintenance and repair expenditures are charged to the income statement as incurred.

The carrying amounts of property, plant and equipment are reviewed at least at each reporting date to assess whether they are recoverable in the form of future economic benefits. If the recoverable amount of an asset has declined below its carrying amount, an impairment loss is recognized to reduce the value of the assets to its recoverable amount. In determining the recoverable amount of the assets, expected cash flows are discounted to their present value.

Borrowing costs

Borrowing costs related to the acquisition, construction, or production of a qualifying asset are capitalized in accordance with IAS 23. A qualifying asset is an asset that necessarily takes a substantial period of time in order to use or sell it as intended by the Group management.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are stated as assets of the Group at the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic interest charge on the remaining balance of the obligations for each accounting period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under an operating lease are charged to the income statement on a straight-line basis over the term of the lease.

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Financial liabilities

This accounting policy applies to the items that are reported on the lines "Bank overdrafts," "Short-term debt," and "Long-term debt" in the Consolidated Balance Sheet and to the items reported under section "Payables representing financial liabilities" in note 21 – "Trade payables and other current liabilities."

These financial liabilities are initially recognized at fair value, net of transaction costs, when the Group becomes a party to the contractual provisions. They are subsequently carried at amortized cost using the effective interest rate method. A financial liability is removed from the balance sheet when the obligation is discharged, cancelled, or expires.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate thereof can be made.

Provisions are recorded for identifiable claims and restructuring costs. Restructuring provisions mainly comprise employee termination payments. Specific provisions for restructuring costs are recorded at such time as the management approves the decision to restructure and a formal plan for restructuring is communicated.

Employee benefit obligations/post-employment benefits

Defined benefit plans – General

The Group operates, in addition to legally required social security schemes, a number of independent defined retirement benefit plans and other post-retirement or long-term employee benefit plans, which conform to local legal and tax requirements. The majority of the Group's reported employee benefit obligations relate to plans located in the US, the UK, Belgium and Switzerland.

Defined benefit plans cover employees and certain family members in the event of retirement, disability, death in service or termination of employment. Other non-retirement-related defined benefit plans in a small number of Group entities include post-retirement benefit plans as well as long-service award plans for active employees. In most cases, these plans are externally funded in vehicles that are legally separated from the employer and operated by external service providers. However, for certain Group entities representing a small minority of the reported employee benefit obligations, no independent plan assets exist for defined benefit plans. For these plans, the related unfunded liability is included in the balance sheet.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, applying the discount rate and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability (comprises of actuarial gains and losses, the return on plan assets and the effect of the asset ceiling) are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Group's employee benefit schemes are exposed to changes in legislation and to investment return and matching risks, longevity risks and solvency risks. These risks may all require additional contributions and are therefore reviewed on a regular basis by the companies' management or by the relevant Board of Trustees as follows:

- Changes in legislation: monitoring of country-specific legislation changes
- Investment return risk: analysis and optimization of the allocation and performance of assets as well as monitoring of compliance with investment guidelines
- Investment matching risk: analysis and optimization of asset-liability matching and periodic fair valuation of assets and liabilities
- Longevity risk: analysis of mortality assumptions and monitoring of demographic development
- Solvency risk: monitoring of solvency of external solution providers

Defined benefit plans – Switzerland

The retirement benefit plans for all Swiss Group entities are defined benefit plans where contributions are expressed as a percentage of the insured actual salary. Members benefit from a guaranteed minimum interest on accrued savings and conversion rates at retirement in accordance with the Swiss Federal Law on compulsory occupational pension plans (BVG). This law defines the minimum pensionable salary and the minimum retirement credits. In addition to retirement benefits, the Swiss retirement benefit plans also provide for temporary partial or total disability benefits as well as for pre-retirement death benefits including widows' and orphans' benefits.

The benefit plans are outsourced to external insurance companies, which are responsible for the operation of the plan including the allocation of plan assets. The governance and the supervision as well as the responsibility to make changes in the plan lie with a Board of Trustees. It consists equally of employer and employee nominated representatives.

The applicable regulation requires the retirement benefit plans of all Swiss Group entities to be funded on the basis of employer and employee contributions, including risk premiums and savings contributions. In case of underfunding, recovery measures must be taken, such as additional financing from the employer or from the employer and employees, or reduction of benefits or a combination of both.

Defined benefit plans – Other countries

In the US, the Group maintains a retirement benefit plan only for pensioners and deferred pensioners related to a discontinued operation. In addition, the Group offers a defined post-retirement medical benefit plan for active employees. This plan is governed by a Board of Trustees.

In Belgium, the Group operates defined benefit plans for events of retirement, actual and potential early retirement, temporary and permanent disability and death in service as well as a long-service award plan. The retirement benefit plans are funded by a combination of employer and employee contributions as regulated by the Belgian Pension Act.

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In the UK, the Group operates a defined benefit retirement scheme in which members receive benefits based on the final salary with the contributions paid by the employer and the employees. This plan is, however, closed to new entrants and frozen for the existing beneficiaries as of January 31, 2014. As of February 1, 2014, all eligible employees are covered by a defined contribution plan which is run by a Board of Trustees in accordance with the UK Pension legislation.

Some benefits are also provided by defined contribution plans; contributions to such plans are charged to the Consolidated Income Statement as incurred.

Post-retirement benefits other than pensions

Certain subsidiaries provide health care and insurance benefits for a portion of their retired employees and their eligible dependents. The cost of these benefits is actuarially determined and included in the related function expenses over the employees' working lives. The related liability is also included in the position "Employee benefit obligations."

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for restructuring.

If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, they are discounted.

Long-Term Incentive Plan

For the Long-Term Incentive Plan (LTIP), Barry Callebaut AG shares are purchased on the market and passed on to satisfy the awards. In accordance with IFRS 2, the compensation costs relating to share awards granted under this deferred share plan are recognized in the Consolidated Income Statement over the vesting period at their fair value as at the grant date.

Other long-term employee benefits

Other long-term employee benefits represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. Related costs of such benefits are recognized in the Consolidated Income Statement. The related liability is included in other long-term liabilities.

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Taxes

Current income taxes are recognized based on taxable income, whereas other taxes such as non-recoverable taxes withheld on management fees and royalties received or paid are reported under "Other expenses." Non-recoverable withholding taxes are only accrued if distribution by subsidiary companies is foreseen.

Income taxes are calculated in accordance with the tax regulations in effect in each country.

The Group determines the expected income tax rate by weighing the applicable tax rates in the jurisdictions concerned based on the mix of the profit before taxes per jurisdiction.

The applicable expected tax rate per company is the domestic corporate income tax rate applicable to the profit before taxes of the company for the respective fiscal year.

Deferred income taxes are recognized using the balance sheet liability method. Deferred income tax applies to all temporary differences arising between the tax values of assets and liabilities and their values in the Consolidated Financial Statements.

Revenue recognition

Revenues from sales and services consist of the net sales turnover of semi-processed and processed goods and services related to food processing.

Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is generally upon shipment. Appropriate provisions are made for all additional costs to be incurred in connection with the sales including the cost of returns. Additionally, gains and losses related to derivative financial instruments used for hedging purposes are recognized in revenues in accordance with the policies set out in this section.

Gains and losses related to trading of raw materials, which are fair valued, are netted.

Interest income is recognized as it accrues on an effective yield basis, when it is determined that such income will flow to the Group. Dividends are recognized when the right to receive the payment is established.

Government grants

Provided there is reasonable assurance that they will be irrevocably received, grants relating to capital expenditure are deducted from the cost of property, plant and equipment and thus recognized in the Consolidated Income Statement on a straight-line basis over the useful life of the asset.

Other grants that compensate the Group for expenses incurred are deferred and recognized in the Consolidated Income Statement over the period necessary to match them with the costs they are intended to compensate.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Executive Committee, consisting of the Group Chief Executive Officer, the Chief Financial Officer and the Presidents of the Regions Europe, Americas and Global Cocoa as well as the Chief Operations Officer, the Chief Innovation & Quality Officer and the Chief Human Resources Officer.

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Introduction of new standards in 2018/19 and later

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after September 1, 2018, and have not been applied in preparing these Consolidated Financial Statements. The impacts on the Consolidated Financial Statements of the standards and amendments, which are relevant, are disclosed below the table. The Group does not plan to adopt these standards early.

	Effective date	Planned application by the Group in fiscal year
New Standards or Interpretations		
IFRS 15 Revenue from Contracts with Customers and related Clarifications to IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Fiscal year 2018/19
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018	Fiscal year 2018/19
IFRS 16 Leases	January 1, 2019	Fiscal year 2019/20
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019	Fiscal year 2019/20
Revisions and amendments of Standards and Interpretations		
Annual Improvements to IFRS Standards 2014-2016 Cycle: – Amendments to IAS 28 Investments in Associates and Joint Ventures	January 1, 2018	Fiscal year 2018/19
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	January 1, 2018	Fiscal year 2018/19
Transfers of Investment Property (Amendments to IAS 40)	January 1, 2018	Fiscal year 2018/19
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	January 1, 2019	Fiscal year 2019/20
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019	Fiscal year 2019/20
Annual Improvements to IFRS Standards 2015-2017 Cycle: – Amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Amendments to IAS 12 Income Taxes – Amendments to IAS 23 Borrowing Costs	January 1, 2019	Fiscal year 2019/20
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Fiscal year 2020/21

IFRS 15 Revenue Recognition

The standard replaces IAS 18 Revenue, IAS 11 Construction contracts, introduces enhanced guidance for revenue recognition and defines requirements for disclosures about amount, timing, nature and uncertainty of revenue from contracts with customers. The standard sets out a single, principle-based five-step model to be applied to these contracts. It is effective for accounting periods beginning on or after January 1, 2018.

The Group has reviewed its typical commercial arrangements with customers applying the five-step model. The analysis revealed the following:

An adjustment as of September 1, 2018, in connection with the transition to IFRS 15 of approximately CHF 340 million to inventories and current financial liabilities, and a minor impact on equity is expected. This adjustment is the result of a change in the revenue recognition approach from "transfer of risk and rewards" to "transfer of control".

The Group will use the cumulated effect method for recognition of this adjustment on the opening Consolidated Balance Sheet as of September 1, 2018. Consequently, the adoption of IFRS 15 does not have an impact on the timing of revenue recognition nor the "Cash generated from operating activities" and the Group's "Free cash flow".

Accounting for discounts and rebates as variable price consideration will change under the new standard. A reclassification of approximately CHF 50 million between cost of goods sold and revenue in the fiscal year 2018/19 is expected. This reclassification between gross and net profit in the Consolidated Income Statement is neutral.

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As a result of the review it has been concluded that the Group's current accounting policies are to the largest extent in line with the new standard. Consequently, it is estimated that the application of the recognition and valuation rules required by IFRS 15 will not have any material impact on the financial statements of the Group related to results or cash flows.

IFRS 16 Leasing

The new standard was issued on January 13, 2016, and will replace IAS 17 Leases. The biggest change introduced by the new standard is that leases will be brought onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements.

The Group will adopt IFRS 16 for the financial year starting September 1, 2019. The detailed assessment of the potential effects of the new standard on the Group's Consolidated Financial Statement is currently ongoing.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty over Income Tax Treatments includes requirements that improve the consistency and transparency of accounting for uncertain income tax treatments.

The Group will adopt IFRIC 23 for the financial year starting September 1, 2019. Potential impacts on the Group's Consolidated Financial Statements have not yet been fully assessed.

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Notes to the Consolidated Financial Statements

1 Acquisitions

Acquisitions in 2017/18

D'Orsogna Dolciaria

On October 4, 2017, Barry Callebaut Decorations Italy S.r.l. ("BC", "the acquirer") closed a transaction with D'Orsogna Real Estate S.r.l. Unipersonale ("the seller"), to acquire 100% of the share capital of D'Orsogna Dolciaria S.r.l.

The consideration transferred was CHF 48.0 million, fully paid in cash. The acquisition related costs in the amount of CHF 0.8 million were expensed and included in other expenses (of which CHF 0.6 million were already expensed in fiscal year 2016/17). The agreements with the seller do not contain arrangements for contingent considerations.

in thousands of CHF	2017/18
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	2,031
Receivables and other current assets	17,833
Property, plant and equipment	16,779
Intangible assets	3,901
Other non-current assets	1,124
Total assets	**41,668**
Current liabilities	(9,769)
Current tax liability	(2,013)
Deferred tax liability	(946)
Short-term debt	(12,495)
Employee benefit obligations	(195)
Other non-current liabilities	(138)
Long-term debt	(10,633)
Total liabilities	**(36,189)**
Total identifiable net assets	**5,479**
Goodwill	42,536
Total consideration at fair value	**48,015**
thereof:	
Cash paid	48,015
Consideration deferred	–

The goodwill of CHF 42.5 million arising from the acquisition is attributable to the synergies resulting from the integration of the business into the Group's existing business as well as for strengthening BC's range in its value adding specialties and decoration business. This allows the Group to further develop its Food Manufacturers and Gourmet & Specialties business by increasing innovation power, expanding the product offering and by leveraging on the Group's global footprint. The goodwill has been allocated to Region EMEA. The goodwill recognized is expected to be deductible for income tax purposes.

Since October 4, 2017, the acquired business contributed CHF 49.9 million to revenues from sales and services and CHF 1.5 million to net profit. Had it been consolidated from September 1, 2017, it would have contributed revenues from sales and services of CHF 54.0 million and net profit for the fiscal year of CHF 1.5 million to the Consolidated Income Statement.

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Gertrude Hawk Chocolates

Effective December 1, 2017, Barry Callebaut USA LLC which is a subsidiary of the Barry Callebaut Group (“BC”, “the acquirer”) closed a transaction with Gertrude Hawk Chocolates Inc. (“the seller”), to acquire the assets and liabilities of the business of Gertrude Hawk Ingredients.

The consideration was CHF 89.4 million of which CHF 8.9 million was paid to an escrow account as deferred consideration. One third (CHF 3.0 million) of the escrow amount will be released to the seller within 90 calendar days after August 31, 2018, less amounts claimed by indemnified parties. On June 1, 2019, the remaining escrow amount less amounts claimed by indemnified parties will be released to the seller.

The acquisition related costs in the amount of CHF 1.1 million were expensed and included in other expenses in the Consolidated Income Statement (of which CHF 0.9 million were already expensed in fiscal year 2016/17).

The agreements with the seller do not contain arrangements for contingent considerations.

in thousands of CHF	2017/18
Recognized amounts of identifiable assets acquired and liabilities assumed	
Receivables and other current assets	28,851
Property, plant and equipment	25,752
Intangible assets	4,266
Total assets	**58,869**
Trade payables and other current liabilities	(1,315)
Total liabilities	**(1,315)**
Total identifiable net assets	**57,554**
Goodwill	31,868
Total consideration at fair value	**89,422**
thereof:	
Cash paid	80,571
Consideration deferred	8,851

The goodwill of CHF 31.9 million arising from the acquisition is attributable to the synergies resulting from the integration of the business into the Group’s existing business as well as for strengthening BC’s range in its value adding specialties and decoration business. This allows the Group to further develop its Food Manufacturers and Gourmet & Specialties business by getting access to the increasing innovation power, expanding the product offering and by leveraging on the Group’s global footprint. The goodwill has been principally allocated to Region Americas.

The goodwill recognized is expected to be deductible for income tax purposes.

Since December 1, 2017, the acquired business contributed CHF 73.8 million to revenues from sales and services and CHF 4.8 million to net profit. Had it been consolidated from September 1, 2017, it would have contributed revenues from sales and services of CHF 92.3 million and net profit for the fiscal year of CHF 4.6 million to the Consolidated Income Statement.

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Acquisition in 2016/17

On September 15, 2016, Barry Callebaut Group announced its intention to acquire and integrate the chocolate production facility of Mondelēz International in Halle, Belgium, and to enter into a long term agreement for the supply of additional 30,000 tonnes of liquid chocolate per year to Mondelēz International.

The transaction was successfully closed on December 31, 2016, when the Group acquired 100% of the outstanding shares in Mondelēz Belgium Production BVBA.

The consideration transferred was CHF 5.3 million, thereof CHF 5.2 million fully paid in cash with CHF 0.1 million paid in January 2018. The remaining CHF 0.1 million will be paid out in January 2019. The deferred consideration is not subject to any conditions.

The acquisition-related costs, in the amount of CHF 1.9 million were expensed (included in other expenses).

in thousands of CHF	2016/17
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	7,840
Receivables and other current assets	7,442
Property, plant & equipment	43,259
Intangible assets	142
Deferred tax assets	2,468
Other non-current assets	14,066
Total assets	**75,217**
Other current liabilities	(4,312)
Provisions (current and non-current)	(35,518)
Employee benefit obligations	(5,117)
Deferred tax liabilities	(4,969)
Total liabilities	**(49,916)**
Total identifiable net assets	**25,301**
Negative goodwill (badwill)	(19,960)
Total consideration at fair value	**5,341**
thereof:	
Cash paid	5,162
Consideration deferred	179

The negative goodwill (badwill) of CHF 20.0 million arising from the acquisition reflects investment needs as well as additional costs and inefficiencies to be incurred by integrating the plant into the factory network and standards of Barry Callebaut, elements which have also been considered in the business plan underlying the acquisition. The negative goodwill (badwill) is included in other income and is allocated to segment EMEA.

Since January 1, 2017, the acquired business contributed CHF 68.2 million to revenues from sales and services and CHF 1.6 million to net profit. Had it been consolidated from September 1, 2016, it would have contributed revenues from sales and services of CHF 102.3 million and net profit for the fiscal year of CHF 2.5 million to the Consolidated Income Statement.

2 Discontinued operations and disposal

The Group did not have any discontinued operations and disposals in 2017/18 and 2016/17.

3 Segment information

External segment reporting is based on the internal organizational and management structure, as well as on the internal information reviewed regularly by the Chief Operating Decision Maker. Barry Callebaut's Chief Operating Decision Maker has been identified as the Executive Committee.

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The Executive Committee considers the business from a geographic view. Hence, Presidents were appointed for each region. Since the Group's cocoa activities operate independently of the Regions, the Global Cocoa business is reviewed by the Chief Operating Decision Maker as an own segment in addition to the geographical Regions EMEA (Europe, Middle East and Africa), Americas and Asia Pacific. Furthermore, the Executive Committee also views the Corporate function independently. The function "Corporate" consists mainly of headquarters services (including the Group's centralized treasury department) to other segments. Thus, the Group reports Corporate separately.

The segment Global Cocoa is responsible for the procurement of ingredients for chocolate production (mainly cocoa; sugar, dairy and nuts are also common ingredients) and the Group's cocoa-processing business. Approximately 40% of the revenues of Global Cocoa are generated with the other segments of the Group.

The regional chocolate businesses consists of chocolate production related to the Product Groups "Food Manufacturers Products" focusing on industrial customers and "Gourmet & Specialties Products" focusing on products for artisans and professional users of chocolate such as chocolatiers, pastry chefs or bakers as well as products for vending machines.

Financial information by reportable segments

2017/18 in thousands of CHF	EMEA	Americas	Asia Pacific	Global Cocoa	Total segments	Corporate	Eliminations	Group
Revenues from external customers	3,072,528	1,700,610	370,026	1,805,246	6,948,411	–	–	6,948,411
Revenues from transactions with other operating segments of the Group	122,179	510	–	1,238,599	1,361,288	–	(1,361,288)	–
Revenue from sales and services	**3,194,707**	**1,701,120**	**370,026**	**3,043,845**	**8,309,699**	**–**	**(1,361,288)**	**6,948,411**
Operating profit (EBIT)[1]	**351,954**	**173,399**	**46,587**	**84,816**	**656,756**	**(102,732)**	**–**	**554,024**
Depreciation and amortization	**(62,303)**	**(40,242)**	**(10,450)**	**(57,899)**	**(170,894)**	**(3,354)**	**–**	**(174,248)**
Impairment losses	**(1,129)**	**(140)**	**–**	**(5,730)**	**(6,999)**	**(12)**	**–**	**(7,011)**
Interest income						**6,368**		**6,368**
Interest expenses						**(89,638)**		**(89,638)**
Total assets	**1,601,595**	**1,102,065**	**228,408**	**2,508,271**	**5,440,339**	**2,371,381**	**(1,979,679)**	**5,832,042**
Additions to property, plant, equipment and intangible assets	(136,202)	(116,892)	(13,207)	(76,575)	(342,876)	(2,279)	–	(345,155)

2016/17 restated[2] in thousands of CHF	EMEA	Americas	Asia Pacific	Global Cocoa	Total segments	Corporate	Eliminations	Group
Revenues from external customers	2,900,225	1,668,711	347,938	1,888,282	6,805,156	–	–	6,805,156
Revenues from transactions with other operating segments of the Group	4,113	800	–	1,833,798	1,838,711	–	(1,838,711)	–
Revenue from sales and services	**2,904,338**	**1,669,511**	**347,938**	**3,722,080**	**8,643,867**	**–**	**(1,838,711)**	**6,805,156**
Operating profit (EBIT)[1,3]	**316,236**	**160,402**	**38,685**	**64,876**	**580,199**	**(92,035)**	**(27,940)**	**460,224**
Depreciation and amortization	**(48,647)**	**(30,560)**	**(9,057)**	**(59,567)**	**(147,832)**	**(2,111)**	**–**	**(149,943)**
Impairment losses	**(856)**	**–**	**(1)**	**(988)**	**(1,846)**	**–**	**–**	**(1,846)**
Interest income						**5,182**		**5,182**
Interest expenses						**(105,026)**		**(105,026)**
Total assets	**1,580,718**	**1,028,885**	**185,887**	**2,494,790**	**5,290,280**	**2,163,642**	**(1,987,382)**	**5,466,540**
Additions to property, plant, equipment and intangible assets	(81,411)	(59,911)	(10,962)	(57,061)	(209,345)	(11,092)	–	(220,438)

1 Operating profit (EBIT) as used by Group is defined as profit before finance income, finance costs, share of equity-accounted investees and taxes.
2 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.
3 EMEA segment includes full allocation of negative goodwill on acquisition of CHF 20.0 million (refer to note 1) and acquisition related costs of CHF 1.9 million (refer to note 7). The amount net of these items is CHF 298.1 million.

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Global Cocoa comprises Group-wide sourcing and Global Cocoa processing functions also for the benefit of all the regions. Therefore, the major part of its operating profit (EBIT) is consequently allocated to the regions.

Segment revenue, segment results (operating profit) and segment assets are measured based on IFRS principles.

Finance income and costs, the Group's share of result of equity-accounted investees and income taxes are not allocated to the respective segment for internal management purposes.

Additional entity-wide disclosures

Information on geographical regions

Barry Callebaut is domiciled in Switzerland; however, its major revenues are generated in other countries. The following table shows revenues reported based on geographic location of customers and non-current assets excluding investments in equity-accounted investees and deferred tax assets.

	2017/18	2016/17	2017/18	2016/17
in thousands of CHF	Revenues		Non-current assets	
US	1,204,923	1,187,929	392,804	320,139
Germany	490,277	497,792	87,222	89,660
France	465,099	466,760	75,258	78,571
Belgium	450,367	423,335	448,086	431,074
UK	441,932	432,900	43,252	43,024
Brazil	376,338	390,634	82,365	90,494
Mexico	354,035	346,628	18,670	29,321
Italy	304,187	312,552	88,227	29,451
Rest of Europe	1,558,950	1,597,640	518,202	528,247
Rest of Americas	527,287	333,531	142,820	137,033
Asia Pacific	775,017	815,455	532,963	534,908
Total	**6,948,411**	**6,805,156**	**2,429,869**	**2,311,923**

Information on Product Groups

The Group has numerous products that are sold to external customers. Therefore, for internal review by the Chief Operating Decision Maker, information on products is aggregated on a Product Group level. The following table breaks down external revenues into Product Groups:

Segment Information by Product Group

in thousands of CHF	2017/18	2016/17
Cocoa Products	1,805,246	1,888,282
Food Manufacturers	3,979,929	3,829,446
Gourmet & Specialties	1,163,236	1,087,428
Revenues from external customers	**6,948,411**	**6,805,156**

In fiscal year 2017/18, the biggest single customer contributed CHF 755.4 million or 10.9 % of total revenues reported across various regions (2016/17: CHF 759.7 million or 11.2%). No other single customer contributed more than 10% of total consolidated revenues.

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4 Personnel expenses

in thousands of CHF	2017/18	2016/17
Wages and salaries	(499,406)	(450,946)
Compulsory social security contributions	(97,703)	(87,461)
Equity-settled share-based payments (note 24)	(14,491)	(12,256)
Expenses related to defined benefit pension plans (note 24)	(12,856)	(12,335)
Expenses related to other long-term benefit plans (note 24)	(2,804)	(1,184)
Contributions to defined contribution plans (note 24)	(2,889)	(2,584)
Increase in liability for long service leave	(61)	(108)
Total personnel expenses	**(630,210)**	**(566,874)**
Amounts capitalized as assets	24,156	19,308
Total personnel expenses recognized in Consolidated Income Statement	**(606,054)**	**(547,566)**

5 Research and Development expenses

in thousands of CHF	2017/18	2016/17
Total Research and Development expenses	**(28,635)**	**(22,412)**

Research and Development expenses not qualifying for capitalization are directly charged to the Consolidated Income Statement and are reported under “Marketing and sales expenses” and “General and administration expenses.” The part qualifying for capitalization is reported as addition under internally generated assets in note 18 – “Intangible assets”.

6 Other income

in thousands of CHF	2017/18	2016/17
Gain on disposal of property, plant and equipment	–	1,048
Group training centers, museums, outlets and rental income	5,999	2,973
Sale of shells of cocoa beans, waste and sundry sales	7,822	8,893
Litigations, claims and insurance	3,344	446
Release of unused provisions and accruals (note 22)	389	628
Recognition of negative goodwill on acquisitions (note 1)	–	19,960
Other	2,041	1,649
Total other income	**19,595**	**35,597**

In the fiscal year 2017/18, the gain on disposal of property, plant and equipment in the amount of CHF 0.6 million was netted against the loss on disposal of property, plant and equipment presented in note 7 – “Other expenses”. No change was made to comparative disclosures.

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7 Other expenses

in thousands of CHF	2017/18	2016/17
Restructuring costs	(65)	(1,624)
Litigations and claims, including government claims	(6,356)	(7,873)
Loss on sale of property, plant and equipment	(7,479)	(962)
Impairment of property, plant and equipment (note 15)	(5,655)	(988)
Impairment of other intangibles (note 18)	(1,356)	(857)
Impairment of financial instruments (note 26)	(4,018)	(926)
Acquisition related costs (note 1)	(425)	(1,885)
Other	(6,302)	(4,132)
Total other expenses	**(31,655)**	**(19,248)**

Other expenses include costs related to sustainability programs of CHF 2.8 million (2016/17: CHF 0.4 million), loss on sale of waste, and asset dismantling costs.

In the fiscal year 2016/17, the restructuring costs were mainly related to launch of the new Process Driven Organization (PDO) project in Global Cocoa.

8 Finance income

in thousands of CHF	2017/18	2016/17
Interest income	6,368	5,182
Total finance income	**6,368**	**5,182**

9 Finance costs

in thousands of CHF	2017/18	2016/17
Interest expenses	(89,638)	(105,026)
Amortized structuring fees	(2,610)	(4,960)
Charges on undrawn portion of committed credit facilities	(2,737)	(2,802)
Net interest costs related to defined benefit plans (note 24)	(4,852)	(5,349)
Total interest expenses	**(99,837)**	**(118,137)**
Bank charges and other financial expenses	(5,091)	(4,699)
Foreign exchange losses, net	(1,120)	(2,565)
Loss on derivative financial instruments	(1,640)	(1,583)
Total finance costs	**(107,687)**	**(126,985)**

Interest expenses include the cost of interest rate swaps and result from paying fixed interest rates in exchange for receiving floating interest rates. All interest rate derivative financial instruments are in a cash flow hedge relationship resulting in the fact that changes in fair value are recognized in other comprehensive income.

Structuring fees are mainly attributable to the amortization of fees capitalized for the EUR 750 million Revolving Credit Facility, as amended and extended in June 2017 and extended by one year by execution of the extension option in June 2018, the EUR 250 million Senior Note, issued June 2011, the USD 400 million Senior Note, issued June 2013, and the EUR 450 million Senior Note, issued May 2016.

Structuring fees for fiscal year 2016 of the remaining capitalized fees (for an amount of EUR 1.4 million) under the EUR 600 million Revolving Credit Facility as a result of the amendment and extension in June 2017.

The foreign exchange losses are mainly attributable to price volatility in the global foreign currency markets.

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10 Income tax expense

in thousands of CHF	2017/18	2016/17 restated[1]
Current income tax expenses	(64,696)	(31,961)
Deferred income tax expenses	(30,821)	(25,470)
Total income tax expenses	**(95,517)**	**(57,431)**

Reconciliation of income taxes

in thousands of CHF	2017/18	2016/17 restated[1]
Profit before income taxes	**452,876**	**338,579**
Expected income tax expenses at weighted average applicable tax rate	(93,972)	(61,006)
Non-tax deductible expenses	(5,682)	(3,280)
Tax-deductible items not qualifying as an expense under IFRS	6,570	15,521
Tax-exempt income	12,968	14,793
Income recognized for tax declarations purposes only	(3,863)	(1,498)
Prior-period-related items	5,271	(149)
Changes in tax rates	(9,427)	(215)
Losses carried forward not yet recognized as deferred tax assets	(9,493)	(31,348)
Tax relief on losses carried forward formerly not recognized as deferred tax assets	2,111	9,751
Total income taxes	**(95,517)**	**(57,431)**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

For the reconciliation above the weighted average tax rate was 20.7% in 2017/18 (2016/17: 18.0%).

The weighted average tax rate has, year-on-year, slightly increased mainly due to changes in the country mix of profit before taxes and overall increased profitability. The income tax expense of CHF 95.5 million includes a one-time, non-cash expense of CHF 12.9 million resulting from the tax reforms in Belgium and in the US, mostly related to the revaluation of the deferred tax assets and liabilities to the newly enacted tax rates at the date of enactment. The one-time tax charge consists of a deferred tax expense of CHF 9.7 million for Belgium, a deferred tax expense of CHF 2.7 million for USA and a current tax liability of CHF 0.5 million arising from the move to a territorial system in the US. Excluding the one-off negative impact from the tax reforms in Belgium and in the US, the Group's effective tax rate on an adjusted basis is 18.2% (2016/17: 17.0 %).

The tax relief on losses carried forward previously not recognized as deferred tax assets of CHF 2.1 million (2016/17: CHF 9.8 million) consists of CHF 1.7 million tax relief of utilization on tax losses carried forward previously not recognized (2016/17: CHF 4.7 million) and CHF 0.4 million of tax losses recognized for the first time in 2017/18 (2016/17: CHF 5.1 million).

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11 Earnings per share

in CHF	2017/18	2016/17 restated[1]
Basic earnings per share from continuing operations (CHF/share)	64.93	51.15
Diluted earnings per share (CHF/share)	64.55	50.88

The following amounts of earnings have been used as the numerator in the calculation of basic and diluted earnings per share:

in thousands of CHF	2017/18	2016/17 restated[1]
Profit for the year attributable to shareholders of the parent company, used as numerator for basic earnings per share adjusted for net loss from discontinued operations	356,133	280,512
After-tax effect of income and expenses on dilutive potential ordinary shares	–	–
Adjusted net profit for the year used as numerator for diluted earnings per share	**356,133**	**280,512**

The following numbers of shares have been used as the denominator in the calculation of basic and diluted earnings per share:

	2017/18	2016/17
Number of shares issued	5,488,858	5,488,858
Weighted average number of treasury shares held	(3,970)	(4,548)
Weighted average number of ordinary shares outstanding, used as denominator for basic earnings per share	5,484,888	5,484,310
Dilution potential of equity-settled share-based payments	32,052	28,510
Adjusted weighted average number of ordinary shares, used as denominator for diluted earnings per share	**5,516,940**	**5,512,820**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

12 Trade receivables and other current assets

as of August 31,	2018	2017 restated[1]
in thousands of CHF		
Trade receivables	475,246	408,808
Accrued income	33,124	17,279
Loans and other receivables	47,804	35,326
Other current financial assets	10,410	22,138
Receivables representing financial assets	**566,585**	**483,551**
Prepayments	96,250	81,114
Other current non-financial assets	1,268	952
Other taxes and receivables from government	247,802	167,440
Other receivables	**345,320**	**249,505**
Total trade receivables and other current assets	**911,904**	**733,056**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

Trade receivables have increased in comparison to prior year reflecting a decrease in receivables sold under the asset-backed securitization program. There has also been an increase to prior year in "Other taxes and receivables from government" due mainly to the timing of receipts.

The Group runs an asset-backed securitization program, whereby trade receivables are sold at their nominal value minus a discount in exchange for cash. The amount of the receivables sold net of discounts as at August 31, 2018, is CHF 354.4 million (2017: CHF 395.4 million). This amount is derecognized from the balance sheet.

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The amount is the combination of the gross value of the receivables sold CHF 376.9 million (CHF 420.4 million as of August 31, 2017) and the discount applicable CHF 22.5 million (CHF 25.0 million as of August 31, 2017).

Net amounts payable to the program amounted to CHF 66.4 million as at August 31, 2018 (2017: CHF 48.7 million), consisting of the balance of receivables collected before the next rollover date of CHF 88.9 million (2017: CHF 73.7 million), less the discount on receivables sold of CHF 22.5 million (2017: CHF 25.0 million). These amounts are included in note 21 – "Trade payables and other current liabilities" on a netted basis.

The discount is retained by the program to establish a dilution reserve, a yield reserve, and an insurance first loss reserve.

Trade receivables with the fair value of CHF 111.5 million (and CHF 111.7 million nominal amount) as at August 31, 2018 (2017: fair value CHF 94.3 million, nominal amount CHF 94.4 million), are held for realization through sale under the asset-backed securitization program and are therefore classified as measured at fair value through profit or loss. All other trade receivables, accrued income, loans, other receivables and other current financial assets are measured at amortized costs.

Interest expense paid under the asset-backed securitization program amounted to CHF 4.7 million in fiscal year 2017/18 (2016/17: CHF 3.6 million) and is reported under interest expenses.

For detailed information about the expected credit losses calculated on the Group's financial assets measured at amortized costs refer to note 26.6 – "Credit risk and concentration of credit risk."

13 Inventories

as of August 31,	2018	2017 restated[1]
in thousands of CHF		
Cocoa beans stocks	458,322	390,940
Semi-finished and finished products	802,070	723,942
Other raw materials and packaging materials	216,275	164,448
Total inventories	**1,476,667**	**1,279,330**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

As at August 31, 2018, the value of cocoa and chocolate inventories designated in a hedging relationship amounted to CHF 691.0 million (2017 restated: CHF 627.5 million), on which a fair value hedge adjustment of CHF –4.3 million was recorded (2017: CHF –57.7 million). For further detail about the hedged inventories refer to note 26 – "Effect of hedge accounting on the financial position and performance".

In 2017/18, materials used of CHF 4,821.0 million (2016/17 restated: CHF 5,000.7 million) were recognized as an expense during the year and included in "cost of goods sold".

The increase of total inventories as of August 31, 2018, compared to the prior year is mainly attributable to higher inventory volumes.

In fiscal year 2017/18, inventory write-downs of CHF 33.5 million were recognized as expenses (2016/17: CHF 8.4 million).

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14 Derivative financial instruments and hedging activities

as of August 31,	2018		2017 restated[1]	
in thousands of CHF	Derivative financial assets	Derivative financial liabilities	Derivative financial assets	Derivative financial liabilities
Cash flow hedges				
Interest rate risk				
Swaps	21	1,769	46	5,294
Cocoa price risk				
Forward and futures contracts	265	1,174	411	157
Sugar price risk				
Futures contracts	134	8,449	254	444
Fuel oil price risk				
Swaps	–	–	240	545
Foreign exchange risk				
Forward and futures contracts	–	–	21	60
Fair value hedges				
Cocoa price risk				
Forward and futures contracts	72,212	46,908	41,867	7,640
Foreign exchange risk				
Forward and futures contracts	5,135	8,726	2,968	1,520
Other – no hedge accounting				
Raw materials				
Futures contracts and other derivatives	201,101	289,531	133,673	36,168
Forward contract at fair value using fair value option	44,037	110,217	24,096	101,364
Fair value adjustment on risk component for cocoa and chocolate sales and purchase contracts	104,004	113,216	249,870	76,822
Foreign exchange risk				
Fair value of hedged firm commitments	37,985	19,718	21,467	28,514
Forward and futures contracts	37,578	42,289	71,723	29,790
Total derivative financial assets	**502,471**	–	**546,636**	–
Total derivative financial liabilities	–	**641,997**	–	**288,319**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

Derivative financial instruments consist of items used in a cash flow hedging model, items used in a fair value hedging model and derivative instruments measured at fair value, for which no hedge accounting is applied.

The position "Other – no hedge accounting" contains the fair values of derivative financial instruments of the Group's purchasing and sourcing centers and the Group's centralized treasury department, which are not designated into a hedge accounting relationship. The forward and future contracts for foreign exchange risks are in an economic hedge relationship.

For further details about fair value measurement and the hedge accounting relationships as at August 31, 2018, and their impacts refer to note 26 – "Financial risk management".

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15 Property, plant and equipment

2017/18	Land and buildings	Plant and machinery	Office equipment, furniture and motor vehicles	Under construction	Total
in thousands of CHF					
At cost					
as of September 1, 2017	**562,752**	**1,762,896**	**146,226**	**148,312**	**2,620,187**
Business combinations	14,421	9,809	16,297	2,004	42,531
Additions[1]	17,919	87,911	9,492	67,620	182,942
Disposals	(5,654)	(11,230)	(6,897)	(220)	(24,001)
Currency translation adjustments	(18,038)	(24,148)	(3,513)	(4,615)	(50,315)
Reclassifications from under construction	17,688	50,118	4,958	(72,764)	–
Other reclassifications[2]	–	300	(5,082)	(40)	(4,822)
as of August 31, 2018	**589,088**	**1,875,655**	**161,481**	**140,298**	**2,766,523**
Accumulated depreciation and impairment losses					
as of September 1, 2017	**216,731**	**922,041**	**95,615**	**28**	**1,234,415**
Depreciation charge	20,359	92,586	13,668	–	126,613
Impairment losses (note 7)	1,657	3,581	417	–	5,655
Disposals	(1,874)	(4,173)	(6,053)	–	(12,100)
Currency translation adjustments	3,258	(11,748)	(1,453)	–	(9,944)
Other reclassifications[2]	–	2,342	(1,342)	–	1,000
as of August 31, 2018	**240,131**	**1,004,628**	**100,851**	**28**	**1,345,638**
Net as of August 31, 2018	**348,957**	**871,027**	**60,630**	**140,270**	**1,420,885**

1 Cash outflow amounts to CHF 180.8 million. CHF 2.1 million related to purchase of property, plant and equipment have not yet been settled with the supplier.
2 Reclassified to “Intangible assets”.

2016/17	Land and buildings	Plant and machinery	Office equipment, furniture and motor vehicles	Under construction	Total
in thousands of CHF					
At cost					
as of September 1, 2016	**494,115**	**1,612,740**	**125,274**	**146,498**	**2,378,627**
Business combinations	29,006	14,165	87	–	43,259
Additions	9,724	72,434	12,763	84,640	179,561
Disposals	(1,347)	(6,289)	(1,976)	(19)	(9,632)
Currency translation adjustments	4,868	19,602	2,440	1,461	28,371
Reclassifications from under construction	26,386	50,244	7,638	(84,268)	0
as of August 31, 2017	**562,752**	**1,762,896**	**146,226**	**148,312**	**2,620,187**
Accumulated depreciation and impairment losses					
as of September 1, 2016	**198,117**	**833,768**	**84,488**	**28**	**1,116,400**
Depreciation charge	17,120	79,708	10,667	–	107,495
Impairment losses (note 7)	–	988	–	–	988
Disposals	(688)	(4,007)	(1,179)	–	(5,874)
Currency translation adjustments	2,182	11,583	1,639	–	15,405
as of August 31, 2017	**216,731**	**922,041**	**95,615**	**28**	**1,234,414**
Net as of August 31, 2017	**346,021**	**840,855**	**50,611**	**148,284**	**1,385,773**

The Group periodically reviews the remaining useful lives of assets recognized in property, plant and equipment.

Impairment losses of CHF 5.7 million were recognized in property, plant and equipment in fiscal year 2017/18 (2016/17: CHF 1.0 million). These relate to idle assets associated with the Group’s Global Cocoa segment.

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Repair and maintenance expenses for the fiscal year 2017/18 amounted to CHF 69.3 million (2016/17: CHF 63.6 million).

As at August 31, 2018, plant and equipment held under finance leases amounted to CHF 5.7 million (2017: CHF 3.3 million). The related liabilities are reported under note 16 – "Obligations under finance leases", note 20 – "Bank overdrafts and short-term debt" and note 23 – "Long-term debt".

As at August 31, 2018, other assets amounting to CHF 0.1 million (2017: CHF 0 million) are pledged as security for financial liabilities.

16 Obligations under finance leases

as of August 31,	2018	2017	2018	2017
in thousands of CHF	Minimum lease payments		Present value of minimum lease payments	
Amounts payable under finance leases				
within one year	665	114	617	106
in the second to fifth year inclusive	1,073	–	1,029	–
Total amount payable under finance leases	**1,738**	**114**	**1,646**	**106**
less: future finance charges	(92)	(8)	–	–
Present value of lease obligations	**1,646**	**106**	**1,646**	**106**
Amount due for settlement next 12 months (note 20)			617	106
Amount due for settlement after 12 months			1,029	–

The Group entered into finance leasing arrangements for various assets. The weighted average term of finance leases entered into is 28.4 years (2016/17: 48.5 years).

A finance lease obligation for a building with a term of 60 years was fully paid in advance previously and is included in other current assets.

The average effective interest rate was 4.6% (2016/17: 6.0%). Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis, and no arrangement has been entered into for contingent rental payment.

as of August 31,	2018	2017
in thousands of CHF	Net carrying amount of property, plant and equipment under finance lease	
Land and buildings	2,408	3,268
Plant and machinery	3,191	–
Furniture, equipment and motor vehicles	55	–
Total assets under financial lease	**5,654**	**3,268**

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17 Equity-accounted investees

The carrying amount of equity-accounted investees has changed as follows:

in thousands of CHF	2017/18	2016/17
as of September 1,	**502**	**627**
Disposal of associates and joint ventures	–	(145)
Share of (loss)/profit	171	158
Dividends received	(239)	(138)
as of August 31,	**434**	**502**

The Group's investments in equity-accounted investees are attributable to the following companies:

as of August 31,	2018	2017
Ownership in %		
Nordic Industrial Sales AB, Finland	49	49

Summarized financial information in respect of the Group's equity-accounted investees is set out below.

as of August 31,	2018	2017
in thousands of CHF		
Total assets	1,439	2,393
Total liabilities	570	1,214
Net assets as of August 31,	**869**	**1,179**
Group's share of net assets of equity-accounted investees	**434**	**502**

in thousands of CHF	2017/18	2016/17
Total revenue	9,128	7,826
Total profit for the year	341	342
Total comprehensive income	341	342
Group's share of (losses)/profits of equity-accounted investees	**171**	**158**

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18 Intangible assets

2017/18 in thousands of CHF	Goodwill	Brand names and licenses	Internally generated intangible assets	Other	Total
At cost					
as of September 1, 2017	**760,813**	**73,500**	**407,836**	**37,216**	**1,279,366**
Business combination	74,404	7,060	–	1,107	82,571
Additions	–	132	33,353	3,626	37,111
Disposals	–	(1,563)	(6,595)	(484)	(8,642)
Currency translation adjustments	(4,243)	(429)	(4,983)	(3,063)	(12,718)
Other reclassifications[1]	–	–	3,307	1,516	4,822
as of August 31, 2018	**830,974**	**78,700**	**432,917**	**39,917**	**1,382,509**
Accumulated amortization and impairment losses					
as of September 1, 2017	**–**	**56,322**	**272,027**	**24,867**	**353,216**
Amortization charge	–	2,883	40,191	4,561	47,635
Disposals	–	(1,247)	(3,561)	(104)	(4,911)
Impairment losses (note 7)	–	–	1,331	25	1,356
Currency translation adjustments	–	(213)	(4,507)	(578)	(5,298)
Other reclassifications[1]	–	–	(1,035)	37	(1,000)
as of August 31, 2018	**–**	**57,745**	**304,446**	**28,808**	**390,998**
Net as of August 31, 2018	**830,974**	**20,955**	**128,471**	**11,110**	**991,510**

1 Reclassified from "Property, plant and equipment".

2016/17 in thousands of CHF	Goodwill	Brand names and licenses	Internally generated intangible assets	Other	Total
At cost					
as of September 1, 2016	**761,666**	**74,474**	**362,341**	**33,496**	**1,231,977**
Business combination	–	–	142	–	142
Additions	–	–	36,246	4,630	40,876
Disposals	–	–	(890)	–	(890)
Currency translation adjustments	(852)	780	8,437	649	9,013
Reclassified from under development	–	–	1,559	(1,559)	–
Other Reclassifications[1]	–	(1,753)	–	–	(1,753)
as of August 31, 2017	**760,813**	**73,500**	**407,836**	**37,216**	**1,279,367**
Accumulated amortization and impairment losses					
as of September 1, 2016	**–**	**49,725**	**237,523**	**17,441**	**304,688**
Amortization charge	–	6,076	28,770	7,602	42,448
Disposals	–	–	(678)	–	(678)
Impairment losses (note 7)	–	–	819	38	857
Currency translation adjustments	–	521	5,293	86	5,901
Reclassified from under development	–	–	300	(300)	–
as of August 31, 2017	**–**	**56,322**	**272,027**	**24,867**	**353,217**
Net as of August 31, 2017	**760,813**	**17,178**	**135,809**	**12,350**	**926,150**

1 Reclassified to "Prepaid expenses".

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Additions to internally generated intangible assets amounted to CHF 33.4 million in fiscal year 2017/18 (2016/17: CHF 36.2 million). Additions mainly included costs related to various projects of internally generated software, amounting to CHF 27.0 million in fiscal year 2017/18 (2016/17: CHF 29.1 million). Costs related to the development of recipes and innovations of CHF 5.8 million were also capitalized under internally generated intangible assets (2016/17: CHF 6.5 million).

The remaining amortization period for brand names varies between four and ten years, for licenses up to ten years, for software between one and eight years and for other including patents between one and twelve years.

Impairment testing for cash-generating units containing goodwill

The carrying amount of goodwill for the Group amounts to CHF 831.0 million (2016/17: CHF 760.8 million). The allocation to the segments is as follows:

as of August 31,	2018	2017
in million CHF		
Global Cocoa	458.4	456.6
EMEA	283.5	243.8
Americas	84.5	55.8
Asia Pacific	4.6	4.6
Total	**831.0**	**760.8**

Goodwill acquired in a business combination is allocated to the respective segment that is expected to benefit from the synergies of the business combination, at acquisition date. Due to the Group's fully integrated business in the regions, the segments represent the lowest level within the entity at which the goodwill is monitored for internal management purposes. Thus, the impairment test is performed on a segment level.

For the impairment test, the recoverable amount of a cash-generating unit is based on its value in use and is compared to the carrying amount of the corresponding cash-generating unit. Future cash flows are discounted using a pre-tax rate that reflects current market assessments based on the weighted average cost of capital (WACC).

The Group performs its impairment test during the fourth quarter of the fiscal year. This approach was chosen because the Mid-Term Plan, covering the next five fiscal years, is updated annually in the third quarter. The Mid-Term Plan is based on the assumption that there are no major changes to the Group's organization. The residual value is calculated from an estimated continuing value, which is primarily based on the fifth year of the Mid-Term Plan. The terminal growth rate used for determining the residual value does not exceed the expected long-term growth rate of the industry.

Key assumptions used for value-in-use calculations

	2018		2017	
	Discount rate	Terminal growth rate	Discount rate	Terminal growth rate
Global Cocoa	8.3%	1.2%	6.3%	1.5%
EMEA	6.7%	0.9%	5.7%	1.3%
Americas	7.3%	0.6%	6.6%	0.6%
Asia Pacific	6.6%	3.5%	6.7%	1.5%

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The annual impairment tests did not result in a need to recognize impairment losses in fiscal year 2017/18.

The key sensitivities in the impairment test are the WACC as well as the terminal growth rate.

The Group has carried out a sensitivity analysis, containing various scenarios. Taking reasonable possible changes in key assumptions into account, no impairment losses have been revealed.

19 Deferred tax assets and liabilities

Movement in deferred tax assets and liabilities

in thousands of CHF	Inventories	Property, plant, equipment/ intangible assets	Other assets	Provisions	Other liabilities	Tax loss carry-forwards	Total restated[1]
as of September 1, 2016	**9,295**	**(45,255)**	**(16,424)**	**(645)**	**39,123**	**79,448**	**65,542**
Charged to the income statement	(3,919)	(1,387)	(13,353)	(1,514)	(14,308)	9,011	(25,470)
Charged to equity	–	–	(1)	–	(10,184)	–	(10,185)
Effect of acquisitions	–	(4,865)	–	729	1,636	–	(2,500)
Currency translation effects	(324)	(372)	1,213	91	38	153	799
as of August 31, 2017	**5,052**	**(51,879)**	**(28,565)**	**(1,339)**	**16,305**	**88,611**	**28,185**
Charged to the income statement	(9,261)	(1,639)	41,594	440	(7,977)	(53,978)	(30,821)
Charged to equity	–	–	(326)	–	(2,243)	–	(2,569)
Effect of acquisitions	(178)	(768)	–	–	–	–	(946)
Currency translation effects	375	1,003	(681)	(749)	423	566	938
as of August 31, 2018	**(4,012)**	**(53,283)**	**12,022**	**(1,648)**	**6,509**	**35,199**	**(5,213)**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

For fiscal year 2017/18, deferred tax expenses recognized in equity amounted to CHF 2.6 million (2016/17: deferred tax income of CHF 10.2 million) and these relate to remeasurement of defined benefit plans of CHF 0.7 million (2016/17: deferred tax income of CHF 8.3 million) and to cash flow hedging reserves CHF 1.9 million (2016/17: deferred tax income of CHF 1.9 million).

Recognized deferred tax assets and liabilities

The recognized deferred tax assets and liabilities, without set off of balances within the same tax jurisdiction, are attributable to the following:

as of August 31,	2018			2017 restated[1]		
in thousands of CHF	Assets	Liabilities	Net	Assets	Liabilities	Net
Inventories	8,107	(12,119)	(4,012)	10,864	(5,812)	5,052
Property, plant & equipment/intangible assets	15,689	(68,972)	(53,283)	29,419	(81,298)	(51,879)
Other assets	21,381	(9,360)	12,022	20,849	(49,414)	(28,565)
Provisions	781	(2,429)	(1,648)	46	(1,385)	(1,339)
Other liabilities	26,312	(19,803)	6,509	40,204	(23,898)	16,305
Tax losses carried forward	35,199	–	35,199	88,611	–	88,611
Tax assets/(liabilities)	**107,469**	**(112,682)**	**(5,213)**	**189,993**	**(161,808)**	**28,185**
Set off within same tax jurisdiction	(41,790)	41,790	–	(68,174)	68,174	–
Reflected in the balance sheet	**65,679**	**(70,892)**	**(5,213)**	**121,818**	**(93,633)**	**28,185**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

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Tax losses carried forward excluded from recognition of related deferred tax assets

Tax losses carried forward not recognized as deferred tax assets have the following expiry dates.

as of August 31,	2018	2017
in thousands of CHF		
Expiry:		
Within 1 year	14,043	581
After 1 up to 2 years	2,468	10,786
After 2 up to 3 years	2,937	6,146
After 3 up to 10 years	28,609	56,846
After 10 years	4,220	4,165
Unlimited	393,219	364,123
Total unrecognized tax losses carried forward	**445,496**	**442,647**

Tax losses carried forward utilized during the year 2017/18 were CHF 153.5 million (2016/17: CHF 188.1 million). The related tax relief amounted to CHF 34.8 million, of which CHF 33.1 million were already recognized as a deferred tax asset in the previous year (2016/17: CHF 19.3 million of which CHF 14.6 million were already recognized as a deferred tax asset in the previous year) and CHF 1.7 million that were previously not recognized (2017: CHF 4.7 million).

As at August 31, 2018, the Group had unutilized tax losses carried forward of approximately CHF 586.5 million (2017: approximately CHF 706.5 million) available for offset against future taxable income.

Of the total tax losses carried forward, an amount of CHF 141.3 million has been recognized for deferred taxation purposes resulting in a deferred tax asset of CHF 35.2 million (2016/17: CHF 263.9 million recognized resulting in a deferred tax asset of CHF 88.6 million). The net decrease of CHF 53.4 million in the deferred tax asset on recognized tax losses carried forward consists of CHF 0.4 million tax relief on the first-time recognition of prior year tax losses carried forward, CHF 1.3 million recognition of current year tax losses carried forward and CHF 33.0 million utilization of tax losses already recognized as a deferred tax asset in prior year, CHF 22.7 million negative impact of tax rate changes and CHF 0.6 million positive impact relating to currency translation adjustments.

20 Bank overdrafts and short-term debt

as of August 31,	2018	2017	2018	2017
in thousands of CHF	Carrying amounts		Fair values	
Bank overdrafts	**26,267**	**21,264**	**26,267**	**21,264**
Commercial paper	171,837	182,851	171,837	182,851
Short-term debt	108,810	131,504	108,810	131,504
Short-term portion of long-term debt (note 23)	3,784	3,801	3,784	3,801
Interest-bearing loans from employees	–	10	–	10
Finance lease obligations (note 16)	617	106	617	106
Short-term debt	**285,048**	**318,272**	**285,048**	**318,272**
Bank overdrafts and short-term debt	**311,315**	**339,536**	**311,315**	**339,536**

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Short-term financial liabilities are mainly denominated in EUR, XOF, CLP and BRL as shown in the table below:

as of August 31,	2018			2017		
Split per currency	Amount	Interest range		Amount	Interest range	
in thousands of CHF		from	to		from	to
EUR	172,058	(0.22%)	6.00%	184,515	(0.22%)	3.15%
CHF	337	(0.78%)	(0.78%)	1,977	1.50%	1.50%
INR	3,674	9.00%	10.00%	6,741	8.00%	9.00%
IDR	2,457	6.50%	10.50%	88	7.00%	9.00%
XOF	52,000	4.25%	5.50%	82,270	4.50%	7.00%
XAF	4,546	6.00%	7.00%	2,204	4.50%	7.00%
TRL	5,050	14.75%	30.00%	7,735	15.00%	15.00%
CLP	35,783	3.48%	4.10%	36,303	3.49%	4.47%
BRL	30,744	7.50%	13.00%	12,078	10.20%	15.90%
Other	4,666	1.04%	8.00%	5,625	(0.05%)	4.63%
Total	**311,315**			**339,536**		

21 Trade payables and other current liabilities

as of August 31,	2018	2017 restated[1]
in thousands of CHF		
Trade payables	657,738	680,538
Amounts due to related parties	107	135
Accrued expenses	123,866	105,694
Other payables	158,175	241,670
Payables representing financial liabilities	**939,886**	**1,028,037**
Accrued wages and social security	119,224	105,779
Other taxes and payables to governmental authorities	61,585	42,228
Deferred income	388	2,131
Other liabilities	**181,196**	**150,138**
Total trade payables and other current liabilities	**1,121,082**	**1,178,174**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

The Group also has payables related to the asset-backed securitization program, see note 12 – "Trade receivables and other current assets". Other payables also consist of outstanding ledger balances with commodity brokers.

22 Provisions

in thousands of CHF	Restructuring	Litigation & claims	Other	Total
as of September 1, 2017	**1,441**	**4,480**	**44,271**	**50,192**
Business combination	–	42	–	42
Additions	65	2,972	3,399	6,436
Use of provisions	(1,040)	(801)	(19,145)	(20,985)
Release of unused provisions	–	(250)	(139)	(389)
Currency translation adjustments	9	(433)	(122)	(546)
as of August 31, 2018	**475**	**6,010**	**28,265**	**34,750**
of which:				
Current	**475**	**4,440**	**21,100**	**26,015**
Non-current	**–**	**1,570**	**7,165**	**8,735**

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Restructuring
As at August 31, 2018, the restructuring provisions were mainly related to the Process Driven Organization (PDO) project in Global Cocoa.

Litigation & claims
The amount includes provisions for certain litigations and claims that have been set up to cover legal and administrative proceedings that arise in the ordinary course of business. This includes claims related to transactions such as acquisitions and disposals as well as claim from customers for product liability and recalls. Claims from customers for product liability and recalls are generally covered by a global insurance policy. Provisions have been made, where quantifiable, for probable outflows not covered by insurance. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as of August 31, 2018.

Group companies are involved in various legal actions and claims including labor and tax claims as they arise in the ordinary course of the business. In the opinion of management, after taking appropriate legal advice, the future settlements of such actions and claims will not have a material effect on the Group's financial position.

Other provisions
Other provisions relate mainly to amounts that have been provided to cover the negative outcome of onerous contracts. As at August 31, 2018, the total provision for onerous contracts amounted to CHF 24.8 million (2017: CHF 34.5 million). It is expected that most of these costs will have been incurred within two years after the reporting date.

23 Long-term debt

as of August 31,	2018	2017	2018	2017
in thousands of CHF	Carrying amounts		Fair values	
Senior Notes	1,164,047	1,164,637	1,270,356	1,320,996
Loans	7,819	9,121	7,819	9,121
Less current portion (note 20)	(3,784)	(3,801)	(3,784)	(3,801)
Other	715	786	716	786
Total long-term debt	**1,168,797**	**1,170,743**	**1,275,107**	**1,327,102**

On June 15, 2011, the Group issued a 5.375% Senior Note with maturity in 2021 for an amount of EUR 250 million. The Senior Note was issued at a price of 99.26% and includes a coupon step-up clause of 0.25% (limited to 1.00% per annum) per downgraded notch per rating agency. The coupon currently amounts to 5.625% (2016/17: 5.625%).

On June 20, 2013, the Group issued a 5.5% Senior Note with maturity in 2023 for an amount of USD 400 million. The Senior Note was issued at a price of 98.122% and includes a coupon step-up clause of 0.25% (limited to 1.00% per annum) per downgraded notch per rating agency. The coupon currently amounts to 5.5% (2016/17: 5.5%)

On May 24, 2016, the Group issued a 2.375% Senior Note with maturity in 2024 for an amount of EUR 450 million. The Senior Note was issued at a price of 99.104%. The coupon currently amounts to 2.375% (2016/17: 2.375%).

On June 22, 2017, the Group amended and extended its EUR 600 million Revolving Credit Facility dated June 15, 2011, into a EUR 750 million Revolving Credit Facility with maturity in 2022. On June 22, 2018, the Group extended the maturity of its EUR 750 million Revolving Credit Facility to 2023. Per August 31, 2018 and 2017, there were no outstanding amounts under the Revolving Credit Facility.

The EUR 250 million Senior Note, the USD 400 million Senior Note, the EUR 450 million Senior Note and the EUR 750 million Revolving Credit Facility all rank pari passu. The Senior Notes as well as the EUR 750 million Revolving Credit Facility are guaranteed by Barry Callebaut AG and certain subsidiaries of the Group.

In addition, there are financial covenants related to the Revolving Credit Facility which comprise of key figures related to profitability per tonne, interest cover ratio and tangible net worth value.

As a result, the maturity profile of the long-term debt can be summarized as follows:

as of August 31,	2018	2017
in thousands of CHF		
2018/19	–	3,499
2019/20	3,107	3,429
2020/21	281,388	283,347
2021/22	338	78
2022/23 (and thereafter for 2017)	381,370	880,390
2023/24 (and thereafter for 2018)	502,594	–
Total long-term debt	**1,168,797**	**1,170,743**

The weighted average maturity of the long-term debt (i.e. without any portion falling due in less than 12 months) decreased from 5.9 years to 4.9 years.

Long-term financial liabilities are to a major extent denominated in EUR and USD and at fixed interest rates.

as of August 31,	2018			2017		
Split per currency	Amount	Interest range		Amount	Interest range	
in thousands of CHF		from	to		from	to
EUR	786,155	0.80%	7.00%	791,448	0.80%	5.63%
USD	379,176	5.50%	5.50%	372,581	5.50%	5.50%
JPY	3,277	1.67%	1.67%	6,525	1.67%	1.67%
Other	189	6.00%	7.00%	189	10.00%	10.00%
Total long-term debt	**1,168,797**			**1,170,743**		

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Changes in liabilities from financing activities:

	Short-term debt	Long-term debt	Retained earnings[1]	Share capital	Treasury shares	Non-controlling interests	Total
in thousands of CHF							
as of September 1, 2017	**318,272**	**1,170,743**	**2,629,403**	**40,014**	**(15,105)**	**14,925**	**4,158,251**
Changes of cash flows from financing activities:	**(33,815)**	**(7,334)**	**(69,873)**	**(39,904)**	**(22,783)**	**(247)**	**(173,957)**
Proceeds from the issue of short-term debt	31,362	–	–	–	–	–	31,362
Repayment of short-term debt	(65,177)	–	–	–	–	–	(65,177)
Proceeds from the issue of long-term debt	–	1,200	–	–	–	–	1,200
Repayment of long-term debt	–	(8,534)	–	–	–	–	(8,534)
Dividend payment	–	–	(69,873)	–	–	–	(69,873)
Capital reduction	–	–	–	(39,904)	–	–	(39,904)
Purchase of treasury shares	–	–	–	–	(22,783)	–	(22,783)
Dividends paid to non-controlling interests	–	–	–	–	–	(247)	(247)
Other changes related to liabilities:	**591**	**5,389**	**–**	**–**	**–**	**–**	**5,981**
Amortized structuring fee	–	2,610	–	–	–	–	2,610
Amortized commitment fees	–	779	–	–	–	–	779
Interest expense	73,928	–	–	–	–	–	73,928
Interest paid	(72,493)	–	–	–	–	–	(72,493)
Foreign exchange movements	(5,404)	6,560	–	–	–	–	1,157
Reclassification	4,560	(4,560)	–	–	–	–	–
Other changes related to equity:	**–**	**–**	**365,408**	**–**	**16,968**	**1,038**	**383,414**
as of August 31, 2018	**285,048**	**1,168,798**	**2,924,938**	**110**	**(20,920)**	**15,715**	**4,373,689**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

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24 Employee benefits

The amounts recognized in the Consolidated Balance Sheet of significant geographical locations are determined as follows:

as of August 31,	2018			2017			2018	2017
in thousands of CHF	Defined benefit pension plans						Other long-term benefit plans	
	Funded	Unfunded	Total	Funded	Unfunded	Total	Total	Total
Switzerland								
Present value of obligations	96,585	–	96,585	91,140	–	91,140	–	–
Fair value of plan assets	(73,181)	–	(73,181)	(68,681)	–	(68,681)	–	–
Excess of liabilities (assets) of obligations – Switzerland	**23,404**	**–**	**23,404**	**22,459**	**–**	**22,459**	**–**	**–**
Belgium								
Present value of obligations	77,838	–	77,838	76,688	–	76,688	9,926	8,077
Fair value of plan assets	(38,851)	–	(38,851)	(40,096)	–	(40,096)	–	–
Excess of liabilities (assets) of obligations – Belgium	**38,987**	**–**	**38,987**	**36,592**	**–**	**36,592**	**9,926**	**8,077**
US								
Present value of obligations	79,383	–	79,383	88,109	–	88,109	135	158
Fair value of plan assets	(50,682)	–	(50,682)	(48,977)	–	(48,977)	–	–
Excess of liabilities (assets) of obligations – US	**28,701**	**–**	**28,701**	**39,132**	**–**	**39,132**	**135**	**158**
UK								
Present value of obligations	69,632	–	69,632	71,956	–	71,956	–	–
Fair value of plan assets	(75,190)	–	(75,190)	(60,662)	–	(60,662)	–	–
Excess of liabilities (assets) of obligations – UK	**(5,558)**	**–**	**(5,558)**	**11,293**	**–**	**11,293**	**–**	**–**
Rest of the world								
Present value of obligations	13,578	14,554	28,132	19,024	14,781	33,805	5,837	7,925
Fair value of plan assets	(4,296)	–	(4,296)	(8,099)	–	(8,099)	–	–
Excess of liabilities (assets) of obligations – Rest of the world	**9,282**	**14,554**	**23,836**	**10,924**	**14,781**	**25,705**	**5,837**	**7,925**
Total								
Present value of obligations	337,016	14,554	351,570	346,916	14,781	361,697	15,898	16,160
Fair value of plan assets	(242,200)	–	(242,200)	(226,515)	–	(226,515)	–	–
Excess of liabilities (assets) of obligations – Total	**94,816**	**14,554**	**109,370**	**120,401**	**14,781**	**135,182**	**15,898**	**16,160**
Net balances recognized in the Consolidated Balance Sheet								
Net employee benefit assets	**–**	**–**	**(5,558)**	**–**	**–**	**–**	**–**	**–**
Net employee benefit obligations	**–**	**–**	**114,928**	**–**	**–**	**135,182**	**15,898**	**16,160**

The largest defined benefit pension plans (funded) are located in Switzerland, Belgium, the US and the UK. Together, they represent 96 % (2016/17: 95 %) of the Group's total gross defined benefit pension obligations and 98 % (2016/17: 96 %) of the Group's total plan assets.

The other long-term benefit plans include other post-retirement employee benefit plans (including medical plans) and other long-term employee benefit plans (including jubilee plans and other long-service award plans).

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The changes in the present value of the employee benefit obligations are as follows:

	2017/18	2016/17	2017/18	2016/17
in thousands of CHF	Defined benefit pension plans		Other long-term benefit plans	
Present value of defined benefit obligation as of September 1,	**361,697**	**366,448**	**16,160**	**12,316**
Currency translations	(128)	(336)	–	–
Current service cost	13,993	14,285	1,063	629
Past service cost	(769)	(334)	–	(1)
Remeasurement through P&L	–	–	1,740	575
Interest expense	7,384	6,399	612	494
Losses/(gains) on curtailment	(5,008)	(1,613)	–	(19)
Total recognized in income statement	**15,472**	**18,402**	**3,415**	**1,678**
Actuarial losses/(gains)	(8,795)	(28,088)	(1,257)	2,121
thereof:				
arising from changes in demographic assumptions	(1,243)	(3,505)	(2)	–
arising from changes in financial assumptions	(9,682)	(24,329)	(1,122)	1,934
arising from experience adjustments	2,130	(254)	(133)	187
Total recognized in other comprehensive income	**(8,795)**	**(28,088)**	**(1,257)**	**2,121**
Business combination (note 1)	195	9,112	–	216
Reclassifications	567	–	(567)	–
Exchange differences on foreign plans	1,383	(484)	(1,242)	353
Contribution by employees	4,867	4,297	–	–
Benefits received	6,145	13,298	(591)	(376)
Benefits paid	(29,960)	(21,288)	(20)	(148)
Total other	**(16,804)**	**4,935**	**(2,420)**	**45**
Present value of defined benefit obligation as of August 31,	**351,570**	**361,697**	**15,898**	**16,160**
thereof:				
funded obligations	337,016	346,916	–	–
unfunded obligations	14,554	14,781	15,898	16,160

The Group expects to pay CHF 19.5 million in employer contributions to defined pension plans in the fiscal year 2018/19 (2017/18: CHF 32.3 million).

The gain on curtailment is predominantly linked to the settlement of a funded defined benefit pension plan in the Netherlands during the fiscal year 2017/18. The equivalent loss on curtailment linked to the settlement of underlying plan assets is disclosed in the movement table for the fair value of plan assets.

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The movement in the fair value of plan assets is as follows:

	2017/18	2016/17
in thousands of CHF	Defined benefit pension plans	
Opening fair value of plan assets as of September 1,	**226,515**	**202,233**
Currency translations	61	(234)
Interest income	3,144	1,545
Gains/(losses) on curtailment	(4,640)	–
Total recognized in income statement	**(1,435)**	**1,311**
Return on plan assets excl. interest income	2,416	7,969
Total recognized in other comprehensive income	**2,416**	**7,969**
Business combination (note 1)	–	4,210
Contributions by employer	31,732	14,429
Exchange differences on foreign plans	662	(1,229)
Contributions by employees	4,867	4,297
Benefits received	6,011	13,298
Benefits paid	(28,568)	(20,002)
Total other	**14,704**	**15,003**
Fair value of plan assets as of August 31,	**242,200**	**226,515**

The plan assets consist of the following categories of securities:

as of August 31,	2018	2017
in thousands of CHF	Defined benefit pension plans	
Equities	76,027	80,866
Bonds	130,351	51,791
Insurance portfolio	9,430	85,574
Cash and other assets	26,392	8,284
Total fair value of plan assets	**242,200**	**226,515**

The plan assets do not include any ordinary shares issued by the Company nor any property occupied by the Group or one of its subsidiaries.

The amounts recognized in the Consolidated Income Statement are as follows:

	2017/18	2016/17	2017/18	2016/17
in thousands of CHF	Defined benefit pension plans		Other long-term benefit plans	
Current service costs	13,993	14,285	1,063	629
Net interest expense	4,240	4,855	612	494
Net currency translations	(189)	(102)	–	–
Past service cost	(769)	(334)	–	(1)
Losses/(gains) on curtailments and settlements	(368)	(1,613)	–	(19)
Remeasurement	–	–	1,740	575
Total defined benefit expenses	**16,907**	**17,091**	**3,415**	**1,678**

in thousands of CHF	2017/18	2016/17
Total defined contribution expenses	**(2,889)**	**(2,584)**

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The expenses related to defined benefit pension plans and other long-term benefit plans are recognized in the following line items in the Consolidated Income Statement:

in thousands of CHF	2017/18	2016/17
Cost of goods sold	(2,035)	(3,126)
Marketing and sales expenses	(1,189)	(1,554)
General and administration expenses	(11,928)	(7,978)
Research and Development expenses	(507)	(473)
Other expenses	–	(388)
Personnel expenses	**(15,659)**	**(13,519)**
Interest costs	(4,852)	(5,349)
Foreign exchange gains/(losses)	189	99
Finance costs	**(4,663)**	**(5,250)**
Total defined benefit expenses recognized in income statement	**(20,322)**	**(18,769)**

Actuarial assumptions

Weighted average actuarial assumptions used are as follows:

	2017/18	2016/17	2017/18	2016/17
	Defined benefit pension plans		Other long-term benefit plans	
Discount rate	2.4%	2.1%	4.2%	2.7%
Expected rate of pension increase	0.2%	0.1%	0.0%	0.0%
Expected rate of salary increase	0.8%	0.6%	1.7%	1.0%

The applicable mortality tables in the Group's largest defined benefit plans and underlying longevity assumptions are summarized in the following table:

	Mortality table	2018	2017	2018	2017
		Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
Switzerland	LPP 2015	20	20	22	22
Belgium	MR/FR	21	18	25	22
UK	S2NMA/S2NFA	22	22	24	24
US	MP2017/ MP2016	21	21	23	23

Sensitivity analysis

Reasonable and possible changes at the reporting date to one of the relevant actuarial assumptions, with all other assumptions held constant, would have affected the defined benefit obligations by the amounts shown below:

as of August 31,	2018	2017	2018	2017
in thousands of CHF	Increase		Decrease	
Discount rate (1% movement)	(62,162)	(47,258)	62,162	47,258
Expected rate of pension (1% movement)	20,797	10,370	(20,797)	(10,370)
Expected rate of salary (1% movement)	23,252	21,003	(23,252)	(21,003)
Expected rate of future mortality (1% movement)	(6,883)	(4,792)	6,883	4,792

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Share-based payments

Share awards are granted to participants according to individual contracts and the current employee stock ownership program.

Long-Term Incentive Plan (LTIP)

The purpose of the LTIP is to provide the participants with an ownership interest in Barry Callebaut and to reward them for the long-term performance of the company. The LTIP thus aligns their interests to those of the shareholders.

The currently valid LTIP is in place since fiscal year 2016/17 and remained unchanged in fiscal year 2017/18. The grant of share units under the LTIP is based on a target LTI amount determined individually for each plan participant. The individual LTI grant value is divided by the average share price of the last three months of the preceding fiscal year in order to calculate the number of share units awarded. The share units vest in three tranches over three fiscal years, i.e. 25% on the first, 25% on the second, and 50% on the third anniversary of the grant date. The first two tranches are restricted share units (RSU) that vest subject to the LTIP participant continuing to be employed by Barry Callebaut. The final tranche consists of performance share units (PSU) that vest subject to meeting two performance criteria over the three-year vesting period. The first performance criterion, accounting for 50% of the PSU grant, is the relative share price development of Barry Callebaut versus a peer group of companies in the chocolate, ingredients and FMCG sector: AAK, Aryzta, Hershey, Kellogg's, Kerry, Lindt, Mondelēz, Nestlé, Olam, Petra Foods and Unilever. The objective (100% vesting) is to achieve median performance, e.g. to outperform half of the peer companies. There is no vesting for a performance below the first quartile of the peer group (threshold) and the vesting is capped at 300% for delivering the best performance in the peer group. The second performance criterion, accounting for 50% of the PSU grant, is Return on Invested Capital (ROIC). The ROIC performance was introduced in fiscal year 2016/17 in order to reward the sustainable management of the Company's assets. The three-year ROIC target was set by the Board of Directors on the basis of the long-term strategic plan of the Company. The vesting also ranges from 0% to 300% of target. Consequently, the overall vesting of the LTI award (including RSU and PSU) ranges from 50% and 200% of the initially determined number of share units granted. The Board of Directors reserves the right to suspend or adjust the vesting of the share units in case of a negative result from continuous operations of the Barry Callebaut Group. Once the shares are vested and transferred, they are free of any sales restrictions.

For the grants awarded under the LTIP in fiscal year 2015/16, the vesting schedule was for 30% (RSU) on the first anniversary, for 30% (RSU) on the second anniversary and for 40% (PSU) on the third anniversary of the grant date. The performance criterion is the relative performance (3-year "Compound annual growth rate") of the Barry Callebaut share versus the share performance of a peer group of companies including chocolate companies, ingredient companies and FMCG companies: AAK, Aryzta, Hershey, Kellogg's, Kerry, Lindt, Mondelēz, Nestlé, Olam, Petra Foods and Unilever. The overperformance of the Barry Callebaut share price versus the benchmark share price of the peer group is incentivized by applying a multiplier of 25 on the overperformance in %, whereas in the case of underperformance, a multiplier of 12.5 applies. However, a cap and a floor apply at 5% over- or underperformance, so that the vesting for the last tranche can vary between 37.5% and 225% of the share awards granted. Consequently, the overall vesting ranges from 75% and 150% of the initially determined number of share units granted. Share units granted to members of the Executive Committee may only vest to the extent that the actual market value of the vested shares (at vesting) in any given year does not exceed 160% of the target

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LTI amount defined at the most recent grant date for the respective plan participant ("Value Cap").

Furthermore, the Board of Directors reserves the right to suspend or adjust the vesting of the share units in case of a negative result from continuous operations of the Barry Callebaut Group. Once the shares are vested and transferred, they are free of any sales restrictions.

The share awards granted entitle the participants to full shareholders rights upon vesting of the share units (RSU/PSU) and their conversion into shares. In case of resignation or dismissal for cause during the vesting period (which ranges between one and three years), the initially granted, but not yet vested share units are forfeited.

The fair value of the RSU granted (no performance condition) is estimated by taking the market price at grant date less the present value of the expected dividends that will not be received on these RSU during the vesting period. 3,772 share awards were granted in fiscal year 2017/18 with an average fair value of CHF 1,400 (in fiscal year 2016/17, 3,987 share awards were granted with an average fair value of CHF 1,157).

The fair value of the PSU, of which the vesting is conditional upon the relative share price performance, is assessed as per grant date based on a valuation performed by external experts applying the "Monte Carlo simulation" method. The most relevant parameters relating to Barry Callebaut and the relevant peer group are the risk-free interest rate, annualized volatility, the share price and the dividend yields. The risk-free rates reflect three-year government bonds of the country of origin of the respective company and range from –0.8% to 1.3%. The volatilities and correlations are based on daily returns of a company's share at its respective exchange of origin over a three-year period preceding the start of the vesting cycle (the annualized volatility for Barry Callebaut and its peer group ranges from 16.9% to 49.8%). The dividend yields are based on dividends paid over a three-year period preceding the start of the vesting cycle and range from 0.7% to 3.2%. The share prices are denominated in their respective currency and retrieved for the specified point in time. The base share price taken into account for Barry Callebaut is the share price at grant date and amounted to CHF 1,377.

The fair value of PSU, of which the vesting is conditional upon the Group's ROIC performance, is taken at fair value of the Barry Callebaut share at grant date discounted for dividends until the vesting. As this part is based on the Group's performance relating to ROIC, the relative value is adjusted periodically during the vesting period, based on an estimation of the ROIC performance at vesting date.

In fiscal year 2017/18, 2,262 PSU were granted to members of the Executive Committee with an average fair value of CHF 1,276 (in fiscal year 2016/17: 2,563 share awards with an average fair value of CHF 1,150). To the other plan participants, 1,282 share awards with an average fair value of CHF 1,663 per share were granted in fiscal year 2017/18 (in fiscal year 2016/17: 1,398 share awards with an average fair value of CHF 1,381). The lower fair value of the ExCo PSU compared to the other participants is due to the value cap applicable on the PSU awards to the ExCo.

Board of Directors

The Board of Directors receives share awards annually for the respective service period. These share awards are not part of the share plans described above and are determined by the NCC as a fixed number of shares. The total number of shares awarded for the service period 2017/18 amounted to 1,830 with an average fair value of CHF 1,900 per share (2016/17: 2,010 share awards with an average fair value of CHF 1,163 per share).

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Recognition in financial statements
The fair value of the share awards at grant date is recognized over the vesting period as a personnel expense under either of these share plans. For 2017/18, the amount thus recognized (before taxes) was CHF 14.5 million with a corresponding increase in equity (2016/17: CHF 12.3 million). Of the amount recognized in 2017/18, CHF 11.3 million related to the Long-Term Incentive Plan (2016/17: CHF 9.9 million) and CHF 3.2 million to the BoD plan (2016/17: CHF 2.3 million).

25 Equity

Share

as of August 31,	2018	2017	2016
in thousands of CHF			
Share capital is represented by 5,488,858 (2017: 5,488,858; 2016: 5,488,858) authorized and issued shares of each CHF 0.02 fully paid in (in 2017: 7.29; in 2016: 18.60)	110	40,014	102,093

Share capital and dividends
The issued share capital is divided into 5,488,858 registered shares with a nominal value of CHF 0.02 (2017: CHF 7.29). All of the issued shares are fully paid and validly issued and are not subject to calls for additional payments of any kind. The Company has one class of shares, which carries no right to a fixed dividend.

By resolution of the Annual General Meeting on December 13, 2017, the shareholders approved the proposed distribution of dividends in the amount of CHF 20.00 per share, effected through a dividend payment out of voluntary retained earnings (CHF 12.73 per share) in the amount of CHF 69,873,160 and through capital reduction through par value repayment (CHF 7.27 per share) in the amount of CHF 39,903,998. The respective payments to the shareholders took place on March 2, 2018.

In fiscal year 2016/17, the payout of CHF 15.50 per share was effected by a dividend payment of CHF 22,998,315 from reserves from capital contributions and through capital reduction in the amount of CHF 62,078,984. The respective payments took place on March 2, 2017.

Treasury shares
Treasury shares are valued at weighted average cost and, in accordance with IFRS, have been deducted from equity. The book value of the treasury shares as at August 31, 2018, amounted to CHF 20.9 million (2017: CHF 15.1 million).

The fair value of the treasury shares as at August 31, 2018, amounted to CHF 20.2 million (2017: CHF 15.9 million). As at August 31, 2018, the number of outstanding shares amounted to 5,477,197 (2017: 5,477,355) and the number of treasury shares to 11,661 (2017: 11,503). During this fiscal year, 12,930 shares have been purchased, 12,772 transferred to employees under the employee stock ownership program and 0 sold (2016/17: 13,090 purchased; 12,815 transferred and 0 sold).

Retained earnings
As at August 31, 2018, retained earnings contain legal reserves of CHF 20.9 million (2017: CHF 23.1 million), which are not distributable to the shareholders pursuant to Swiss law.

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Hedging reserves

Hedging reserves comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that are expected to occur.

CTA

Cumulative translation adjustments comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

Movements in non-controlling interests

in thousands of CHF	2017/18	2016/17
as of September 1,	**14,925**	**14,924**
Non-controlling share of profit/(loss)	1,226	636
Dividend paid to non-controlling shareholders	(247)	(635)
Change in non-controlling interests	(378)	3
Non-controlling share of other comprehensive income	189	(3)
as of August 31,	**15,715**	**14,925**

The non-controlling interests are individually not material for the Group.

26 Financial risk management

The nature of its business exposes the Group to a variety of financial risks including the effects of changes in market prices (commodity prices, foreign exchange rates and interest rates) as well as credit risks and liquidity risks.

The Group’s overall strategy for managing these risks is consistent with the Group’s objectives to maintain cost leadership, reduce earnings volatility in a cost-effective manner and minimize potential adverse effects of such market exposures on the financial performance of the Group. The Group’s Risk Management department continuously monitors the entities’ exposures to commodity price risk, foreign currency risk and interest rate risk and also monitors the use of derivative instruments.

The Group manages its business based on the following two business models:

- Contract Business: sales contracts for cocoa ingredients and industrial or gourmet chocolate, where Barry Callebaut has entered into contracts with customers to deliver fixed quantities at fixed prices. These contractually fixed prices are generally based on the forward market prices of the raw material components valid at the contract date for the forward delivery date on which the cocoa ingredients or chocolate is planned to be delivered to the customers.
- Price List Business: Barry Callebaut sets price lists for certain Gourmet, Specialties & Decorations products. These price lists are normally updated at intervals of six to twelve months. Customers buy products based on the issued price lists without fixed commitments on quantities.

26.1 Commodity price risks

a) Commodity risk management

The manufacturing of the Group’s products requires raw materials such as cocoa beans, sugar and sweeteners, dairy, nuts, oils and fats. Therefore, the Group is exposed to commodity price risks.

The Group Commodity Risk Committee (GCRC) is a committee consisting of key risk management stakeholders of the Group who meet on a regular basis to discuss

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Group Commodity Risk Management issues. The GCRC monitors the Group's Commodity Risk Management activities and acts as the decision-taking body for the Group in this respect. The members of the GCRC include the Group's Chief Financial Officer (CFO) who acts as Chairman of the committee, the President of Global Cocoa, the Head of Group Risk Management (GRM), the CFO of Global Cocoa, the VP of Global Cocoa Trading & Sourcing, the Head of Global Sourcing (for non-cocoa materials) and the Head of Group Treasury & Tax.

The GCRC reports via the GRM to the Group's Audit, Finance, Risk, Quality & Compliance Committee (AFRQCC) and must inform the latter about key Group commodity risk issues and the key mitigation decisions taken. The AFRQCC reviews and approves GCRC requests and ensures that the commodity risk management strategy is consistent with the Group's objectives. It also sets the Group's Value at Risk (VaR) limit for the major raw material components. The AFRQCC makes recommendations to the Board of Directors if deemed necessary and advises the Board of Directors on important risk matters and/or asks for approval.

In order to quantify and manage the Group's consolidated exposure to commodity price risks, the concept of historical VaR is applied. The VaR concept serves as the analytical instrument for assessing the Group's commodity price risk incurred under normal market conditions. The VaR indicates the loss, which, within a time horizon of ten days for raw materials, will not be exceeded at a confidence level of 95%, using seven years of historical market prices for each major raw material component. The VaR is used together with a calculation of the expected shortfall and worst cases as well as the use of stress test scenarios.

Liquidity, credit and fuel price risks are not included in the calculation, and the VaR is based on a static portfolio during the time horizon of the analysis. The GCRC breaks down the Group VaR limit into VaR limits for the two areas related to cocoa raw materials and non-cocoa raw materials such as sugar, dairy, oils and fats. The Group's CFO and the President of Global Cocoa allocate limits in metric tonnes to the related risk reporting units for each of the two areas. The Board of Directors is the highest approval authority for all Group Commodity Risk Management (GCRM) matters and approves the GCRM Policy as well as the Group VaR limit.

The VaR framework of the Group is based on the standard historical VaR methodology; taking 2,000 days (equivalent to seven years) of the most recent prices, based on which the day-to-day relative price changes are calculated. This simulation of past market conditions is not predicting the future movement in commodity prices and therefore it does not represent actual losses. It only represents an indication of the future commodity price risks based on historical volatility. VaR is applied to materials with prices considered to exceed certain volatility levels (e.g. cocoa beans and cocoa products, dairy products, sugar and sweeteners, nuts, oils and fats). As at August 31, 2018, the Group had a total VaR for raw materials of CHF 10.4 million (2017: CHF 9.7 million) well within the Group limit. The average VaR over the fiscal year 2017/18 was CHF 11.0 million (2016/17: CHF 9.2 million).

b) Cocoa price risk and the Group's hedging strategy

The Group's purchasing and sourcing centers make sourcing and risk management decisions for cocoa beans, semi-finished cocoa products and ingredients including hedging commodity price risk exposures. Within the overall limits as defined by the AFRQCC, the Group's purchasing and sourcing centers can also act as a broker-trader with the objective to generate profits from fluctuations in raw material prices or broker-trader margins.

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The fair value of the Group's open sales and purchase commitments and inventory are fluctuating in line with price movements in the respective commodity markets and are therefore hedged. It is the Group's policy to hedge its cocoa price risk resulting from its inventory, cocoa derivatives and purchase and sales contracts. The cocoa price risk component in cocoa stock, purchase and sales contracts as well as chocolate stocks and sales contracts is hedged with exchange traded or over-the-counter cocoa bean derivatives applying fair value hedge accounting. The Group also applies cash flow hedge accounting whereby the cocoa price risk and foreign exchange risk from forecasted cocoa sales are hedged with cocoa bean futures and foreign exchange forward contracts.

In order to calculate the cocoa bean price risk exposure embedded in the various cocoa ingredients and chocolate stocks, purchase and sales contracts, the cocoa-processing entities translate the various cocoa ingredient volumes in these positions into cocoa bean equivalents, using technical yields (to calculate, how many cocoa beans are needed to produce those cocoa ingredient volumes). These technical ratios vary according to cocoa ingredient types and cocoa-processing units. The chocolate entities calculate the bean equivalent in their positions using the prevailing market/commercial ratios. The entities use this approach and these ratios to enter into the appropriate volume of hedging instruments in order to hedge the cocoa bean price risk component in their positions. The Group also uses the same hedging ratios in hedge accounting as described above.

The cocoa bean price risk component is contractually specified in the purchase and sales contracts of cocoa ingredients and chocolate products. Therefore, the cocoa bean price risk component is considered separately identifiable and reliably measurable in the Group's hedged items (cocoa ingredients purchase contracts, cocoa stocks, chocolate stocks, cocoa ingredients sales contracts and chocolate sales contracts) as well as in its hedging instruments (cocoa bean futures and other contracts accounted for as derivatives).

c) Sugar price risk hedges

The Group applies cash flow hedge accounting for hedging relationships when it hedges its commodity price risk and its foreign exchange risks attributable to its forecasted sugar purchases with sugar futures and with foreign exchange forward contracts, respectively. When the Group enters into agreements with sugar suppliers where the price of the forecasted sugar purchases will be indexed to the raw sugar world market price, it hedges these forecasted sugar purchases with sugar futures.

The raw sugar world market price risk component is a contractually specified element in the hedged items. Therefore, the raw sugar world market price risk component is considered separately identifiable and reliably measurable in the Group's hedged items (forecasted sugar purchases) as well as in its hedging instruments (sugar futures).

d) Fuel price risk hedges

The Group entered into cash flow hedge relationships to hedge its fuel oil price exposures as well as its foreign exchange risks attributable to its forecasted freight expenditures with fuel oil swaps and with foreign exchange forward contracts, respectively, applying a hedging ratio of 50% for the hedging of both risk components.

The Rotterdam IFO 380 Monthly Bunker Price is a separately identifiable and reliably measurable risk component in the forecasted freight expenditures, which is hedged by fuel oil swaps that are indexed to Fuel Oil 3.5 Percent Barges FOB

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Rotterdam Platt's European prices. The commodities behind both the hedged price component and the prices used in the hedging swaps are derivatives of crude oil, and there is a very strong correlation between the movements in the two prices.

The related accounting treatments are explained in the section "Summary of Accounting Policies" under the caption "Derivative financial instruments and hedging activities".

26.2 Foreign currency risks

The Group operates across the world and consequently is exposed to multiple foreign currency risks, albeit primarily in EUR, USD and GBP. The Group actively monitors its transactional currency exposures and consequently enters into foreign currency hedges with the aim of preserving the value of assets, commitments and anticipated transactions. The related accounting treatment is explained in the section "Summary of Accounting Policies" under the caption "Derivative financial instruments and hedging activities".

All risks relating to foreign currency exposures of assets and liabilities, certain unrecognized firm commitments and highly probable forecasted purchases and sales are centralized as far as possible within the Group's treasury department, where the hedging strategies are defined.

Accordingly, the consolidated foreign currency exposures are hedged in compliance with the Group's Treasury Policy, mainly by means of forward currency contracts entered into with financial institutions of a high credit rating. The Group's Treasury Policy imposes a dual risk control framework of both open position limits and near-time fair valuation of net currency exposures. Both levels of control are substantially interlinked, avoiding excessive net currency exposures and substantial volatility in the Consolidated Income Statement.

The Group's treasury department is supervised by the Group Finance Committee, which meets on a regular basis. The Group Finance Committee monitors the Group's foreign currency risk position and acts as a decision-taking body for the Group in this respect. The Group Finance Committee consists of the Group's CFO, the Head of Group Financial Planning & Analysis, the Head of Group Treasury & Tax, the Head of Group Risk Management, and other Group Finance stakeholders.

The Group's Treasury Policy, giving guidance on treasury risk management including foreign currency and interest rate risks, is approved and annually reviewed by the AFRQCC. The Group's Risk Management department reviews the consistency of the Group's treasury management strategy with the Group's Treasury Policy and reports the status to the Group's CFO periodically. The AFRQCC is informed by the CFO about the status and important matters in their quarterly meetings and approves requests of the Group's Finance Committee on important treasury risk matters including foreign currency risks for recommendation to the Board of Directors. The Board of Directors is the highest approval authority for all Group Treasury Risk Management matters.

The table below provides an overview of the net exposure of EUR, GBP and USD against the main functional currencies in the Group. According to the Group's Treasury Policy, foreign exchange exposures are hedged as from identification on an intra-day basis in line with the approved exposure limits. In case of deviation from the agreed foreign exchange exposure limits, approval has to be sought from the Group's Finance Committee. Companies with the same functional currency are shown in one group. EUR exposures of the reporting units with functional currency franc CFA in Côte d'Ivoire (XOF) and Cameroon (XAF) are not included, as the franc CFA has an exchange rate pegged to the EUR, currently at a rate of CFA franc 656 per euro both for XOF and XAF (total EUR short exposures of 2 million as per August 31, 2018, and long 39 million as per August 31, 2017).

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Net foreign currency exposures

as of August 31,	2018				2017			
Net exposure in thousands of EUR/GBP/USD/CHF	EUR	GBP	USD	CHF	EUR	GBP	USD	CHF
EUR	–	(21,510)	(1,154)	27,655	–	(368)	(2,312)	(8,784)
CHF	14,830	504	(9,116)	–	1,970	(80)	8,076	–
USD	(1,645)	5	–	(1,101)	(2,187)	37	–	(867)
CAD	(91)	–	(453)	18	(665)	–	(789)	–
BRL	(85)	–	750	(118)	(13)	–	716	(118)
RUB	(12)	118	(382)	–	(15)	9	(644)	–
JPY	(756)	(13)	(238)	–	(31)	(13)	(212)	–
MXN	–	–	2,522	(544)	(43)	–	3,701	–
IDR	(103)	–	(85)	–	(18)	–	(66)	–
INR	(138)	–	(2,106)	–	(303)	–	(2,137)	–
TRL	(72)	14	(49)	(7)	(1,049)	2	77	(6)
SEK	3,896	(3)	(4)	(36)	–	–	–	–
Total	**15,824**	**(20,885)**	**(10,315)**	**25,867**	**(2,354)**	**(413)**	**6,410**	**(9,775)**

In order to quantify and manage the Group's consolidated exposure to foreign currency risks, the concept of historical VaR has been implemented. The VaR concept serves as the analytical instrument for assessing the Group's foreign currency risk incurred under normal market conditions. The VaR indicates the loss which, within a time horizon of one day, will not be exceeded at a confidence level of 95% using seven years of historical market prices for each major currency pair. The VaR is used together with the calculation of the expected shortfall and worst cases as well as the use of stress test scenarios. The VaR is based on static exposures during the time horizon of the analysis. However, the simulation of past market conditions is not predicting the future movement in foreign currency rates. Therefore, it does not represent actual losses. It only represents an indication of future foreign currency risks. As of August 31, 2018, the Group had a VaR of CHF 0.3 million (2017: CHF 0.2 million).

Value at Risk per main exposure currencies

as of August 31,	2018	2017
Value at Risk on net exposures in thousands of CHF Total for the Group and per main exposure currencies		
Total Group	**250**	**172**
EUR	94	95
GBP	217	5
USD	97	61
CHF	160	62
Others	36	31
Diversification effect	59%	32%

26.3 Interest rate risks

The Group is exposed to changes in interest rates through its short- and long-term debt obligations mainly located in the Group's centralized treasury department. The Group's centralized treasury department manages and oversees the financing lines of the Group, and the related interest rate risks and, to the extent possible, provides the necessary liquidity in the required functional currency for the companies of the Group. Consequently, the Group's debt obligations are adjusted with the real currency mix of the Group's liabilities in order to reflect the correct exposure to interest rates.

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It is the Group's policy to manage its interest costs using an optimal mix of fixed and floating rate debt. This is achieved by entering into interest rate derivative instruments in which it exchanges fixed and floating interest rates. To avoid volatility in the Consolidated Income Statement, cash flow hedge accounting is applied to those derivative instruments.

As described in the caption "Foreign currency risks", the Group's Finance Committee, which meets on a regular basis, monitors the Group's interest risk positions and acts as a decision-taking body for the Group in this respect.

The Group's Treasury Policy also covers the management of interest rate risks. The the Head of Group Treasury & Tax reports the status periodically to the Group's CFO, who informs the AFRQCC in their quarterly meetings. The AFRQCC approves requests from the Group Finance Committee on important treasury matters, including interest rate risks, and provides recommendations thereon to the Board of Directors, which is the highest approval authority for all Group treasury matters.

The following schedule provides an overview of all interest-bearing items per year-end closing:

as of August 31,	2018	2017
in thousands of CHF		
Fixed interest-bearing items		
Carrying amount of financial liabilities	1,172,229	1,175,296
Reclassification due to interest rate derivative	169,578	171,416
Net fixed interest position	**1,341,807**	**1,346,711**
Floating interest-bearing items		
Carrying amount of financial assets	(405,838)	(399,412)
Carrying amount of financial liabilities	307,883	334,983
Reclassification due to interest rate derivative	(169,578)	(171,416)
Net floating interest position	**(267,534)**	**(235,845)**

Sensitivity analysis on interest rate risks

The following table shows the impact of a parallel shift of interest rates by 100 basis points (bps) up and 10 bps down on the Group's equity and income statement, net of tax. The calculation is performed on both, the portion of the outstanding debt (excluding the asset-backed securitization program; see note 12 "Trade receivables and other current assets") at floating interest rates and the outstanding derivatives exchanging floating into fixed interest rates at the respective year-end. This sensitivity analysis only indicates the potential impact for the respective fiscal year at the prevailing conditions in the financial markets. Consequently, it does not represent actual or future gains or losses, which are strictly managed and controlled, as stipulated by the Group's Treasury Policy.

as of August 31,	2018				2017			
Impact on	Income statement		Equity		Income statement		Equity	
in thousands of CHF	100 bps increase	10 bps decrease	100 bps increase	10 bps decrease	100 bps increase	10 bps decrease	100 bps increase	10 bps decrease
Floating rate bearing items	2,006	(201)	–	–	1,769	(177)	–	–
Interest rate swaps	–	–	6,035	(618)	–	–	7,308	(755)
Total interest rate sensitivity	**2,006**	**(201)**	**6,035**	**(618)**	**1,769**	**(177)**	**7,308**	**(755)**

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26.4 Effect of hedge accounting on the financial position and performance

a) Impact of hedging instruments designated in hedging relationships

The impact of hedging instruments designated in hedging relationships as of August 31, 2018, on the Group's Consolidated Balance Sheet is as follows:

in CHF million	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge ineffectiveness
as of August 31, 2018		Assets	Liabilities		
Cash flow hedges					
Interest rate risk					
Swaps	339.2	0.0	1.8	Derivative financial assets Derivative financial liabilities	5.0
Cocoa price risk					
Futures contracts	(16.6)	0.3	1.2	Derivative financial assets Derivative financial liabilities	(2.0)
Sugar price risk					
Futures contracts	57.5	0.1	8.5	Derivative financial assets Derivative financial liabilities	(8.9)
Fuel oil price risk					
Swaps	–	–	–	Derivative financial assets Derivative financial liabilities	–
Foreign exchange risk					
Forward and futures contracts	(10.6)	–	–	Derivative financial assets Derivative financial liabilities	2.4
Fair value hedges					
Cocoa price risk					
Futures contracts	394.5	72.2	46.9	Derivative financial assets Derivative financial liabilities	48.9
Foreign exchange risk					
Forward and futures contracts	16.5	5.1	8.7	Derivative financial assets Derivative financial liabilities	(0.4)
Receivables	323.4	323.4	–	Trade receivables and other current assets	3.1
Payables	384.7	–	384.7	Trade payables and other current liabilities	(4.0)
Debts	1.8	–	1.8	Short-term debt	0.0
Cash instruments	36.6	36.6	–	Cash and cash equivalents	0.7

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in CHF million	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge ineffectiveness
as of August 31, 2017		Assets	Liabilities		
Cash flow hedges					
Interest rate risk					
Swaps	342.8	0.0	5.3	Derivative financial assets Derivative financial liabilities	3.6
Cocoa price risk					
Futures contracts	(11.1)	0.4	0.2	Derivative financial assets Derivative financial liabilities	1.4
Sugar price risk					
Futures contracts	61.4	0.3	0.4	Derivative financial assets Derivative financial liabilities	7.1
Fuel oil price risk					
Swaps	5.4	0.2	0.5	Derivative financial assets Derivative financial liabilities	0.9
Foreign exchange risk					
Forward and futures contracts	(6.7)	–	0.1	Derivative financial assets Derivative financial liabilities	(2.8)
Fair value hedges					
Cocoa price risk					
Futures contracts	168.0	41.9	7.6	Derivative financial assets Derivative financial liabilities	(97.3)
Foreign exchange risk					
Forward and futures contracts	(2.7)	3.0	1.5	Derivative financial assets Derivative financial liabilities	(15.7)
Receivables	401.8	401.8	–	Trade receivables and other current assets	(3.4)
Payables	301.9	–	301.9	Trade payables and other current liabilities	2.4
Debts	0.3	–	0.3	Short-term debt	0.0
Cash instruments	12.1	12.1	–	Cash and cash equivalents	0.0

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b) Impact of hedged items designated in hedging relationships

The impact of hedged items designated in hedging relationships as of August 31, 2018, on the Group's Consolidated Balance Sheet is as follows:

in CHF million	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains or losses		Line item in the Consolidated Balance Sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffec-tiveness	Cash flow hedge reserve
as of August 31, 2018	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges									
Interest rate risk									
Forecasted interest payments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(5.0)	(8.1)
Cocoa price risk									
Forecasted cocoa sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.0	(1.1)
Sugar price risk									
Forecasted sugar purchases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8.9	(8.9)
Fuel oil price risk									
Forecasted fuel oil expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	–	–
Foreign exchange risk									
Forecasted purchase and sales transactions denominated in foreign currency	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(2.4)	1.8
Fair value hedges									
Cocoa price risk									
Cocoa and chocolate stocks	691.0		(4.3)		–		Inventories	(11.9)	n/a
Risk component of cocoa and chocolate purchase and sales contracts	104.0	113.2	104.0	113.2	–	–	Derivative financial assets Derivative financial liabilities	(38.4)	n/a
Foreign exchange risk									
Firm purchase and sales commitments denominated in foreign currency	38.0	19.7	38.0	19.7	–	–	Derivative financial assets Derivative financial liabilities	0.6	n/a

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in CHF million	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains or losses		Line item in the Consolidated Balance Sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffec-tiveness	Cash flow hedge reserve
as of August 31, 2017 restated[1]	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges									
Interest rate risk									
Forecasted interest payments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(3.6)	(10.7)
Cocoa price risk									
Forecasted cocoa sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(1.4)	(0.1)
Sugar price risk									
Forecasted sugar purchases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(7.1)	2.2
Fuel oil price risk									
Forecasted fuel oil expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(0.9)	(0.6)
Foreign exchange risk									
Forecasted purchase and sales transactions denominated in foreign currency	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.8	(3.1)
Fair value hedges									
Cocoa price risk									
Cocoa and chocolate stocks	627.5	–	(57.7)	–	–	–	Inventories	(42.5)	n/a
Risk component of cocoa and chocolate purchase and sales contracts	249.9	76.8	249.9	76.8	–	–	Derivative financial assets Derivative financial liabilities	138.3	n/a
Foreign exchange risk									
Firm purchase and sales commitments denominated in foreign currency	21.5	28.5	21.5	28.5	–	–	Derivative financial assets Derivative financial liabilities	16.5	n/a

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

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c) Impact of the hedging relationships on the Consolidated Income Statement and other comprehensive income

The above hedging relationships affected the Consolidated Income Statement and other comprehensive income, as follows:

Cash flow hedges	Change in the fair value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in the Consolidated Income Statement	Line item in the Consolidated Income Statement where the hedge ineffectiveness is reported	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in the Consolidated Income Statement impacted by the reclassification from cash flow hedge reserve
as of August 31, 2018					
in CHF million					
Interest rate risk	5.0	–	n/a	0.1	Finance costs
Cocoa price risk	(2.0)	–	n/a	0.9	Cost of goods sold
Sugar price risk	(9.8)	–	n/a	(3.1)	Cost of goods sold
Fuel oil price risk	0.5	–	n/a	0.1	Cost of goods sold
Foreign exchange risk	2.4	–	n/a	2.8	Cost of goods sold

Cash flow hedges	Change in the fair value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in the Consolidated Income Statement	Line item in the Consolidated Income Statement where the hedge ineffectiveness is reported	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item in the Consolidated Income Statement impacted by the reclassification from cash flow hedge reserve
as of August 31, 2017					
in CHF million					
Interest rate risk	3.6	–	n/a	0.9	Finance costs
Cocoa price risk	1.4	–	n/a	(0.6)	Cost of goods sold
Sugar price risk	7.1	–	n/a	(30.0)	Cost of goods sold
Fuel oil price risk	0.9	–	n/a	2.1	Cost of goods sold
Foreign exchange risk	(2.8)	–	n/a	(4.0)	Cost of goods sold

This table includes the changes in the fair value of the hedging instruments recognized in other comprehensive income throughout the entire fiscal year 2017/18 (including hedge accounting relationships ended before August 31, 2018).

The table in section “26.4/a Impact of hedging instruments designated in hedging relationships” (refer to column “Fair value changes of the hedging instrument used as a basis to calculate hedge ineffectiveness”) includes the fair value changes on those hedging instruments that are related to hedge accounting relationships, which were still active at August 31, 2018.

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Fair value hedges

in CHF million	Hedge ineffectiveness recognized in the Consolidated Income Statement	Line item in the Consolidated Income Statement where the hedge ineffectiveness is reported
as of August 31, 2018		
Cocoa price risk	(1.4)	Cost of goods sold
Foreign exchange risk	(2.2)	Cost of goods sold

in CHF million	Hedge ineffectiveness recognized in the Consolidated Income Statement	Line item in the Consolidated Income Statement where the hedge ineffectiveness is reported
as of August 31, 2017		
Cocoa price risk	(1.5)	Cost of goods sold
Foreign exchange risk	(0.1)	Cost of goods sold

Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences between entering into the hedged items and into the hedging instruments and differences between the maturity profile of the hedged items and the hedging instruments.

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The following table provides further information about the effect of cash flow hedges on equity:

in thousands of CHF	Cocoa price risk	Sugar price risk	Fuel oil price risk	Foreign exchange risk	Interest rate risk	Total hedging reserve
as of September 1, 2016	**(895)**	**28,442**	**(3,737)**	**3,331**	**(13,228)**	**13,914**
Gains/(losses) taken into equity	1,414	7,126	942	(2,789)	3,605	10,298
Transfer to initial carrying amount of the hedged item	–	(2,584)	136	(124)	–	(2,572)
Transfer to the Consolidated Income Statement for the period	(606)	(30,040)	2,144	(4,032)	896	(31,638)
thereof:						
due to hedged cash flows that are no longer expected to occur/ineffectiveness	–	–	–	–	–	–
due to hedged item affected the Consolidated Income Statement	(606)	(30,040)	2,144	(4,032)	896	(31,638)
Income taxes	(40)	(699)	(71)	462	(1,530)	(1,878)
Currency translation adjustment	(11)	(8)	(8)	16	(425)	(437)
as of August 31, 2017	**(138)**	**2,238**	**(594)**	**(3,136)**	**(10,682)**	**(12,312)**
Gains/(losses) taken into equity	(1,952)	(9,819)	482	2,413	5,015	(3,862)
Transfer to initial carrying amount of the hedged item	–	932	–	31	–	963
Transfer to the Consolidated Income Statement for the period	931	(3,124)	133	2,760	65	765
thereof:						
due to hedged cash flows that are no longer expected to occur/ineffectiveness	–	–	–	–	–	–
due to hedged item affected the Consolidated Income Statement	931	(3,124)	133	2,760	65	765
Income taxes	51	893	(24)	(229)	(2,566)	(1,875)
Currency translation adjustment	7	10	4	(1)	47	66
as of August 31, 2018	**(1,101)**	**(8,871)**	**0**	**1,837**	**(8,122)**	**(16,256)**

26.5 Timing, nominal amount and pricing of hedging instruments

As mentioned earlier in this note, the Group's Risk Management continuously monitors the entities' exposures to commodity price risk, foreign currency risk and interest rate risk as well as the use of derivative instruments.

The following table provides information about the maturity of the nominal amount and interest rates attached to the swaps held by the Group as of August 31, 2018, to hedge its interest rate risk:

as of August 31, 2018	Period of maturity			
	First year	Second to fifth year	After five years	Total
Nominal amount (CHF million)	197.8	141.3	–	339.2
Average interest rate	1.85%	0.18%	–	n/a

as of August 31, 2017	Period of maturity			
	First year	Second to fifth year	After five years	Total
Nominal amount (CHF million)	–	342.8	–	342.8
Average interest rate	–	1.09%	–	n/a

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As of August 31, 2018, the Group held the following cocoa bean futures and other contracts accounted as derivatives to hedge the cocoa price risk exposure on its hedged items:

	Period of maturity			
as of August 31, 2018	September – December current year	January – May next year	After May next year	Total
Nominal amount (in tonnes, net long/(short))	11,805	94,823	121,819	228,447
Average price (in CHF per tonne)	1,839	1,972	1,904	n/a

	Period of maturity			
as of August 31, 2017	September – December current year	January – May next year	After May next year	Total
Nominal amount (in tonnes, net long/(short))	(12,146)	157,454	100,247	245,555
Average price (in CHF per tonne)	1,779	1,829	1,685	n/a

As of August 31, 2018, the Group held the following sugar futures to hedge the sugar price risk exposure on its forecasted sugar purchases:

	Period of maturity				
as of August 31, 2018	September – October current year	November current year – May next year	After May next year	Total	Hedge rates (in USD cents per pound)
Nominal amount (in thousands of pounds, long)	254,688	173,264	–	427,952	10.91-15.40

	Period of maturity				
as of August 31, 2017	September – October current year	November current year – May next year	After May next year	Total	Hedge rates (in USD cents per pound)
Nominal amount (in thousands of pounds, long)	170,128	180,432	30,016	380,576	12.77-19.75

As of August 31, 2018, the Group held the following fuel oil swaps to hedge the fuel oil price risk exposure on its forecasted freight expenditures:

	Period of maturity				
as of August 31, 2018	September current year – June next year	July – December next year	After next year	Total	Hedge rates (in USD per tonne)
Nominal amount (in tonnes, long)	–	–	–	–	–

	Period of maturity				
as of August 31, 2017	September current year – June next year	July – December next year	After next year	Total	Hedge rates (in USD per tonne)
Nominal amount (in tonnes, long)	12,173	–	–	12,173	387.75

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Information about the foreign exchange forwards and futures in case of the major foreign currency hedging pairs held by the Group as of August 31, 2018, to hedge its foreign exchange risk:

as of August 31, 2018	Period of maturity			
	Current year	Next year	After next year	Total
GBP exposure hedging in entities whose functional currency is EUR				
Nominal amount (CHF million, long/(short))	247.1	(419.5)	(1.6)	(174.0)
Average foreign exchange rate (EUR/GBP)	0.890	0.898	0.909	n/a
USD exposure hedging in entities whose functional currency is EUR				
Nominal amount (CHF million, long/(short))	(113.8)	185.4	(0.1)	71.6
Average foreign exchange rate (EUR/USD)	1.186	1.227	1.180	n/a
GBP exposure hedging in entities whose functional currency is USD				
Nominal amount (CHF million, long/(short))	107.5	(37.6)	1.9	71.8
Average foreign exchange rate (USD/GBP)	0.747	0.742	0.731	n/a
USD exposure hedging in entities whose functional currency is BRL				
Nominal amount (CHF million, long/(short))	(67.9)	–	–	(67.9)
Average foreign exchange rate (BRL/USD)	0.250	–	–	n/a

as of August 31, 2017	Period of maturity			
	Current year	Next year	After next year	Total
GBP exposure hedging in entities whose functional currency is EUR				
Nominal amount (CHF million, long/(short))	170.4	52.9	(3.0)	220.3
Average foreign exchange rate (EUR/GBP)	0.871	0.874	0.898	n/a
USD exposure hedging in entities whose functional currency is EUR				
Nominal amount (CHF million, long/(short))	(160.1)	193.3	(4.0)	29.2
Average foreign exchange rate (EUR/USD)	1.132	1.164	1.184	n/a
GBP exposure hedging in entities whose functional currency is USD				
Nominal amount (CHF million, long/(short))	41.3	–	2.3	43.6
Average foreign exchange rate (USD/GBP)	0.778	0.770	0.763	n/a
USD exposure hedging in entities whose functional currency is BRL				
Nominal amount (CHF million, long/(short))	67.2	–	–	67.2
Average foreign exchange rate (BRL/USD)	0.333	–	–	n/a

26.6 Credit risk and concentration of credit risk

Credit risk arising from customers, i.e. the risk of counter parties defaulting, is governed by the Group's Credit Management Policy. This policy defines the Group's credit management process such as the roles and responsibilities of the regional credit control organization, the initial customer account approval, setting and changing credit limits and payment terms, regular monitoring controls, collection effort process, credit insurance procedures and credit allowances. System controls ensure that new customer orders and deliveries are not processed if a specific customer credit limit is exceeded due to outstanding or overdue open amounts.

Further, the Group has a credit insurance program whereby all customers with outstanding amounts larger than EUR 70,000 are insured as far as possible.

The Group's credit risk also arises from derivative financial instruments, i.e. foreign exchange derivatives, interest rate derivatives, and commodity derivatives. The Group has foreign exchange and interest rate derivatives with 10–15 banks acting on an international scale and having sound credit ratings. In case of commodity derivatives, the Group enters into future deals in the New York and the London terminal markets, mainly with 5–6 counterparties, and the open positions per counterparty offset each other to a large extent leading to limited minimal open balances (as also represented by the value of derivative financial assets largely offsetting the value of derivative financial liabilities on the balance sheet). Counterparty exposures towards such financial institutions, referring limit utilization and total amount of all uninsured customers is monitored on a regular basis by the Group's centralized treasury department and reported to the Group's Finance Committee and the Audit, Finance, Risk, Quality and Compliance Committee.

As of August 31, 2018, the largest customer represents 10% (2017: 9%) whereas the ten biggest customers represent 33% (2017: 33%) of trade receivables. Other than that the Group has no material credit risk concentration as it maintains a large, geographically diverse customer base. The extent of the Group's credit risk exposure is represented on the one hand by the aggregate balance of amounts receivable, reduced by the effects of netting arrangements with counterparties. The maximum nominal credit risk exposure in the event all other parties fail to perform their obligation was CHF 986.7 million as of August 31, 2018 (2017: CHF 1,429.1 million).

All financial assets measured at amortized cost are first assessed for individual impairment. Subsequently, expected credit loss is calculated by applying the annualized Credit Default Swap rates (CDS) of the country of domicile (where available the individual CDS of the counterparty is applied) and by 25 bps p.a. (pro rated in line with average payment terms). The net expenses representing additions to the allowance for impairment losses and releases of the unused allowance recognized according to the approach described above amounted to CHF 12.4 million in 2017/18 (2016/17: CHF 5.0 million).

The fair value measurement of purchase and sales contracts and non-centrally-cleared derivative instruments recognized as derivative asset has been adjusted to reflect the credit risk of the counterparty. The credit valuation adjustment (CVA) has been calculated by applying the annualized Credit Default Swap rates (CDS) of the counterparty (where not available, the country specific CDS of the country of domicile and a 4% premium). The expense has been recognized in the Consolidated Income Statement as "Cost of goods sold".

The fair value measurement of purchase and sales contracts and non-centrally-cleared derivative instruments recognized as derivative liability has been adjusted to reflect the credit risk of the Group. The debit valuation adjustment (DVA) has been calculated by applying the annualized CDS rate of the Group.

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The following table summarizes the expected credit losses on the Group's trade receivables at balance sheet date:

Ageing of trade receivables

as of August 31, in thousands of CHF	2018	2017
Total trade receivables measured at amortized cost	377,046	321,154
of which:		
insured receivables	278,576	230,108
uninsured receivables with an individual balance over CHF 1 million	7,594	34,675
uninsured receivables with an individual balance below CHF 1 million	90,876	56,371
Less lifetime expected credit losses for trade receivables	(13,256)	(6,632)
Total trade receivables measured at amortized cost	**363,790**	**314,521**
of which:		
not overdue	280,829	244,307
lifetime expected credit losses for trade receivables not overdue	(1,818)	(1,935)
expected credit loss rate	0.65%	0.79%
past due less than 90 days	69,222	71,454
lifetime expected credit losses for trade receivables past due less than 90 days	(1,139)	(2,556)
expected credit loss rate	1.65%	3.58%
past due more than 90 days	26,996	5,392
lifetime expected credit losses for trade receivables past due more than 90 days	(10,299)	(2,141)
expected credit loss rate	38.15%	39.71%
Total trade receivables measured at amortized cost	**363,790**	**314,521**

The Group has insured certain credit risks through a credit insurance policy. A number of customers with significant outstanding amounts are covered by this policy.

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Movements in allowance for impairment losses of financial assets

The movements in allowance for impairment losses of financial assets as follows:

in thousands of CHF	Cash and cash equivalents	Deposits	Trade receivables	Other receivables	Other financial assets	Total
as of September 1, 2017	**169**	**2**	**6,632**	**1,542**	**31**	**8,377**
Changes to expected credit losses on financial assets already recognized at the beginning of the fiscal year	5	–	131	15	–	151
Changes to expected credit losses on new financial assets originated during the fiscal year	147	2	9,788	4,017	1	13,954
Write-offs	(5)	(0)	(879)	(554)	(21)	(1,459)
Unused amounts reversed	(92)	(2)	(1,599)	(14)	(0)	(1,708)
Currency translation adjustment	(20)	(0)	(817)	(143)	0	(980)
as of August 31, 2018	**205**	**2**	**13,256**	**4,862**	**11**	**18,335**

in thousands of CHF	Cash and cash equivalents	Deposits	Trade receivables	Other receivables	Other financial assets	Total
as of September 1, 2016	**45**	**0**	**13,553**	**633**	**–**	**14,231**
Changes to expected credit losses on financial assets already recognized at the beginning of the fiscal year	11	0	1,297	458	–	1,767
Changes to expected credit losses on new financial assets originated during the fiscal year	145	2	3,129	964	30	4,271
Write-offs	(0)	–	(10,831)	(9)	–	(10,840)
Unused amounts reversed	(31)	(0)	(510)	(499)	–	(1,040)
Currency translation adjustment	(1)	(0)	(7)	(6)	2	(12)
as of August 31, 2017	**169**	**2**	**6,632**	**1,542**	**31**	**8,377**

26.7 Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's liquidity is ensured by means of regular Group-wide monitoring and planning of liquidity coordinated by the Group's centralized treasury department.

Financing needs are covered through a combination of adequate credit lines with financial institutions as well as through short-term and long-term debt capital market products (see note 23 "Long-term debt"). The Group may use structured solutions for the management of its working capital to mitigate seasonality and price effects related to the sourcing of exchange traded commodities (mainly cocoa beans). Related items may not be recognized on the Group's consolidated balance sheet under applicable accounting standards. The Group regularly assesses such structured solutions as characteristics, contractual terms, and related accounting treatment may change over time.

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Contractual maturities

The table below provides an overview of contractual maturities for financial liabilities and derivatives:

as of August 31, 2018	In the first year	In the second to the fifth year	After five years	Contractual amount
in thousands of CHF				
Non-derivative financial liabilities				
Bank overdrafts	(26,267)	–	–	(26,267)
Short-term debt	(285,048)	–	–	(285,048)
Trade payables[1]	(657,738)	–	–	(657,738)
Long-term debt	(52,543)	(838,238)	(520,816)	(1,411,597)
Other current liabilities[2]	(282,148)	–	–	(282,148)
Derivatives				
Interest rate derivatives	(887)	(123)	–	(1,011)
Currency derivatives				
Inflow	3,458,493	6,458	–	3,464,951
Outflow	(3,443,209)	(6,459)	–	(3,449,669)
Commodity derivatives (gross settled)				
Inflow	1,254,483	43,243	–	1,297,726
Outflow	(536,345)	–	–	(536,345)
Commodity derivatives (net settled)				
Inflow	271,401	2,311	–	273,712
Outflow	(345,792)	(270)	–	(346,062)
Total net	**(645,601)**	**(793,078)**	**(520,816)**	**(1,959,496)**

as of August 31, 2017	In the first year	In the second to the fifth year	After five years	Contractual amount
in thousands of CHF				
Non-derivative financial liabilities				
Bank overdrafts	(21,264)	–	–	(21,264)
Short-term debt	(318,272)	–	–	(318,272)
Trade payables[1]	(680,673)	–	–	(680,673)
Long-term debt	(53,015)	(469,828)	(943,076)	(1,465,919)
Other current liabilities[2]	(347,364)	–	–	(347,364)
Derivatives				
Interest rate derivatives	(3,810)	(1,569)	158	(5,221)
Currency derivatives				
Inflow	2,602,241	4,918	–	2,607,159
Outflow	(2,481,399)	(5,361)	–	(2,486,760)
Commodity derivatives (gross settled)				
Inflow	1,511,725	49,041	–	1,560,766
Outflow	(383,624)	–	–	(383,624)
Commodity derivatives (net settled)				
Inflow	40,383	1,484	–	41,867
Outflow	(7,453)	(187)	–	(7,640)
Total net	**(142,525)**	**(421,501)**	**(942,918)**	**(1,506,944)**

1 Trade payables including amounts due to related parties.
2 Other current liabilities contain accrued expenses and other payables.

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26.8 Fair value of financial instruments

a) Methods and assumptions

The carrying value of the following financial instruments approximates fair value because of the short period to maturity:

- Cash and cash equivalents
- Trade receivables
- Other receivables representing financial instruments
- Other current assets representing financial instruments
- Other non-current assets representing financial instruments
- Trade payables
- Bank overdrafts
- Short-term deposits
- Short-term debt
- Other payables representing financial instruments
- Other current liabilities representing financial instruments

Long-term debt

In calculating the fair value of long-term debts, future principal and interest payments are discounted at market interest rates.

Derivative financial assets and liabilities

The fair value measurement of some derivatives requires assumptions and management's assessment of certain market parameters. Whenever possible, fair valuation is based on market prices. If required a valuation model which takes into consideration discounted cash flows, dealer and supplier quotes for similar instruments and recent arm's-length transactions is used. This valuation model takes into account the specific characteristics of the underlying assets or commodities such as the cost of carry, differentials for the properties and technical ratios reflecting production yield.

Carrying amount and fair value of each class of financial assets and liabilities are presented in the table below:

as of August 31, 2018	Financial assets (mandatorily) measured at fair value through profit or loss	Financial assets measured at amortized cost	Financial liabilities (mandatorily) measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total carrying amount	Fair value
in thousands of CHF						
Cash and cash equivalents	–	404,183	–	–	404,183	404,183
Short-term deposits	–	1,656	–	–	1,656	1,656
Trade receivables	111,456	363,790	–	–	475,246	475,246
Derivative financial assets	502,471	–	–	–	502,471	502,471
Other current assets[1]	–	91,338	–	–	91,338	91,338
Other non-current assets[2]	–	3,887	–	–	3,887	3,887
Total assets	**613,927**	**864,854**	**–**	**–**	**1,478,781**	**1,478,781**
Bank overdrafts	–	–	–	26,267	26,267	26,267
Short-term debt	–	–	–	285,048	285,048	285,048
Trade payables	–	–	–	657,738	657,738	657,738
Derivative financial liabilities	–	–	641,997	–	641,997	641,997
Long-term debt	–	–	–	1,168,797	1,168,797	1,275,107
Other current liabilities[3]	–	–	–	282,148	282,148	282,148
Total liabilities	**–**	**–**	**641,997**	**2,419,998**	**3,061,995**	**3,168,304**

1 Other current assets contain accrued income, loans and other receivables and other current financial assets.
2 Other non-current assets contain long-term deposits and financial assets related to long-term partnership agreements.
3 Other current liabilities contain accrued expenses, other payables and amounts due to related parties.

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as of August 31, 2017 restated[1]	Financial assets (mandatorily) measured at fair value through profit or loss	Financial assets measured at amortized cost	Financial liabilities (mandatorily) measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total carrying amount	Fair value
in thousands of CHF						
Cash and cash equivalents	–	399,292	–	–	399,292	399,292
Short-term deposits	–	121	–	–	121	121
Trade receivables	94,287	314,521	–	–	408,808	408,808
Derivative financial assets	546,636	–	–	–	546,636	546,636
Other current assets[2]	–	74,743	–	–	74,743	74,743
Other non-current assets[3]	–	12,674	–	–	12,674	12,674
Total assets	**640,923**	**801,351**	**–**	**–**	**1,442,273**	**1,442,273**
Bank overdrafts	–	–	–	21,264	21,264	21,264
Short-term debt	–	–	–	318,272	318,272	318,272
Trade payables	–	–	–	680,673	680,673	680,673
Derivative financial liabilities	–	–	288,319	–	288,319	288,319
Long-term debt	–	–	–	1,170,743	1,170,743	1,327,102
Other current liabilities[4]	–	–	–	347,364	347,364	347,364
Total liabilities	**–**	**–**	**288,319**	**2,538,316**	**2,826,635**	**2,982,994**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.
2 Other current assets contain accrued income, loans and other receivables and other current financial assets.
3 Other non-current assets contain long-term deposits and financial assets related to long-term partnership agreements.
4 Other current liabilities contain accrued expenses and other payables.

b) Fair value hierarchy of financial instruments

The fair value measurements of financial assets and liabilities are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- Level 1: The fair value is based on unadjusted, quoted prices in active markets which give the best possible objective indication for the fair value of a financial asset or liability. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's-length basis.
- Level 2: The estimation of the fair value is based on the results of a valuation model. The valuation model for commodity derivatives includes quoted prices in active markets, recent arm's-length transactions or dealer and supplier quotes adjusted for the specific characteristics of the underlying commodities such as the cost of carry, differentials for the properties and conversion yields. Corroborated market data is used for the valuation of foreign exchange and interest rate derivatives. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.
- Level 3: The valuation models used are based on parameters and assumptions not observable on the market.

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The following table summarizes the levels applied with regard to financial assets and financial liabilities measured at fair value:

as of August 31, 2018	Level 1	Level 2	Level 3	Total
in thousands of CHF				
Trade receivables	–	–	111,456	**111,456**
Derivative financial assets	273,712	228,760	–	**502,471**
Derivative financial liabilities	346,584	295,413	–	**641,997**

as of August 31, 2017 restated[1]	Level 1	Level 2	Level 3	Total
in thousands of CHF				
Trade receivables	–	–	94,287	**94,287**
Derivative financial assets	174,133	372,503	–	**546,636**
Derivative financial liabilities	37,389	250,930	–	**288,319**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

From the value of derivative financial assets and derivative financial liabilities as at August 31, 2018, CHF 44.0 million and CHF 110.2 million, respectively, relate to the fair values of executory contracts measured at fair value applying the fair value option (2017 restated: CHF 24.1 million and CHF 101.4 million). The fair value of each executory contract measured at fair value using the fair value option was calculated using the methods described in Level 2.

The value of the trade receivables measured at fair value was calculated using a discounted cash flow method based on the nominal value and the discount rates (mainly representing the risk-free rate and credit risk of the counterparty) between the Group and the purchasing party.

There have been no transfers between the fair value hierarchy levels during the fiscal years 2017/18 and 2016/17.

26.9 Capital management

The Group continues to apply its policy to maintain a sound capital base to support the continued development of the business. The Board of Directors seeks to maintain a prudent balance between debt and equity. In compliance with bank covenants, there is also a minimum tangible net worth value (Equity – Intangible assets) set at CHF 750 million.

The target Payout ratio to shareholders is set in a range of 35% to 40% of the net profit in the form of a dividend. The target payout ratio and the form of the payout recommended by the Board is reviewed on an annual basis and is subject to the decision of the Annual General Meeting of Shareholders.

The Group's subsidiaries have complied with applicable local statutory capital requirements.

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26.10 Offsetting financial assets and financial liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

				Related amounts not set off in the balance sheet		
as of August 31, 2018	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities/ assets set off in the balance sheet	Net amounts of financial assets/ liabilities presented in the balance sheet	Financial instruments	Cash collateral received or deposited	Net amount
in thousands of CHF						
Derivative financial assets	502,471	–	502,471	**(210,497)**	**10,813**	**302,787**
Derivative financial liabilities	641,997	–	641,997	**210,497**	**(44,464)**	**808,030**

				Related amounts not set off in the balance sheet		
as of August 31, 2017 restated[1]	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities/ assets set off in the balance sheet	Net amounts of financial assets/ liabilities presented in the balance sheet	Financial instruments	Cash collateral received or deposited	Net amount
in thousands of CHF						
Derivative financial assets	691,672	(145,036)	546,636	**(2,249)**	**(20,549)**	**523,838**
Derivative financial liabilities	433,355	(145,036)	288,319	**(2,249)**	**(761)**	**285,309**

1 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default, insolvency or bankruptcy or following other events predefined in the contract by the counterparty. The cash collateral received and deposited is reported on lines "Trade payables and other current liabilities" and "Trade receivables and other current assets" in the Consolidated Balance Sheet.

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27 Related parties

The following shareholders hold a participation of more than 3% of the issued share capital of the Group's ultimate parent Barry Callebaut AG:

as of August 31,	2018	2017
Jacobs Holding AG, Zurich, Switzerland	50.11%	50.11%
Renata Jacobs	8.48%	8.48%
Massachusetts Mutual Life Insurance Company[1]	3.64%	3.65%

1 Including all subsidiaries controlled by the parent company.

Significant transactions and balances between the Group and related parties are as follows:

in thousands of CHF	Nature of cost/revenue	2017/18	2016/17
Other operating expenses charged by related parties		**(1,000)**	**(1,550)**
Jacobs Holding AG	Management services	(1,000)	(1,500)
Other		–	(50)
Other payables to related parties		**105**	**135**
Jacobs Holding AG		105	135

Compensation of key management personnel

The key management personnel is defined as the Board of Directors and the Executive Committee. Key management compensation consists of the following:

in million CHF	2017/18	2016/17
Short-term employee benefits	17.4	13.2
Post-employment benefits	2.0	1.6
Share-based payments	10.3	8.8
Total	**29.7**	**23.6**

Further details related to the requirements of the Swiss Transparency law (Art. 663b^{bis} and 663c Swiss Code of Obligations) are disclosed in notes 2.7, 3.5 and 3.6 in the Financial Statements of Barry Callebaut AG and in the Remuneration Report.

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28 Capital and lease commitments & guarantees

Capital commitments

as of August 31, in thousands of CHF	2018	2017
Property, plant & equipment	5,283	5,113
Intangible assets	509	91
Total capital commitments	**5,792**	**5,204**

Guarantees in favor of third parties

Group companies have issued guarantee commitments for the fiscal year 2017/18 in the amount of CHF 2.5 million (2016/17: CHF 4.5 million). These are mainly related to customs authorities and third-party suppliers.

Operating lease commitments

Operating lease commitments represent rentals payable by the Group for certain vehicles, equipment, buildings and offices. Equipment and vehicle leases were negotiated for an average term of 3.1 years (2016/17: 2.5 years).

The future aggregate minimum lease payments under non-cancellable operating leases are due as follows:

as of August 31, in thousands of CHF	2018	2017
In the first year	26,229	17,410
In the second to the fifth year	67,023	47,216
After five years	59,864	37,615
Total future operating lease commitments	**153,116**	**102,240**

in thousands of CHF	2017/18	2016/17
Lease expenditure charged to the statement of income	**27,318**	**16,482**

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29 Group entities

The principal subsidiaries of Barry Callebaut as of August 31, 2018, are as follows:[1]

Country	Subsidiary	Municipality of registration	%-owned	Currency	Capital
Switzerland	Barry Callebaut Sourcing AG	Zurich	100	CHF	2,000,000
	Barry Callebaut Schweiz AG	Dübendorf	100	CHF	4,600,000
	Barry Callebaut Cocoa AG	Zurich	100	CHF	100,000
	Barry Callebaut Management Services AG	Zurich	100	CHF	100,000
Belgium	Barry Callebaut Services N.V.	Lebbeke-Wieze	100	EUR	929,286,000
	Barry Callebaut Belgium N.V.	Lebbeke-Wieze	100	EUR	61,537,705
	Pierre Iserentant SA	Thimister-Clermont	100	EUR	260,908
	International Business Company Belgium BVBA	Kortrijk (Heule)	100	EUR	65,000
	Barry Callebaut Manufacturing Halle BVBA	Halle	100	EUR	15,488,952
	Cabosse Naturals NV	Halle	100	EUR	61,500
Brazil	Barry Callebaut Brasil SA	São Paulo	100	BRL	451,600,810
Cameroon	Société Industrielle Camerounaise des Cacaos SA	Douala	81	XAF	1,959,531,000
	SEC Cacaos SA	Douala	100	XAF	10,000,000
Canada	Barry Callebaut Canada Inc.	St.-Hyacinthe	100	CAD	2,000,000
	D'Orsogna Sweet Ingredients Ltd.	Ontario	100	CAD	1,000,000
Chile	Barry Callebaut Chile SpA	Santiago	100	CLP	8,001,000,000
China	Barry Callebaut (Suzhou) Chocolate Co., Ltd.	Suzhou	100	CNY	219,137,532
Côte d'Ivoire	Société Africaine de Cacao SA	Abidjan	100	XAF	25,695,651,316
	Barry Callebaut Négoce SA	Abidjan	100	XAF	3,700,000,000
	Biopartenaire SA	Yamoussoukro	100	XAF	200,000,000
Czech Republic	Barry Callebaut Czech Republic s.r.o.	Prague-Vinohrady	100	CZK	200,000
Denmark	Barry Callebaut Denmark ApS	Hostebro	100	DKK	500,000
Ecuador	Barry Callebaut Ecuador SA	Guayaquil	100	USD	50,000
France	Barry Callebaut Manufacturing France SAS	Hardricourt	100	EUR	6,637,540
	Barry Callebaut France SAS	Hardricourt	100	EUR	67,900,000
	Barry Callebaut Nord Cacao SAS	Gravelines	100	EUR	3,037,000
Germany	Barry Callebaut Deutschland GmbH	Norderstedt	100	EUR	77,600
	C.J. van Houten & Zoon Holding GmbH	Norderstedt	100	EUR	72,092,155
	Schloss Marbach GmbH	Öhningen	100	EUR	1,600,000
	Barry Callebaut Manufacturing Norderstedt GmbH & Co. KG	Norderstedt	100	EUR	50,100
	Barry Callebaut Cocoa Germany GmbH	Hamburg	100	EUR	25,000
Ghana	Barry Callebaut Ghana Ltd.	Tema	100	USD	9,204,219
	Nyonkopa Cocoa Buying Company Ltd.	Kumasi	100	GHS	4,250,000
Great Britain	Barry Callebaut Manufacturing (UK) Ltd.	Banbury, Oxfordshire	100	GBP	15,467,852
	Barry Callebaut (UK) Ltd.	Banbury, Oxfordshire	100	GBP	3,200,000
	Barry Callebaut Beverage UK Ltd.	Chester	100	GBP	40,000
India	Barry Callebaut India Private Ltd.	Maharashtra	100	INR	292,299,040
	D'Orsogna Sweet Ingredients Private Limited	Maharashtra	100	INR	93,546,460
Indonesia	P.T. Barry Callebaut Comextra Indonesia	Makassar	60	USD	31,460,000
	P.T. Papandayan Cocoa Industries	Bandung	100	USD	40,000,000
	P.T. Barry Callebaut Indonesia	Bandung	100	USD	1,800,000
Italy	Barry Callebaut Italia S.p.A.	Assago	100	EUR	104,000
	Barry Callebaut Manufacturing Italy Srl.	Milano	100	EUR	2,646,841
	Dolphin Srl.	Milano	100	EUR	110,000
	D'Orsogna Dolciaria S.r.l.	San Vito Chietino	100	EUR	5,000,000
	Barry Callebaut Decorations Italy S.r.l.	Rome	100	EUR	10,000
Japan	Barry Callebaut Japan Ltd.	Amagasaki	100	JPY	835,000,000

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Country	Subsidiary	Municipality of registration	%-owned	Currency	Capital
Malaysia	Barry Callebaut Malaysia Sdn Bhd	Petaling Jaya	100	MYR	35,000,000
	Barry Callebaut Services Asia Pacific Sdn Bhd	Petaling Jaya	100	MYR	500,000
	Barry Callebaut Manufacturing Malaysia Sdn Bhd	Johor Bahru	100	USD	10,000,000
Mexico	Barry Callebaut Mexico, S. de R.L. de CV	Escobedo N.L.	100	MXN	121,980,200
	Barry Callebaut Cocoa Mexico SA de CV	Monterrey	100	MXN	1,404,967
Morocco	Barry Callebaut Maroc SARLAU	Casablanca	100	MAD	–
Philippines	Cocoa Ingredients (Philippines) Inc.	Makati City	100	PHP	8,114,000
Poland	Barry Callebaut Manufacturing Polska Sp. z o.o.	Lodz	100	PLN	10,000,000
	Barry Callebaut Polska Sp. z o.o.	Lodz	100	PLN	50,000
	Barry Callebaut SSC Europe Sp. Z.o.o.	Lodz	100	PLN	2,000,000
Russia	Barry Callebaut NL Russia LLC	Moscow-Chekhov	100	RUB	864,510,182
	Gor Trade LLC	Moscow-Chekhov	100	RUB	58,000,000
Serbia	Barry Callebaut South East Europe d.o.o.	Belgrade	100	RSD	1,185,539
Sierra Leone	Bio United Ltd.	Freetown	100	SLL	114,000,000
Singapore	Barry Callebaut Chocolate Asia Pacific Pte. Ltd.	Singapore	100	SGD	100,000,000
	Barry Callebaut Cocoa Asia Pacific Pte Ltd.	Singapore	100	USD	558,130,320
South Africa	Barry Callebaut South Africa (pty) ltd.	Johannesburg	100	ZAR	–
Spain	Barry Callebaut Ibérica SL	Barcelona	100	EUR	25,000
	Barry Callebaut Manufacturing Ibérica, S.A.U.	Gurb	100	EUR	987,600
	La Morella Nuts S.A.	Castellvell del Camp	100	EUR	344,553
Sweden	Barry Callebaut Sweden AB	Kågeröd	100	SEK	100,000
	ASM Foods AB	Mjölby	100	SEK	2,000,000
Tanzania	Biolands International Ltd.	Moshi	100	TZS	40,000,000
Thailand	Siam Cocoa Products Co., Ltd.	Bangkok	100	THB	125,000,000
The Netherlands	Barry Callebaut Nederland B.V.	Zundert	100	EUR	21,435,000
	Barry Callebaut Decorations BV	Zundert	100	EUR	18,242
	Hoogenboom Benelux BV	Zundert	100	EUR	18,152
	Dings Décor B.V.	Nuth	70	EUR	22,689
	Barry Callebaut Cocoa Netherlands BV	Zaandam	100	EUR	18,000
Turkey	Barry Callebaut Eurasia Gida Sanayi Ve Ticaret Ltd. Sti.	Istanbul	100	TRL	103,000,000
USA	Barry Callebaut Cocoa USA Inc.	Chicago, IL	100	USD	7,663
	Barry Callebaut North America Holding Inc.	Wilmington, DL	100	USD	100,001,001
	Barry Callebaut USA LLC	St. Albans, VT	100	USD	100,190,211
	Barry Callebaut USA Service Company	Wilmington, DL	100	USD	1,000

1 Barry Callebaut has some dormant companies which are not disclosed as principal subsidiaries. These are Barry Callebaut Manufacturing Germany GmbH.; Barry Callebaut Holding (UK) Ltd., Selbourne; Barry Callebaut Nigeria; Adis Holding Inc.; Barry Callebaut USA Holding Inc. and Omnigest SAS.

Consolidated Financial Statements

30 Subsequent events

Approval of the Financial Statements

The Consolidated Financial Statements were authorized for issue by the Board of Directors on November 5, 2018, and are subject to approval by the Annual General Meeting of Shareholders on December 12, 2018.

Acquisition of manufacturing assets of Burton's Biscuit Company

On September 19, 2018, Barry Callebaut announced its intention to enter into a long-term supply agreement and to acquire the chocolate manufacturing assets of Burton's Biscuit Company. Burton's Biscuit Company is based in Moreton, UK, and is the second biggest biscuit manufacturer of the UK. Burton's Biscuit Company was founded in 2000, following the merger of the Horizon Biscuit Company Ltd. and Burton's Gold Medal Biscuits and is headquartered in St. Albans, UK.

Barry Callebaut intends to continue producing chocolate and compound at the Moreton site and transfer employees currently engaged in the manufacturing of chocolate at the Moreton facility to Barry Callebaut upon completion of the transaction.

The transaction is still subject to closing conditions and regulatory approval by the competent authorities. Completion of the transaction is expected by the end of the calendar year 2018, after finalizing all legal and social processes. The establishment and allocation of the purchase price to the net identifiable assets and goodwill can only be assessed at that point in time.

Acquisition of Inforum

On October 4, 2018, Barry Callebaut announced its intention to acquire Inforum Prom Ltd, a leading Russian business-to-business producer of chocolate, coatings and fillings, serving many of the well-known consumer chocolate brands in Russia.

Inforum was founded in 1989 and started its business selling cocoa products. The company operates a production site in Kasimov, Ryazan Oblast, and employs more than 300 people, who will transfer to Barry Callebaut upon completion of the transaction. This strategic acquisition will strengthen Barry Callebaut's presence and production capacity in the high-growth Russian market, allow it to expand its market position, to leverage its value-adding Gourmet & Specialties business and to further increase market penetration in CIS countries and export markets.

The transaction is still subject to closing conditions and regulatory approval by the competent authorities. Closing of the transaction is expected to occur by the end of the calendar year 2018. The establishment and allocation of the purchase price to the net identifiable assets and goodwill can only be assessed at that point in time.

There are no other subsequent events that would require any modification of the value of the assets and liabilities or additional disclosures.

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Statutory Auditor's Report

To the General Meeting of Barry Callebaut AG, Zurich

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Barry Callebaut AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 August 2018 and the consolidated income statement, statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 41 to 120) give a true and fair view of the consolidated financial position of the Group as at 31 August 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Existence and Valuation of Inventory

Derivative Financial Instruments and Hedge Accounting

Valuation of Goodwill

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Existence and Valuation of Inventory

Key Audit Matter

Inventory forms a significant part of the Group's assets, amounting to CHF 1,476.7 million as of 31 August 2018.

Inventory is made up of physical items and commodity contracts and is managed globally by using third party warehouses and outsourcing contracts.

Inventories are measured at the lower of cost and net realizable value, except for inventories that qualify as hedged items in a fair value hedge relationship (cocoa and non-cocoa commodity raw materials, semi-finished and finished products). These inventories are measured at cost, adjusted for the hedging gain or loss on the hedged item.

We focused on this area because of its size, the assumptions used in the valuation and the complexity of the supply chain, which are relevant when determining the amounts recorded, including the elimination of unrealized profits on inventory.

Due to an error in the way intercompany profits on inventory and related derivative financial instruments were determined and eliminated, the Group corrected prior year numbers by way of restatement.

Our response

We have, amongst others, performed the following audit procedures:

— Obtaining an understanding over the supply chain and testing selected key controls over recognition and measurement of inventory;

— Testing on a sample basis the accuracy of cost for inventory by verifying the actual production costs, and testing the net realizable value by comparing actual cost with relevant market data;

— Testing on a sample basis the applicability and accuracy of hedge accounting;

— For a sample of warehouses, attending the physical stock-take procedures or reconciling third party confirmations with the accounting records of the Group;

— Evaluating the adequacy of the intercompany profit elimination on inventory and related derivative financial instruments by assessing the methodology applied based on our knowledge and understanding of the Group;

— Challenging and comparing the assumptions and estimates used in determining intercompany profit elimination with transactional data and reported profit margins;

— Testing the model and recalculating the amounts used in determining the amounts to be eliminated from inventory and related derivative financial instruments, including prior year numbers;

— Assessing the presentation and disclosures of the restatement in the financial statements.

For further information on Inventory refer to the following:

— Summary of Accounting Policies, Restatement and reclassification of prior year comparatives (pages 48 to 50)

— Summary of Accounting Policies, Inventories (page 56)

— Notes to the Consolidated Financial Statements – 13 Inventories (page 73)

Derivative Financial Instruments and Hedge Accounting

Key Audit Matter

The Group reports net derivative financial assets at fair value of CHF 502.5 million and net derivative financial liabilities at fair value of CHF 642.0 million as of 31 August 2018.

Derivative financial instruments are used to manage and hedge commodity price risks, foreign currency exchange risks and interest rate risks. These instruments are typically designated in a fair value or cash flow hedge relationship. Financial instruments that are not designated in a hedging relationship and where no hedge accounting is applied are measured at fair value.

The fair value of the derivative financial instruments is based on quoted prices in active markets or on valuation models using observable input data.

We focused on this are because of the number of contracts, their measurement and the complexity related to hedge accounting.

Due to an error in the way intercompany profits on inventory and related derivative financial instruments were determined and eliminated, the Group corrected prior year numbers by way of restatement.

Our response

We have performed, amongst other audit procedures, the following test work:

— Obtaining an understanding of the risk management policies and testing key controls for the use, the recognition and the measurement of derivative financial instruments;

— Reconciling derivative financial instruments data to third party confirmations;

— Comparing input data used in the Group's valuation models to independent sources and externally available market data;

— Comparing valuation of derivative financial instruments with market data or results from alternative, independent valuation models;

— Testing on a sample basis the applicability and accuracy of hedge accounting;

— Considering the appropriateness of disclosures in relation to financial risk management, derivative financial instruments and hedge accounting.

For our audit procedures in connection with eliminating intercompany profits on inventory and related derivative financial instruments, we refer to the Key Audit Matter "Existence and Valuation of Inventory".

For further information on Derivative Financial Instruments and Hedge Accounting refer to the following:

— Summary of Accounting Policies, Restatement and reclassification of prior year comparatives (pages 48 to 50)

— Summary of Accounting Policies, Derivative financial instruments and hedging activities (pages 52 to 55)

— Notes to the Consolidated Financial Statements – 14 Derivative financial instruments and hedging activities (page 74)

— Notes to the Consolidated Financial Statements – 26 Financial risk management (pages 93 to 115)

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Valuation of Goodwill

Key Audit Matter

The Group reports goodwill totalling CHF 831.0 million as of 31 August 2018, arising from past business combinations.

Management has to assess goodwill for impairment on a yearly basis using a discounted cash flow model to determine the value in use of goodwill balances. This requires the use of a number of key assumptions and judgments, including the estimated future cash flows, long-term growth rates, profitability levels and discount rates applied.

Furthermore, in case of business combinations occurring during the reporting period, management applies judgement in allocating the goodwill to the appropriate cash-generating units (CGUs).

We focused on this area in light of the amounts involved and the level of judgement and estimation required.

Our response

Our audit procedures included, amongst others, evaluating the methodical and mathematical accuracy of the model used for the impairment testing, the appropriateness of the assumptions, and the methodology used by management to prepare its cash flow forecasts. We involved our own valuation specialists to support our procedures.

In particular, we performed the following:

— Gaining an understanding and assessing the reasonableness of business plans by comparing the assumptions to prior year;

— Comparing business plan data against budgets and the mid-term plan as approved by the Board of Directors;

— Recalculating the value in use calculations;

— Challenging the robustness of the key assumptions used to determine the value in use, cash flow forecasts, long-term growth rates and the discount rates based on our understanding of the commercial prospects of the related CGUs and by comparing them with publicly available data, where possible;

— Conducting sensitivity analysis, taking into account the Group's historical forecasting accuracy; and

— Comparing the sum of net asset value to the market capitalisation of the Group.

We also considered the appropriateness of disclosures in the consolidated financial statements.

For further information on Goodwill refer to the following:

— Summary of Accounting Policies, Intangible assets, Goodwill (page 56)

— Notes to the Consolidated Financial Statements – 18 Intangible assets (pages 78 to 80)

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

François Rouiller Licensed Audit Expert Auditor in Charge	Patricia Bielmann Licensed Audit Expert

Zurich, 5 November 2018