Financial Review

Business Performance Review fiscal year 2017/18

Strong performance in favorable market environment

The overall market conditions in 2017/18 were favorable with a growing global chocolate confectionery market (according to Nielsen[1] +1.8% volume growth in fiscal year 2017/18) and relatively low levels of raw material prices.

The Group's volume increased by +6.3% to 2,035,857 tonnes, with a particularly strong performance in the first half of the year (+8.0%). The strong performance was broadly based in all Regions and Product Groups and supported by our key growth drivers Emerging Markets, Gourmet & Specialties and Outsourcing.

Operating profit (EBIT) significantly improved versus prior year (recurring), up +21.2% in local currencies (+25.3% in CHF), and amounted to CHF 554.0 million. The strong increase is driven by volume growth and a better product and customer mix across all Regions and Product Groups.

Net profit for the year on a recurring basis increased by +31.0% in local currencies and reached CHF 357.4 million (+35.9% in CHF).

The Group's continued focus on Free cash flow (FCF) is one of the key elements of its 'smart growth' strategy. Free cash flow amounted to CHF 311.9 million, compared to an exceptionally strong CHF 475.6 million in the previous fiscal year, which had benefited from decreasing cocoa bean prices and some positive one-off items.

Corporate strategy and mid-term guidance

Barry Callebaut continues to execute its consistent long-term strategy based on four pillars (Expansion, Innovation, Cost Leadership and Sustainability). A smart balance between consistent above-market volume growth and enhanced profitability remains a key focus. The mid-term guidance is valid until 2018/19:

- Average volume growth 4–6%
- Average EBIT growth above volume growth*

* In local currencies and barring any major unforeseen events.

Low cocoa bean prices and continued volatility in other raw materials

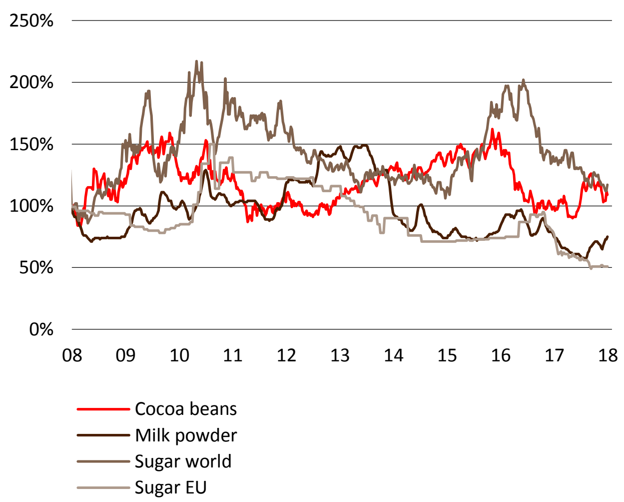
Over the course of fiscal year 2017/18, cocoa bean prices increased by +10.9% to GBP 1,688 per tonne. The price has been very volatile, ranging from a low of GBP 1,349 per tonne in January 2018 to a high of GBP 1,971 per tonne in May 2018. However, the average cocoa bean price for fiscal year 2017/18 was –6.8% lower than the average bean price in the previous year. Following the record crop last year, the current 2017/18 cocoa bean crop is more balanced, due to lower mid crops in Côte d'Ivoire and Ghana.

The favorable level of cocoa bean prices and good demand for cocoa products led to an average combined ratio slightly above the previous year.

In 2017/18 the world sugar crop showed a significant surplus. This led to a further decline of –13.8% in world sugar prices and –34.2% for the European market driven by the elimination of production and export quotas.

Dairy prices initially weakened at the beginning of 2017/18 due to record-high deliveries. However, due to the heatwave in Europe during the summer 2018, prices started to rebound. Dairy prices ended the year at similar levels to where they started.

Raw material prices
September 2008 to September 2018



1 Nielsen, August 2017 to August 2018 – 25 countries.

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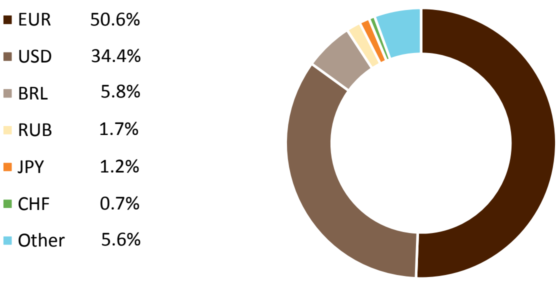
Foreign currencies

In fiscal year 2017/18, volatility in foreign exchange markets increased again, mainly in the emerging market currencies. The Group is naturally hedged to the extent that it produces and sells products locally and hedges any remaining currency exposure that arises from commercial transactions. The impact arising from the translation of results into the Group's reporting currency (Swiss franc) however is not hedged.

For the fiscal year under review, the average exchange rate for the EUR, which accounts for half of the Group's sales revenue, appreciated by +7.0% against the Swiss franc. On the other hand the US dollar depreciated slightly by –1.4% against the Swiss franc. Significantly more volatile, especially towards the end of fiscal year 2017/18, was the development in some major emerging market currencies with the Brazilian real depreciating –7.3% and the Russian ruble –1.2% against the Swiss franc.

In total, the currency translation effects mentioned above had a positive year-on-year impact of +2.0% on sales revenue and +4.2% on EBIT (recurring).

Sales revenue in functional currency



Solid growth in global chocolate demand

The chocolate confectionery market continued its recovery and according to Nielsen[2], grew by a solid +1.8% during the period under review.

1 Nielsen, August 2017 to August 2018 – 25 countries.
2 See page 48, Summary of Accounting Policies – Restatement and reclassification of prior year comparatives. Comments in this section refer to prior year numbers on restated and recurring basis unless otherwise stated.

Consolidated Income Statement[2]

Margin accretive volume growth

Sales volume for the fiscal year 2017/18 increased by +6.3% to 2,035,857 tonnes.

This growth was broad-based with contributions from all Regions and Product Groups, fuelled by the key growth drivers Emerging Markets, Gourmet & Specialties and Outsourcing.

Sales revenue rose by +0.1% in local currencies (by +2.1 % in CHF) to CHF 6,948.4 million. The positive effect from the volume growth was almost entirely offset by lower prices for raw materials and cocoa based products, which the Group passes on directly to customers for a large part of its business.

Gross profit amounted to CHF 1,157.1 million, corresponding to an increase of +17.2% in local currencies (+20.7% in CHF). The increase, which is significantly above volume growth, was fuelled by a good product and customer mix, as well as a more favorable market environment.

Marketing and sales expenses increased by +8.8 % to CHF 150.0 million. To continuously attract margin accretive business and leverage on recent investments and acquisitions, the Group continued its campaign to promote its global Gourmet brands and expanding the worldwide footprint of its CHOCOLATE ACADEMY™ Centers and distribution network. The Group also expanded its sales network for specialty products to Food Manufacturers.

General and administration expenses increased by +17.0% to CHF 441.0 million. The increase is partly due to scope effects and costs in relation to the Group's recent acquisitions and growth in emerging markets. It is also the result of continued investments in structures, processes and tools and related higher amortization expenses to cater to future growth.

Other income amounted to CHF 19.6 million compared to CHF 35.6 million in the prior year. This position contains non-sales-related income such as income from the Group's Training Center, the sale of waste products as well as claims on insurances and suppliers. The prior year amount contained an exceptional item related to the negative goodwill (badwill) of CHF 20.0 million recognized for an acquisition.

Other expenses amounted to CHF 31.7 million compared to CHF 19.2 million in prior year. This position comprises costs related to litigation and claims, losses on disposal of assets, impairment charges and some other non-recurring items. The increase is mainly due to higher losses on impairments and disposals of assets.

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Strong increase in EBIT and EBIT/tonne

Operating profit (EBIT) grew significantly by +21.2% in local currencies (+25.3% in CHF) to CHF 554.0 million on a recurring basis. This strong increase outpaced volume growth and is the result of the higher gross profit.

EBIT per tonne on a recurring basis – i.e. excluding the one-off effect of the aforementioned acquisition in prior year – increased by +14.0% in local currencies (+17.8% in CHF) to CHF 272.1.

Finance income slightly increased and amounted to CHF 6.4 million (prior year CHF 5.2 million).

Finance costs amounted to CHF 107.7 million, compared to CHF 127.0 million in the previous year. The decrease is mainly due to lower interest expenses in light of the repayment of the EUR 350 million 6% Senior Notes in July 2017.

Income tax expenses increased to CHF 95.5 million from CHF 57.4 million in the prior year. This is on the one hand due to a significantly higher profit before tax. On the other hand, the tax reforms in Belgium and the US, enacted in December 2017, led to a one-time non-cash expense of CHF 12.9 million, mostly due to the revaluation of the deferred tax assets and liabilities at the newly enacted tax rates. As a consequence, the Group's effective tax rate increased to 21.1%, compared to 17.0% in the prior year. Excluding this effect the tax rate was at 18.2%.

Net profit for the year strongly increased by +22.5% in local currencies (+27.1% in CHF) to CHF 357.4 million. This increase can be attributed to the increased EBIT, while the increased tax expenses were largely offset by lower net finance costs. On a recurring basis, **net profit for the year** increased by +31.0% in local currencies (+35.9% in CHF).

Consolidated balance sheet – further improved ratios due to increased profitability

Total assets increased by +6.7% to CHF 5,832.0 million at the end of August 2018, compared to CHF 5,466.5 million the year before. This is largely due to higher inventories and trade and other receivables partly resulting from the Group's growth as well as the increase in property, plant and equipment and intangible assets mainly resulting from acquisitions.

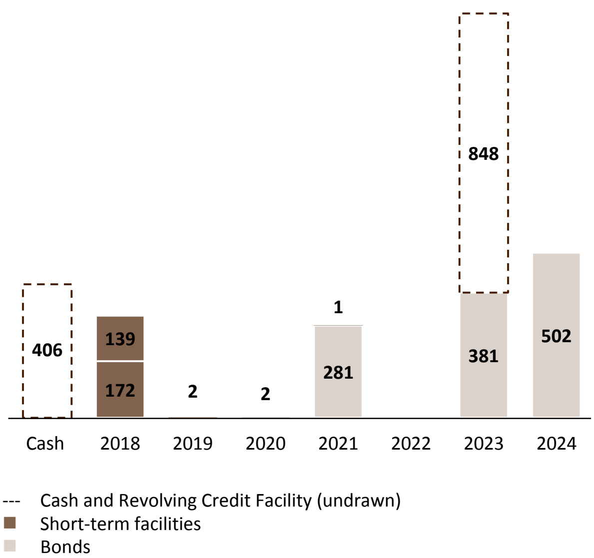
Net working capital increased by CHF 31.9 million to CHF 1,074.4 million as of August 31, 2018 when compared to CHF 1,042.5 million the year before. The increase is largely in line with the Group's growth. The effect of higher inventory, trade receivables and other current assets and somewhat lower trade payables and other current liabilities was largely offset by a corresponding increase in net derivative financial liabilities, which is a reflection of the Group's hedging approach.

Net debt decreased by CHF –36.6 million to CHF 1,074.3 million at August 31, 2018, as a result of higher repayments due to excess cash generated by the Group. 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 to 4.9 years.

Equity – including equity attributable to the share-holders of the parent company and non-controlling interests – amounted to CHF 2,285.5 million, up CHF 159.4 million compared to the CHF 2,126.1 million at the end of August 2017. Equity attributable to the shareholders of the parent company amounted to CHF 2,269.8 million compared to last year's CHF 2,111.2 million. The increase mainly results from the net profit generated, partly offset by the payout to shareholders and negative cumulative currency translation adjustments.

Due to the aforementioned lower net debt and the higher equity, the debt-to-equity ratio improved from 52.6% to 47.3%. The solvency ratio slightly increased from 38.6% to 38.9%. The return on invested capital (ROIC) increased to 13.3% compared to 11.0% in the prior year.

Liquidity – debt maturity profile



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Consolidated Cash Flow Statement

Cash generated from operating activities amounted to CHF 671.2 million compared to an exceptionally strong comparable of CHF 823.8 million in the prior year. The prior year had been positively affected by the lower cocoa bean prices and some positive one-off items summing up to a cash-inflow related to net working capital changes of CHF 220.6 million. In the current year working capital increased in line with the Group's growth resulting in a cash-out for net working capital of CHF –35.2 million.

Cash outflow for interest was CHF –93.1 million compared to CHF –96.8 million in prior year. Cash outflow for tax was CHF –62.6 million compared to CHF –43.0 million in prior year.

Overall, this resulted in a **net cash from operating activities** of CHF 515.5 million compared to CHF 684.0 million the year before.

Net cash flow from investing activities amounted to CHF –330.3 million (prior year: CHF –205.7 million). The amount was largely related to the Group's investments of CHF –217.9 million in property, plant and equipment as well as in intangibles, at a slightly lower level than in prior year (CHF –220.4 million). In addition to that, there was a cash outflow related to acquisitions in the amount of CHF –126.7 million (prior year CHF +2.7 million). The other elements in investing cash flow resulted in a net inflow of CHF +14.3 million compared to CHF +14.7 million in prior year.

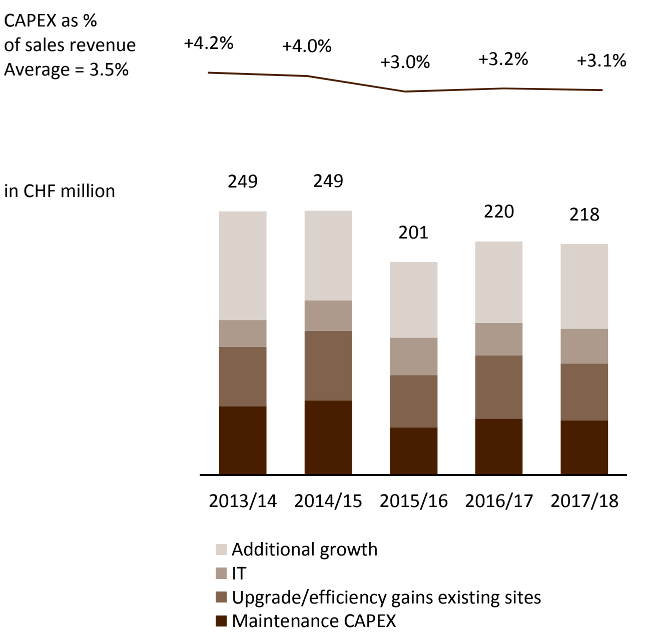
Net cash flow from financing activities amounted to CHF –174.0 million, compared to CHF –525.7 million in prior year. Net cash outflow in the current year was impacted by the repayment of debt amounting to CHF –73.7 million, partly offset by the debt issue of CHF 32.6 million (prior year CHF 121.5 million). The prior year was additionally affected by the repayment of the ten-year EUR 350 million Senior Notes maturing in July 2017 and a term loan of CHF 150 million. The position also contains the cash-out in the amount of CHF –69.9 million for dividends and the nominal capital reduction of CHF –39.9 million (prior year CHF –23.0 million for dividends and the nominal capital reduction CHF –62.1 million) as well as the cash outflow of CHF –22.8 million for the purchase of treasury shares (prior year CHF –17.1 million).

Free cash flow amounted to CHF 311.9 million, compared to an exceptionally strong CHF 475.6 million in the previous fiscal year, which had benefited from low cocoa bean prices and some positive one-off items.

Capital expenditure

Capital expenditure reflected in the cash flow statement amounted to CHF –217.9 million (fiscal year 2016/17 CHF –220.4 million). The Group maintained its focus on investments that best support its strategy of 'smart growth' by selectively approving capital expenditure with a high return on investment.

Capital expenditure



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Outlook

The Group will continue to execute its ‘smart’ growth strategy. The good visibility on volume growth paired with a healthy market environment give the Group the confidence that it will achieve its mid-term guidance (2015/16–2018/19): On average 4–6% volume growth and EBIT growth above volume growth in local currencies, barring any major unforeseen events.

Barry Callebaut share performance

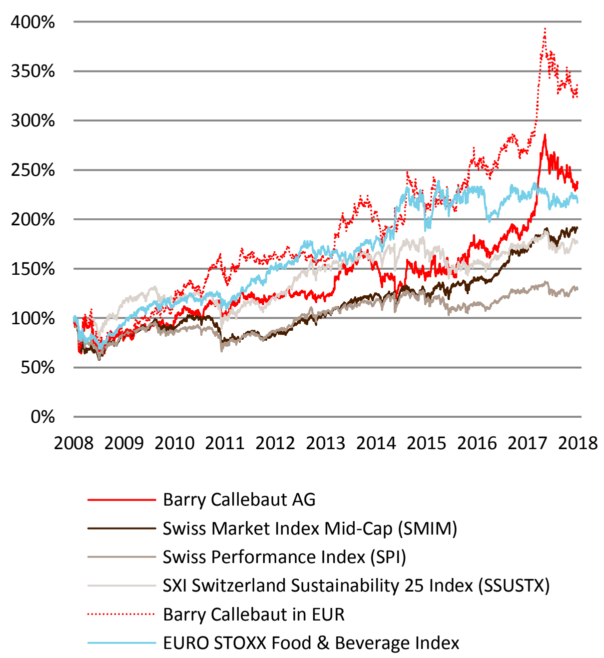
Barry Callebaut shares closed at CHF 1,728 on August 31, 2018, +25.2% above the previous year’s closing price, and outperforming the market. EURO STOXX Food & Beverage Index declined –2.7%, in the same period, while Swiss Small and Mid Caps (SMIM) increased +12.0% and SPI by +2.0%. Barry Callebaut also outperformed SXI Switzerland Sustainability 25® index basket (+2.0%), which brings together the 25 most sustainable companies listed in Switzerland. Barry Callebaut has been a member of this index since 2016. The index is based on an annual assessment by Sustainalytics of all companies composing the SMI Expanded® index. Barry Callebaut continues to be an outperforming company on sustainability, as was confirmed by the 2018 Sustainalytics assessment[3].

Key share data as of August 31, 2018

Shares outstanding	5.5 million
Closing share price	CHF 1,728
Market capitalization	CHF 9.5 billion
52-week high	CHF 2,086
52-week low	CHF 1,370
Average daily volume	9,165 shares

The chart below illustrates the long-term performance of Barry Callebaut shares compared to the relevant indices (2008–2018):

Share price development Barry Callebaut vs. indices



Over a ten-year period (2008–2018), the long-term performance of Barry Callebaut shares (+137.5%) clearly exceeds the returns for the Swiss indices (SMIM +91.0%, SSUSTX +75.9%, SPI +29.3%), and the EURO STOXX Food & Beverage Index (+117.1%) when calculating Barry Callebaut share price in EUR (+239.3%).

3 Source: Sustainalytics, Barry Callebaut AG ESG Report 2018.

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Dividend

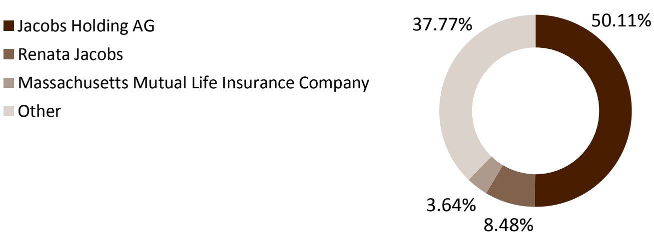
The Board of Directors will propose a payout to shareholders of CHF 24.00 per share (+20.0%) at the Annual General Meeting of Shareholders on December 12, 2018. This represents a payout ratio of 37%. The dividend will be paid to shareholders on or about January 9, 2019, subject to approval by the Annual General Meeting of Shareholders.

Key share data

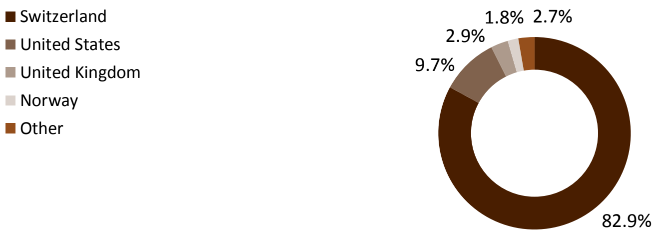
The share capital of Barry Callebaut AG as of August 31, 2018 amounted to CHF 109,777 consisting of 5,488,858 fully paid-in shares with a nominal value of CHF 0.02 each. There is one single class of shares in which every share has the same voting power and grants the same entitlement to dividends.

The free float, excluding the majority shareholders (Jacobs Holding AG and Renata Jacobs), at the end of August 2018 was 41.4%, with the majority of the institutional shareholders based in Switzerland, followed by the US, UK, Norway and other countries.

Ownership structure as of August 31, 2018



Country split of institutional shareholders



Analyst recommendations

Currently, 12 financial analysts regularly cover Barry Callebaut. At the end of fiscal year 2017/18, seven recommended holding our shares, four had a sell recommendation and one a buy recommendation. At the end of August 2018, the average target price according to consensus estimates was CHF 1,668.

Credit rating

Barry Callebaut has active relationships with Standard & Poor's and Moody's. On September 18, 2018 Moody's upgraded the Group's long-term issuer rating to investment grade.

The current ratings are:

- Moody's: Baa3 / stable
- Standard & Poor's: BB+ / positive