

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, Bendsorp, Delfi, Van Houten and Chadler for cocoa powder; and Bendsorp, 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.

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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:

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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			
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

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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

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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.

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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

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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.