



# LINDT & SPRÜNGLI

Kilchberg, August 23, 2005

## *Semi-Annual Report*

**JANUARY – JUNE 2005**

**Lindt & Sprüngli grows at double-digit rate and gains market shares**  
**Growth: +10.4% in local currencies, +8.9% in Swiss francs**  
**First-half net income profitable for the first time: CHF 4.7 million**  
**(previous year CHF –1.7 million)**

### Income Statement: Key Figures

(Swiss GAAP FER)

	2005 January–June CHF million	2004 January–June CHF million	Change CHF million	%
<b>Sales growth in local currencies</b>				<b>10.4</b>
<b>Sales</b>	<b>847.2</b>	<b>778.0</b>	<b>8.9</b>	
Operating expenses, depreciation & amortization	–840.2	–777.9		8.0
<b>Operating profit (EBIT)</b>	<b>7.0</b>	<b>0.1</b>	<b>6.9</b>	
Financial result	–0.1	–1.7	1.6	
Extraordinary expenses	–0.2	–0.9	0.7	
<b>Income before taxes</b>	<b>6.7</b>	<b>–2.5</b>	<b>9.2</b>	
Taxes	–2.0	0.8	2.8	
<b>Semi-annual net income</b>	<b>4.7</b>	<b>–1.7</b>	<b>6.4</b>	
<b>Employees</b>	<b>5 945</b>	<b>5 644</b>		<b>5.3</b>

### Balance Sheet: Key Figures

(Swiss GAAP FER)

	30.6.2005 CHF million	%	31.12.2004 CHF million	%
<b>Assets</b>				
Net fixed assets	572.5	39.8	551.2	32.1
Intangible assets & financial assets	2.7	0.2	2.7	0.2
<b>Total fixed assets</b>	<b>575.2</b>	<b>40.0</b>	<b>553.9</b>	<b>32.3</b>
Inventories	297.3	20.7	271.1	15.8
Receivables	306.8	21.4	628.7	36.7
Marketable securities & cash	257.4	17.9	260.3	15.2
<b>Total current assets</b>	<b>861.5</b>	<b>60.0</b>	<b>1 160.1</b>	<b>67.7</b>
<b>Total assets</b>	<b>1 436.7</b>	<b>100.0</b>	<b>1 714.0</b>	<b>100.0</b>
<b>Liabilities and shareholders' equity</b>				
Share and participation capital	21.8		21.8	
Treasury stock	–8.5		–2.1	
Consolidated reserves	844.3		866.8	
Currency translation	–30.3		–56.0	
<b>Total shareholders' equity</b>	<b>827.3</b>	<b>57.6</b>	<b>830.5</b>	<b>48.5</b>
<b>Long-term liabilities</b>	<b>280.5</b>	<b>19.5</b>	<b>281.5</b>	<b>16.4</b>
Accounts payable	110.7		214.3	
Accrued liabilities	189.8		244.6	
Bank and other borrowings	28.4		143.1	
<b>Current liabilities</b>	<b>328.9</b>	<b>22.9</b>	<b>602.0</b>	<b>35.1</b>
<b>Total liabilities</b>	<b>1 436.7</b>	<b>100.0</b>	<b>1 714.0</b>	<b>100.0</b>

### COMMENTS

Chocoladefabriken Lindt & Sprüngli AG once again confirmed the successful development of recent years. With a double-digit organic growth rate of 10.4% in local currencies and an increase in sales of 8.9% in Swiss franc terms, Lindt & Sprüngli is once again growing faster than the market as a whole. When analyzing the Group's earnings in the first half of 2005, it is important to bear in mind the seasonal and gift-oriented nature of the premium chocolate business: the Lindt & Sprüngli Group makes less than 40% of its annual sales during the first half of each year, but at the end of June these sales are charged with around half of the fixed costs of production, administration and marketing. This means that the profitability of the Lindt & Sprüngli Group in relation to sales in the first half of the year cannot be equated with its profitability over the year as a whole. Thanks to the excellent sales in the first half of 2005, the operating profit rose substantially to CHF 7.0 million while the semi-annual net income became positive for the first time in the company's history growing to CHF 4.7 million.

### MARKET

The sluggish economy in Europe (particularly in Italy, Germany and France) made for little improvement in consumer sentiment. In most European countries, including Switzerland, retail sales were at best stable, if not slightly in decline while the consumer mood in the United States, Canada and Australia largely remains positive. Under these prevailing conditions, the European chocolate markets overall recorded only low growth; in some countries, growth was actually negative.

### SALES

In the first half of 2005, Lindt & Sprüngli's sales achieved CHF 847.2 million which represents a growth of 10.4% in local currencies and of 8.9% in Swiss franc terms. The Group was thus able to increase its market share in all important markets and

segments. All subsidiaries (except Caffarel) contributed to this successful development, with some reporting high double-digit growth rates. As virtually all currencies lost ground against the Swiss franc (EUR -0.9%, USD -5.0%, AUD -5.0%), the year-on-year growth was slightly lower in Swiss francs than in local currencies. Lindt & Sprüngli's sustained positive sales performance stems mainly from its clear positioning in the premium segment and its innovation and creativity in product development and marketing activities. LINDOR and EXCELLENCE, two main product lines, continued to be major growth contributors. Lindt & Sprüngli also posted excellent results in the important seasonal business with the introduction of new consumer-relevant products. In this sector, which is mainly dominated by gift products, the premium brand name and the attractiveness of the products are much more significant factors in the purchase decision than price. Lindt & Sprüngli consequently invests particularly large sums in marketing, distribution and product development in this market segment. The "Mâitres Chocolatiers" communications campaign continued to successfully generate enormous support for the LINDT brand in all markets. At the end of June 2005, organic growth in local currencies was once again above the strategic, long-term objective of 5% to 7%.

## PRODUCT SEGMENTS

The premium quality of the Lindt & Sprüngli products hinges on the exclusive attention to its core business – the manufacture of chocolate – starting with the selection of the finest high-quality cocoa beans from the best areas of cultivation continuing with the gentle processing and ending with attractive offers and elegant packagings. Thanks to a broad range of both new and traditional products, Lindt & Sprüngli posted excellent sales during the **spring business** period, particularly during the important **Easter season**, and this despite the fact that Easter was early this year. The GOLD BUNNY, in its diverse variations, was once again the unrivaled top seller worldwide, although the rest of the very extensive product range created especially for the Easter season was also extremely popular in all regions. In the Anglo-Saxon markets (USA, Canada and UK), where Valentine's day is a major event, Lindt & Sprüngli once again shone with an attractive range of LINDOR BALLS in a variety of appealing packagings, which proved particularly popular because of their red color. On Mother's Day too, LINDT presented a range of elegant products with a high gift potential. Lindt & Sprüngli's sustained innovative capacity once again enabled it to maintain its strong position in the **chocolate bar segment** in all markets, while introducing additional recipes to

further consolidate the market position of product lines such as EXCELLENCE, "Les Grandes" and "Petits Desserts" newly launched in recent years. As every year, Lindt & Sprüngli is offering lovers of light and refreshing summer recipes an innovative range of limited-edition products with fruit and yogurt fillings. In the United States, the extraordinary success story of Ghirardelli's SQUARES continues. In the **pralinés segment**, the rise of the successful LINDOR Balls is taking sales around the world to record levels. Other major steps forward included the seasonalization of assorted praliné offerings, such as "Nouvelle Confiserie", the modified choice of "Petits Desserts" and the redesigned packaging of "Mini Pralinés", which particularly appeals to the younger generation. In response to consumers' growing demand for high-quality dark chocolate, LINDT has very successfully extended its product range to include "Pralinés Noirs Intenses". The four different recipes of these delicate specialties particularly emphasize the aromatic intensity and the strong character of cocoa beans sourced from Cuba and Ecuador. In the dark chocolate segment in particular, the skill, experience, expertise and passion of LINDT's Mâitres Chocolatiers have been proven guarantees for the highest quality standards for 160 years. New praliné assortments for special occasions such as "birthday chocolates" have been well received in Germany. Thus, in the pralinés segment as well, Lindt & Sprüngli is demonstrating its innovative capacity and competence in the manufacture of chocolate for the ultimate pleasure, which is particularly important in this market segment.

## COMPANIES

**European companies:** The progressive expansion of distribution in the UK and the success of the marketing and sales measures taken in Poland enabled the two local subsidiaries to post growth in the high double-digit range during the first half of 2005. The other companies are also growing at an impressive rate of between 4% and 10%. The European key markets are largely ruled by fierce competitive pricing but thanks to its successful marketing strategy, Lindt & Sprüngli was able to make above average sales gains in all marketplaces.

**North American companies:** Both Lindt & Sprüngli and Ghirardelli benefited from the positive economic environment and from a rising interest in premium chocolate among US retailers and consumers, enabling them to further expand distribution across the US. At the same time, the consumer awareness ratings of both brands were boosted by nationwide advertising campaigns and other marketing activities such as consumer tasting sessions and point-of-sale events. The main focus is on LINDOR Balls

and EXCELLENCE chocolate bars in the case of LINDT and on the successful SQUARES in the case of Ghirardelli. The LINDT Boutiques and the Ghirardelli shops still play a key part in terms of anchoring and expanding the brand image. The LINDT boutique concept, which year-for-year has been making further progress, will not only remain in place, but will be expanded with the opening of a further 5 to 10 new boutiques per year. The double-digit growth of the two US subsidiaries in the first half of 2005 makes LINDT and GHIRARDELLI the fastest growing premium chocolate brands.

**Other markets:** High double-digit sales growth rates were once again achieved in **Australia**. The main factors behind this sustained positive trend are the further consolidation of the highly successful LINDOR line, the expansion of the already well-established Easter business with the most appreciated GOLD BUNNY and the successful launch of the EXCELLENCE line of chocolate bars. Opened in November 2004, LINDT's flagship store in downtown Sydney is becoming the "in-place" and meeting point for sophisticated chocolate lovers. The **duty free business** performed very well, as did all European and overseas **export markets**.

## COSTS

During the first half of 2005, the cost of raw materials and packaging increased slightly in relation to sales compared with the year-ago period. Unlike **cocoa bean** prices, which have remained more or less constant compared with last year, the cost of **cocoa butter** has increased because of a combination of high demand, accompanied by low demand for cocoa powder, and full utilization of manufacturers' pressing capacity. **Hazelnuts** and **almonds** posted further price rises compared with the previous year and are persisting at a high level despite the prospect of a relatively good harvest. The cost of **packaging materials** remained more or less the same. Growing somewhat slower than sales volume, the number of employees increased by 5.3% to 5945 persons. This means a slight improvement in **personnel costs** as a proportion of sales. In light of the positive trend of business, **marketing investments** were once again increased with a view to steadily strengthening the established position of the LINDT brand in all segments, particularly in new markets with major potential and continuous expansion of distribution.

## INCOME

Thanks to solid sales growth, resulting higher capacity utilization and correspondingly better coverage of fixed costs, as well as to efficiency gains in

various business areas, the **operating profit (EBIT)** progressed to CHF 7.0 million, which represents an increase of CHF 6.9 million compared with the year-back period. For the first time in its history, Lindt & Sprüngli has also posted a positive semi-annual net income. The result of CHF 4.7 million reflects an improvement of CHF 6.4 million compared with the previous year.

#### BALANCE SHEET

A comparison of the balance sheet as at June 30, 2005 and as at December 31, 2004 shows the effect of the seasonal nature of Lindt & Sprüngli's business, which is reflected in a decline in accounts receivable accompanied by a simultaneous reduction in current liabilities. The associated shortening of the balance sheet for the first half of 2005 results in a corresponding improvement in the equity ratio to 57.6% – which bears witness to the consistently solid financing of the Group.

#### OUTLOOK FOR FULL YEAR 2005

**Sales:** A possible slowdown in some markets might have a slight impact on the sales dynamic in the second half of 2005. Nevertheless, Lindt & Sprüngli expects to achieve or even exceed the strategic growth objective of 5% to 7% for the year as a whole.

**Capital Expenditures:** The combined impact of capacity expansion as a result of excellent volume growth, the replacement of production facilities and one-time infrastructure expenditures will mean that the level of capital expenditures will rise to over CHF 120 million by the end of 2005.

**Profit:** As things stand at present, the operating profit (EBIT) is expected to increase slightly ahead of sales. Net income should also improve due to the financial result and taxes.

#### AGENDA

The Lindt & Sprüngli Group will publish financial information on the following dates:

- January 24, 2006:  
Net Sales for 2005
- March 14, 2006:  
2005 Year-end Presentation to the press: (morning)
- 2005 Year-end Presentation to Financial analysts' (afternoon)
- April 20, 2006:  
108<sup>th</sup> Annual General Meeting
- First-half of August 2006:  
Release of Semi-annual report January to June 2006

## TRANSITION TO IFRS

#### RE-STATEMENT OF 2004 ANNUAL RESULTS:

When considering the annual forecasts, it is also necessary to take account of the impact of the transition to IFRS. Although the negative impact on sales and profitability will be minimal for Lindt & Sprüngli, the 2004 figures as revised in accordance with IFRS still need to be taken as the basis for the full year outlook forecast. Lindt & Sprüngli's financial statements for the full-year 2005 will be stated according to IFRS principles for the first time. To ensure that comparisons can be drawn to the previous year, the annual figures for 2004,

which were stated according to Swiss GAAP FER, will be adjusted in the income statement and balance sheet. All in all, the impact of the transition from Swiss GAAP FER to IFRS on the 2004 accounts can be described as minimal.

#### IFRS INCOME STATEMENT:

In the case of sales, the use of IFRS has the effect of reducing the 2004 result by CHF 22 million, or 1.1%, to CHF 1994.6 million in comparison with the result reported according to Swiss GAAP FER. Application of IFRS rules results in the net income for 2004 being adjusted by –1.5% to CHF 149 million.

#### IFRS BALANCE SHEET:

After adjustment to IFRS, shareholders' equity as of December 31, 2004 amounts to CHF 792.5 million. This corresponds to a reduction of CHF 38 million, or 4.6%, compared with the Swiss GAAP FER statement. The difference is attributable primarily to non-recurring higher expenditures on pension obligations owing to the adjustment of the discount rate, which is 3.5% under IFRS as against 4.25% under Swiss GAAP FER. Even after this adjustment, the Lindt & Sprüngli Group still shows a solid equity ratio of 46.1% as of December 31, 2004.

	2004 FER CHF million		2004 IFRS CHF million		Change absolute CHF million	
		%		%		%
Sales	2 016.6	100.0	1 994.6	<b>100.0</b>	–22.0	–1.1
Operating profit (EBIT)	219.4	10.9	215.8	<b>10.8</b>	–3.6	–1.6
Net income	151.2	7.5	149.0	<b>7.5</b>	–2.2	–1.5