

Letter to Shareholders 2018

Dear Shareholders

Despite the challenging trading environment in 2018, the Lindt & Sprüngli Group once again continued its solid growth path and further extended its leading position in the premium chocolate market. Year after year, Lindt & Sprüngli has been expanding faster than the overall chocolate market, and 2018 was no exception. We increased our market share in all the countries we are active in.

This result is particularly encouraging given the persistently difficult market conditions. Political and economic uncertainty undermined consumer confidence in 2018 in many of our most important markets. Chocolate markets in Europe and the US either stagnated or slightly decreased. Other factors creating a tougher market environment included the rapidly changing retail landscape and the mounting price pressure on our trading partners.

A successful procurement strategy allowed us to benefit from lower raw material prices. However, prices for our most important raw materials cocoa beans and cocoa butter rose again slightly in 2018. The price of hazelnuts in US dollars decreased slightly due to the marked volatility of the Turkish lira. Almond prices remained stable, on the other hand. Milk prices were also steady overall. Sugar prices dropped a little thanks to good harvests, while poor crop yields for vanilla pushed market prices up to record highs.

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Lindt & Sprüngli’s Group sales increased by +5.5% in Swiss francs to reach CHF 4.313 billion. The currency environment was volatile during the reporting period, so that our consolidated sales in Swiss francs show a slightly positive currency effect, mainly due to a stronger euro. The Lindt & Sprüngli Group achieved organic sales growth of +5.1%, which is within the target range set for the financial year.

“Europe” is still the most important segment for the Lindt & Sprüngli Group, contributing almost half of Group sales. Overall organic growth in the European markets was a very solid +5.6%. We also managed to increase our share of all the mostly saturated European markets, generating higher than average growth. Our sales performance was particularly strong in the UK, Germany, Austria, and Spain, while growth in our East European subsidiaries managed to climb into the double digits.

In the “North America” region, where markets are exposed to flat growth and price pressure, organic sales growth amounted to +2.8%. Highlight in the region was the outstanding double-digit sales growth by Lindt & Sprüngli in Canada. Lindt USA and Ghirardelli also achieved positive sales growth and outperformed the overall market. Russell Stover reported a slight decline in sales. However, their Christmas sales were satisfying.



Dr Dieter Weisskopf, CEO of the Lindt & Sprüngli Group and **Ernst Tanner**, Executive Chairman of the Board of Directors at the headquarter of Lindt & Sprüngli in Kilchberg.

The launched sugar-free chocolate line with stevia extract performed well and extended its market share in this segment. Another new launch is planned for 2019, this time with the top-selling line of assorted pralines. The new and fresh design has already been presented to retailers and feedback has been very positive. Over the past financial year, we have made substantial investments in the North American market in order to lay the foundation for profitable sales growth in future in this region. New logistics centers opened in California, Georgia, and Texas, creating the capacities and synergies in the supply chain for our three brands, Lindt, Ghirardelli, and Russell Stover. With these three brands, the Lindt & Sprüngli Group maintains its position as No. 1 in the premium segment and No. 3 in the US chocolate market.

All countries in the “Rest of the World” segment experienced strong growth and their development is extremely promising. Their contribution to Group sales is steadily rising year after year. Overall growth in these countries amounted to +10.3%, and these chocolate markets hold substantial potential, especially Japan, South Africa, Brazil and China, where growth reached the double digits. A new distribution center opened in Japan in November 2018. Its modern refrigeration plants and efficient warehousing systems will ensure that our Shop network is served as efficiently as possible. Another highlight in this segment was the double-digit sales growth in the global distribution business. Lindt & Sprüngli is represented by distributors in over 100 countries.

With double-digit growth and more than 50 additional own Shops spread across the world, Global Retail once again made a notable contribution to the overall Group result. Lindt, Ghirardelli, Russell Stover and Caffarel Shops can now be found in 460 prime sites worldwide, attracting over 80 million visitors every year. Highlights during the reporting year included over ten openings in Germany and Japan. There was a grand opening ceremony for three new Shops in the German theme park Europa-Park Rust, which are now a popular attraction. In 2019 we celebrate the 10th anniversary of our own retail network. Since their inception in 2009, our own Shops and Cafés have been a major success story that we can be proud of.

Innovation has always been a strong tradition at Lindt & Sprüngli. Today, our pace of innovation is faster than ever, and every year we bring new creations on to the market. This year’s Annual Report looks behind the scenes into the world of Research & Development. To cater for constantly changing consumer demands, around 90 specialists worldwide work day after day to ensure that every new product has the potential to become a classic one day. Our eight local product development teams based in Switzerland, Germany, France, Italy, Austria and the USA are led by highly experienced and long-serving managers who over the past years have played a key role in delivering the high standards of quality and manufacturing and developing the Group’s strong product portfolio. There are now over 2,500 products in our portfolio which excel in terms of taste, quality, design and premiumness.

The solid growth path of our Group companies once again laid the foundation for a very successful operating performance: Group operating profit (EBIT) rose by +6.9% to CHF 636.7 million (previous year: CHF 595.4 million). The EBIT margin also improved again from 14.6% in the previous year to 14.8%. Net income thus increased by +7.6% to CHF 487.1 million (previous year: CHF 452.5 million), providing a return on sales of 11.3% (previous year: 11.1%). Operating cash flow rose to CHF 651.6 million (previous year: CHF 591.0 million). Our balance sheet is still solid.

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We are extremely grateful for the continuing trust placed in the company by our shareholders. Our strong performance in 2018 means we can continue our attractive dividend policy. The Board of Directors is proposing to the 121st Annual General Meeting scheduled for May 2, 2019, a +7.5% higher dividend of CHF 1,000.– per registered share (CHF 360.– from the approved capital contribution reserves (agio) free of withholding tax and CHF 640.– from available retained earnings) and CHF 100.– per participation certificate (CHF 36.– from the approved capital contribution reserves (agio) free of withholding tax and CHF 64.– from available retained earnings).

We would also like to draw your attention to a personnel change in Lindt & Sprüngli’s Group Management. After 25 years of service, Andreas Pfluger decided to retire and left the company on December 31, 2018. The Board and Group Management would like to thank him for his valuable contribution over the years to the success of the Lindt & Sprüngli Group.

An important element of our strategy is a commitment to maintaining the highest quality in all areas of activity and to ensuring the business is managed according to sustainable principles. Significant progress has been made in the sourcing of sustainable cocoa beans since we launched our Lindt & Sprüngli Farming Program in 2008. We are well on track to meet our goal of achieving a fully traceable and verifiable supply chain for cocoa beans by 2020. Today, all the countries from which we currently source cocoa beans are covered by our sustainability Program and more than 72,500 farmers can benefit from support tailored to their specific needs. The aim of the Lindt & Sprüngli Farming Program is to enable more effective and sustainable cocoa-growing methods, thereby bringing a lasting improvement to the living standards of the farmers and their families. Main components of the Program are to give specialist knowledge and skills to support the farmers in using their own initiative to adopt more professional business practices, increase crop yields and also diversify their sources of income. As well as investing in infrastructure for local communities, preserving and promot-

ing biodiversity and natural ecosystems are equally important priorities. But our endeavors are not limited simply to cocoa: we have made a commitment to integrate sustainability along the entire supply chain – from bean to bar. The focus during the reporting period has been on the realignment of our sustainability strategy in order to step up our efforts and formulate concrete commitments. Examples include our “No-Deforestation Commitment”, which states that by 2025 our entire cocoa beans will be sourced from areas with no deforestation, women should make up 40% of senior management by 2025, and we work on our vision to have fully recyclable packaging.

Dedicated and motivated employees are the cornerstones of our strong corporate culture and vital to the success of the Lindt & Sprüngli Group. On behalf of the Board of Directors and Group Management, we would therefore like to thank them all personally for their extremely hard work over the course of this very challenging year. Our thanks must also go to the millions of consumers worldwide who enjoy our premium chocolate products every day and place their trust in us, along with our many business partners and suppliers for the vital contribution they make towards maintaining the exceptional quality of Lindt & Sprüngli products. Last but not least, our thanks go to our shareholders for their continuing trust and the capital they provide for our business activity.

We have moved a step closer to achieving the vision of strengthening the Swiss chocolate industry with a center of excellence. The Lindt Home of Chocolate, financed and realized by the Lindt Chocolate Competence Foundation, reached another milestone in September, when more than 250 workers, tradesmen, engineers, planners, etc. involved in the construction project attended a topping-out ceremony. The next stage before the building opens in early summer 2020 will be the complex task of fitting out the interior and configuring the Center’s outside space.

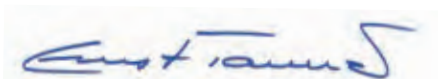
Outlook

Supported by stronger growth in the North America region, Lindt & Sprüngli anticipates sales growth of 5–7% in the mid- to long-term and a steady improvement in the operating margin of 20–40 basis points. This should allow Lindt & Sprüngli to continue to grow faster than average in all the markets.

In March 2018 a buyback program worth up to CHF 500 million was launched for registered shares and participation certificates and is scheduled to run until July 31, 2019. The buyback program is progressing according to plan. As at December 31, 2018, shares and participation certificates worth CHF 119.6 million had already been repurchased, representing some 0.8% of the total share capital.

Last year's Annual Report included information about an important investment and the modernization of our Olten facility, the Lindt Cocoa Center, to strengthen Switzerland's position as an international location. The cocoa mass produced there is supplied to our European production companies, where it is then processed into fine chocolate. The project is on schedule and we are looking forward to the opening ceremony in the spring of 2019.

We will continue to pursue our global expansion plans in 2019. In March 2019 we will open a new subsidiary in the Netherlands and a representative office in Portugal will open in November 2019. We will also be opening numerous Lindt Shops and Cafés in vibrant city centers and will roll out many product innovations that will continue to delight and inspire millions of consumers in 2019.



Ernst Tanner
Executive Chairman of the Board of Directors



Dr. Dieter Weiskopf
CEO Lindt & Sprüngli Group