# LINDT & SPRÜNGLI

# Annual Report 2005

# Key Financial Data of the Lindt & Sprüngli Group

## Income Statement

| | | 2005 | 2004 | Change in % |
|---|---|---|---|---|
| Consolidated sales | CHF million | **2 246.9** | 1 994.6 | 12.6 |
| EBITDA | CHF million | **325.1** | 295.1 | 10.2 |
| in % of consolidated sales | % | **14.5** | 14.8 | |
| EBIT | CHF million | **248.6** | 215.8 | 15.2 |
| in % of consolidated sales | % | **11.1** | 10.8 | |
| Net income | CHF million | **172.7** | 149.0 | 15.9 |
| in % of consolidated sales | % | **7.7** | 7.5 | |
| Cash flow | CHF million | **257.2** | 231.2 | 11.2 |
| in % of consolidated sales | % | **11.4** | 11.6 | |

## Balance Sheet

| | | | | |
|---|---|---|---|---|
| Total assets | CHF million | **1 908.1** | 1 714.6 | 11.3 |
| Current assets | CHF million | **1 255.2** | 1 136.6 | 10.4 |
| in % of total assets | % | **65.8** | 66.3 | |
| Non-current assets | CHF million | **652.9** | 578.0 | 13.0 |
| in % of total assets | % | **34.2** | 33.7 | |
| Non-current liabilities | CHF million | **312.7** | 313.9 | –0.4 |
| in % of total assets | % | **16.4** | 18.3 | |
| Shareholders' equity | CHF million | **971.1** | 793.7 | 22.4 |
| in % of total assets | % | **50.9** | 46.3 | |
| Investments in property, plant and equipment/intangible assets | CHF million | **128.9** | 99.2 | 29.9 |
| in % of cash flow | % | **50.1** | 42.9 | |

## Employees

| | | | | |
|---|---|---|---|---|
| Average number of employees | | **6 652** | 6 293 | 5.7 |
| Sales per employee | CHF 1 000 | **337.8** | 317.0 | 6.6 |

## Data per share

| | | | | |
|---|---|---|---|---|
| Net income per share/10 PC[1)] | CHF | **788** | 684 | 15.2 |
| Cash flow per share/10 PC | CHF | **1 169** | 1 059 | 10.4 |
| Dividend per share/10 PC | CHF | **225** [2)] | 180 | 25.0 |
| Payout ratio | % | **28.7** | 26.5 | |
| Shareholders' equity per share/10 PC | CHF | **4 413** | 3 636 | 21.4 |
| Price registered share 31.12. | CHF | **21 950** | 16 650 | 31.8 |
| Price participation certificate 31.12. | CHF | **2 237** | 1 618 | 38.3 |
| Market capitalization per 31.12. | CHF million | **4 863.8** | 3 598.1 | 35.2 |

[1)] Based on weighted average number of registered shares/10 participation certificates

[2)] Proposal of the Board of Directors

LINDT & SPRÜNGLI

# Content



108th Annual Shareholders' Meeting
Thursday, April 20, 2006, 10 a.m.
Kongresshaus Zurich, Kongresssaal
Entrance K, Claridenstrasse, Zurich

This Annual Report is also available in German, which is the legally binding text.

# Chairman's Report

**DEAR SHAREHOLDER**

The year 2005 not only marked the 160th anniversary of Lindt & Sprüngli, but will also go down in our history as the year in which sales rose by the highest percentage ever. In the year under review, our group of companies sold chocolate worth an impressive CHF 250 million more than in 2004, which had itself been a record year in every respect. Despite the continuing sluggish economic environment and price aggressive competition, this exceptional result is due to sales growth at each subsidiary company and in every product category. The sales growth exceeded that of total chocolate consumption many times over and our market shares once again rose sharply in most areas. As part of our geographical expansion and targeted opening of new markets with strong potential, we established two new distribution companies in 2005, Mexico and Sweden. With these new organizations, we are extending the scope of our own companies, our aim being to serve a growing number of important markets under our own management. In this way, Lindt & Sprüngli is once again demonstrating its ability for organic growth without being dependent on potentially risky acquisitions.

In line with the rules of the Swiss Stock Exchange, Lindt & Sprüngli has for the first time drawn up its financial statements for 2005 in compliance with IFRS accounting principles. The comparative figures for the year 2004 were also revised accordingly. In 2005, the Group reported sales of 2.247 billion Swiss francs, equivalent to organic growth of 11.4% in local currency terms or 12.6% in Swiss francs. The slightly higher growth in Swiss francs is explained by a stronger US and Canadian Dollar. Thanks to efficient management and price increases, rising costs for transport, energy and raw material were offset, and the operating result before interest and tax (EBIT) improved by an impressive 15.2% to 248.6 million Swiss francs. The group's net income rose still more strongly by 15.9% to 172.7 million Swiss francs, equivalent to a return on sales of 7.7% (against 7.5% in the previous year). Group cash flow rose by 11.2% to 257.2 million Swiss francs. At the end of 2005, the equity ratio was 50.9%, while the average return on equity was 19.6%. All of these are record results.

In view of the sales and profit growth achieved, the Board of Directors is proposing to the next General Meeting of April 20, 2006, the payment of a dividend of 225.– Swiss francs per registered share and 22.50 Swiss francs per participation certificate. This is equivalent to an increase of 25% over the previous year.

The brand value also grew inexorably. In 2005, LINDT moved up to rank number twelve among the most valuable brands in Switzerland. The constant good results are also being recognized by the stock market. After our shares and participation certificates had already gained more than 50% in value in 2004, Lindt & Sprüngli papers once again also in 2005 proved to be a safe and profitable investment in an outstandingly positioned company. The registered share price rose by 32%, while the value of the participation certificates exceeded the previous year's figures by as much as 38%. This good and stable long-term trend of the stock market capitalization of Lindt & Sprüngli, which reached

an impressive figure of 4.9 billion Swiss francs at the end of 2005, is a clear token of the fact that investors not only believe in the company's strategy and philosophy, but also believe in management by rewarding them with their interest and loyalty.

The substantial progress and excellent results of the last financial year are founded on a history of success which dates back 160 years. Even in times of crisis and war and over this long period of time, the company has overcome a constant series of setbacks and obstacles thanks to its uncompromising commitment to the finest quality. These significant accomplishments would hardly have been possible on such a scale if the many generations of people who were and are responsible for the prosperity of the business had not shown a sustained effort to excel themselves at all times. Lasting success may, after all, lead to complacency and eventually stagnation. But Lindt & Sprüngli has managed over many decades to do more than just be satisfied with the good results of the past and has instead set ever higher targets for itself. To reach this objective, a great deal of know-how and expertise are needed, as well as a far-sighted approach, tenacity, and faith in ourselves.

Nearly 95% of the chocolate consumed all over the world is produced outside Switzerland. Producing premium chocolate products in a high-wage country is no easy proposition, when around 90% of the customary raw materials and ingredients have to be imported and the processed products must then be successfully exported again. Against that background, quality, innovation, and product image play a key role. A long chain of effort in many different areas is necessary to safeguard and maintain these attributes. After all, every compromise, every wrong strategic decision that endangers the well-deserved reputation of the product and brand developed over such a long period of time, can ultimately have fatal consequences.

Maintaining its position under these challenging conditions is no easy task for Lindt & Sprüngli. In today's globalized competition, only a company which neglects none of the factors that contribute to success can survive. These factors include excellent performance and continuing investment in the areas of process engineering, research and development, quality assurance, marketing, and brand management beside a sound brand strategy, consistent positioning and a clear focus on core competences. The most important and sustainable investment, however, must be made in employees because ultimately success depends on the human beings who stand behind the product and the brand.

Only ongoing efforts to develop expertise and practical experience in all sectors and at all levels of the organization can permanently guarantee the highest possible level of competence for our staff while ensuring that know-how will be passed on to coming generations. Lasting economic success is therefore safeguarded only by the ideal combination of a great many different factors in the technical and staffing areas. A premium product not only calls for premium ingredients and premium processing, but also for permanent "premium" performance by the people who make it.

To all our staff members all over the world, who are committed – day in and day out – with such motivation, know-how, and passion to the quality and success of our wonderful products, I now wish to express my gratitude also on behalf of the Board of Directors and the Group Management. It is thanks to them and to the first-rate cooperation with our trade partners and suppliers that millions of consumers all over the world decide in favor of LINDT. We also owe a debt of gratitude to our shareholders, who have placed their trust in us over the many years and decades, while showing their loyalty to the Lindt & Sprüngli management and the LINDT products.

## OUTLOOK

It is an acknowledged fact that Lindt & Sprüngli has set a worldwide trend for premium quality chocolate. As the only global business which is exclusively committed to the premium chocolate sector, we will be placing even greater emphasis on this trend in the future through our activities and marketing investments and rightfully benefit from the results. This development is increasingly supported by our trading partners, more and more of whom give high-quality products the shelf position they deserve. This is not just a temporary phenomenon of fast-changing habits, but a solid consequential trend based on a clearly recognizable pattern of consumer behavior. This trend, which is so positive for us as a premium manufacturer, further strengthens our belief that also in the future we can realize our long-term strategic goal of 5 to 7% growth in sales and 8 to 10% in profitability.

Ernst Tanner
Chairman of the Board of Directors
and Chief Executive Officer

# Business Review 2005

## MARKETS

The slight improvement in economic conditions and short-term revival of consumer sentiment were overshadowed by the ongoing debate that features Switzerland as a "high-price island" against a backdrop of the European hard-discount chains entering the market. There were no sustainable growth factors. The **Swiss retail trade** responded with price cuts and with launches or expansion of low-price lines, and pursued aggressive pricing strategies for branded articles.

Concentration within the trade continued with the withdrawal of one retail group and the simultaneous acquisition of its Swiss business by another discounter. The closing of many specialist chocolate shops further curtailed the scale of distribution. On the other hand, the importance of impulse-buying opportunities as a distribution channel for confectionery continued to grow. Sales on the chocolate market were slightly declining until summer. Falling average prices and big price reductions for promotions did not positively influence consumers. It was only in the second half, and especially towards the end of the year, during the Christmas business, that personal consumption showed a hesitant recovery, but focusing mainly on the luxury-goods segment.

In this challenging environment, **Chocoladefabriken Lindt & Sprüngli (Schweiz) AG** reported sales of CHF 236.0 million, representing another significant 9.5% upturn over the previous year (215.5 million CHF). This sales growth was the result of extensive marketing activities as well as the consistent pursuit of the premium strategy that is very clearly reflected in product innovations. LINDT enriched the current trend towards dark chocolate with high cocoa contents by introducing three new, pure origin specialties in the EXCELLENCE line: the chocolate bars designated as having their origins in the regions of Madagascar and Ecuador immediately proved to be a big success. Another product innovation was successfully launched on the market in the form of *Pralinés Noirs Intenses*, an equally high-percentage praline mix using cocoa from Central America. Emotionally designed LINDOR specialties were especially successful as gifts for Valentine's Day and Mother's Day. The new praline mixes launched in 2004 have passed the test of time and are a fine expression of the outstanding skills of the LINDT Maîtres Chocolatiers. They added a dynamic element to this market segment and were a major hit. The *Mini Pralinés*, packed in trendy colors, established themselves firmly on the market as stylish small gift items, while the newly designed LINDT *Tourism* assortment is proving to be very popular as a global ambassador for Swiss chocolate culture. The refreshing fruit and coffee recipes were also very well received by consumers and went a long way to invigorating the summer business.


Of all our promotional activities, the annual *Gourmet Festival* deserves special mention. In September, 180 LINDT Maîtres Chocolatiers were educating hundreds of thousands of consumers all over the country about chocolate, pampering them with some 300 000 samplings of the finest praline creations, and gaining their enthusiastic support for the LINDT brand.

In the Kilchberg plant, a new bar molding line was successfully put into operation. The Swiss production site is now superbly equipped to handle its increasingly important role, especially in view of the export business segment.

With rising exports, **Germany** benefited from the recovery of the world economy and achieved economic growth of 0.9%. Ongoing debates about reforms, increasing unemployment, and all manner of corporate crises did, however, result in flat domestic demand for the fourth year in a row. The chocolate market reported a decline of 2.2%. Bucking this negative trend, **Chocoladefabriken Lindt & Sprüngli GmbH** once again reported satisfactory growth, with sales up by 10% at EUR 273.8 million.

This dynamic sales swing once again made Lindt & Sprüngli the fastest-growing company on the chocolate market in 2005, also thanks to its consistent premium and distribution strategy. On the chocolate-tablet market, LINDT was able to extend its leading position in dark chocolate with the successful introduction of the new *Edelbitter Mousse* line. These tablets, with a dark chocolate mousse filling covered in tender, fine bitter-sweet chocolate, make an ideal addition to the successful EXCELLENCE solid chocolate bars in the bitter-sweet segment.

Pralines reached double-digit percentage growth. The popular LINDOR balls were given a boost by a successful tasting campaign and TV advertising. Sales rose massively. The redesigned CREOLA Pralines and the launch of a fine bitter-sweet collection also brought double-digit sales growth for assorted pralines.

Product innovations, including MINI LAMBS as hollow figures and high-quality confectionery eggs, together with the ever-popular GOLD BUNNY, helped LINDT to extend its market leadership significantly in the seasonal Easter trade. The Santa made of bitter-sweet chocolate and gourmet balls in holiday flavors were the outstanding innovations for the Christmas selection.

To satisfy rising demand, further investments were made into increasing the capacity of the Aachen plant.


In the midst of a continuing high rate of unemployment, political unrest, and a widespread feeling of uncertainty, **France's** economy was still unable to build up momentum by the end of 2005. Rising energy prices and the higher cost of living depressed consumer sentiment still further.

After two years of modest growth, the overall chocolate market was stagnating in 2005 and remained in both volume and value terms at the level of the previous year. With strong pressure on prices and the focus on promotions as the result of a call by the government for lower prices, most brands cut their advertising budgets. Demand for chocolate was scarcely stimulated and the hoped-for dynamic growth of market volumes never materialized. It seems likely that this strong concentration on prices and promotions will become still more acute when the *Galland* Law expires in 2006. Up to now, this text had prescribed permanent price parity for the same product in different distribution channels.

**Lindt & Sprüngli SAS** was able to confirm the high rate of growth of the previous year once again with an increase in turnover of 6.8% to EUR 258.9 million despite the generally weak economy. This sustained success is attributable primarily to the seasonal business, in which strong advertising campaigns at Christmas and Easter brought double-digit sales growth. In the Easter business, the hollow figures are taking up a key position thanks to the launch of the GOLD BELL and the further growth of the GOLD BUNNY. The Christmas promotions also brought substantial extra sales. This excellent result is attributable to LINDT's successful innovations, and particularly improved presence in the shops with an extended seasonal product range. In addition to the re-launch of *Mille & Une Douceurs* and *Petit Desserts Macarons* in the assorted praline segment, the classically dark and most traditional of all the LINDT praline lines – the *Champs-Elysées* – was extended to include a variant with assorted milk chocolates. The new nut variety launched in 2004 for the traditional successful winter specialty LES PYRÉNÉENS brought further dynamic growth to our Christmas business. On the shrinking market for chocolate tablets, LINDT was still able to hold its position. Sales of EXCELLENCE stabilized and the recently introduced new bars known as *Petits Desserts* and *Double Lait* continued their victorious advance. In addition to this innovative product range, the strengthened position in the retail trade and an increasing presence at points of sale are doing much to promote LINDT's growth in France.



The Italian economy's downward trend continued. The general elections scheduled for the Spring of 2006 blocked all economic policy decisions by the government, while consumer spending on food continued to decline and last year's consumer confidence remained at a low. The chocolate market grew by a modest 2.6% in value terms, falling short of volume growth (+3.6%) for the first time in many years. The explanation of this phenomenon resides in the weak Easter business, which shows a higher price/weight ratio than other segments, and also in price cuts, due to greater promotional activities in favor of chocolate bars.

In a retail scenario in which modern distribution channels are becoming ever more important, the two Italian subsidiaries reported sales growth of 4.1% for a total of EUR 216.5 million and continuous expansion of their market shares. With their premium chocolate products, they are benefiting particularly strongly from the slight increase in Italian per-capita chocolate consumption.

**Lindt & Sprüngli SpA** expanded distribution in the fast growing modern distribution channels, and sales of the LINDT brand rose by 5.8% The EXCELLENCE line in the chocolate-bar segment proved to be the driving force behind this renewed growth. Thanks to more intensive advertising and promotional activities and to the market launch of LINDOR *Fondentissimo* and EXCELLENCE *Orange Intense*, significantly higher sales figures were achieved. LINDOR was a great success with a completely renewed seasonal collection for the specialized retail trade and with the excellent foothold gained by the *Maxi* LINDOR ball. With its introduction of EXCELLENCE Easter eggs and the GOLD BUNNY in the modern food trade, LINDT achieved above-average growth in the generally subdued Easter business, contrary to the prevailing trend, and won important extra market shares. Awareness of the LINDT brand is increasing steadily year after year and it now ranks number two in the Italian market.

In response to the growing demand for LINDT products, a building adjacent to the factory site was acquired and will be used to expand production and storage capacity.



**Caffarel SpA** and its high-quality products are of exclusive premium character. They are found exclusively in the traditional specialty retail trade, which was declining last year. Overall, Caffarel was able, however, to strengthen its position in the specialty retail channels. A further challenge was the important Easter business which suffered from the significantly shorter pre-Easter selling period than in the year before. These two factors had a negative impact on sales. Despite these unfavorable developments and circumstances, Caffarel was able to slightly increase sales by 0.3% owing to the broad range of product innovations, the successful export activities which benefited from the demand for high quality Italian food products, and thanks to the growing business-to-business activity. A license agreement with the *Torino 2006* Olympic Committee permitting the launch of a product line dedicated to this important event will do much to promote international awareness of the CAFFAREL brand.

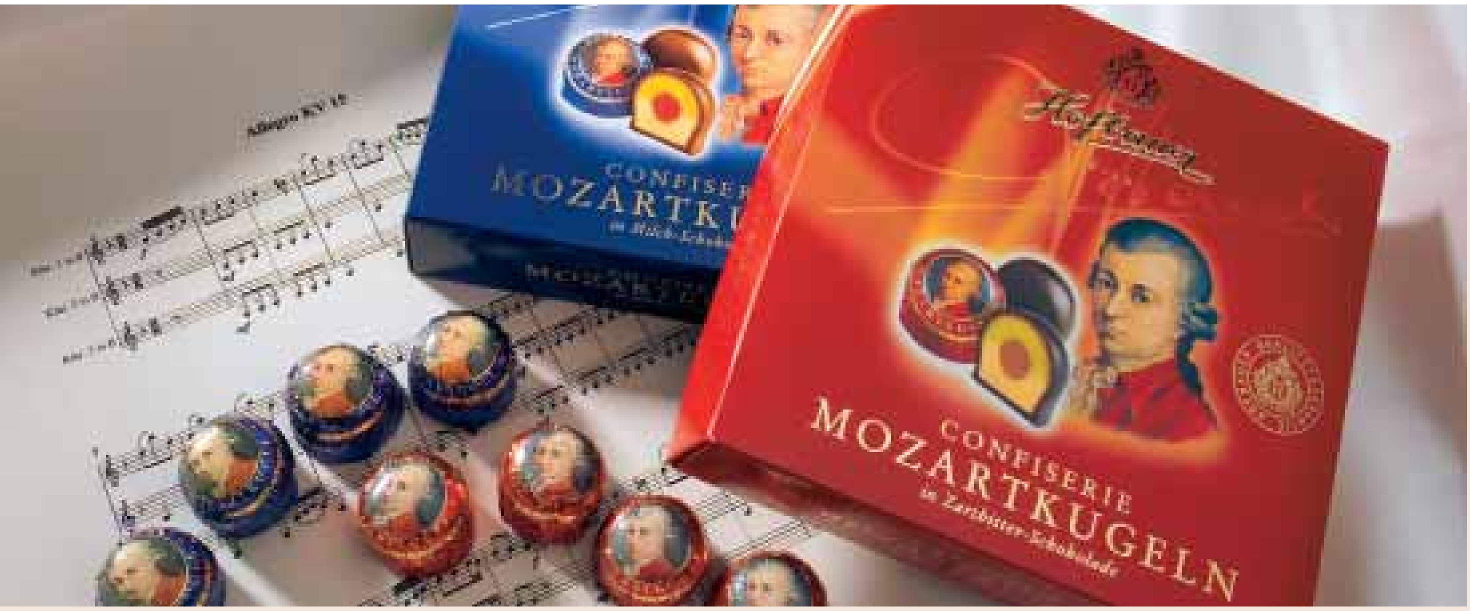
The food trade in **Austria** showed a decline and the chocolate-bar and praline market were also adversely affected. Despite this prevailing trend, **Lindt & Sprüngli (Austria) Ges.m.b.H.** grew quicker than the confectionery market and increased sales by roughly 3%. This result, realized in a difficult market and trade environment, must be considered as very positive. The growing pressure on prices and competition was successfully counteracted by increased advertising activities and innovative new products, especially in the EXCELLENCE and LINDOR ranges. Against that background, the EXCELLENCE line reported continuing strong growth. The GOLD BUNNY remained very popular in the growing seasonal business and was the best-selling single Easter article in Austria in 2005.

In **Spain**, economic growth was higher than the European average and consumer demand was correspondingly vigorous. The chocolate market gained 8%. Once again, **Lindt y Sprüngli (España) SA** performed significantly better than the overall market and won substantial new market shares with sales up by 12.1%. Thanks to the focus on LINDOR and backed by an optimized product range and targeted marketing activities, LINDT was able to consolidate and even expand its position as the fastest-growing brand in the praline segment for the third year in a row. With the introduction of EXCELLENCE *Orange Intense*, flanked by sustained marketing activities, the EXCELLENCE assortment further strengthened its market leadership on the dark-chocolate side. Long-standing leadership in the filled chocolate-bar segment was further strengthened by the launch of new varieties and an excellent degree of acceptance. With the victorious advance of the GOLD BUNNY, LINDT achieved market leadership in the Easter business for the very first time.


The **British chocolate market**, which is the second largest in the world, remained practically unchanged, with negative value growth of 0.5%. This downturn is attributable to tough price competition between the big retail chains, especially in their Easter and Christmas business. No end to this situation is in sight, as the consolidation phase in the British retail trade is continuing. Untouched by this competitive environment, **Lindt & Sprüngli (UK) Ltd.** completed another successful year on this hotly contested market and achieved notable sales growth of 22%. Additional market shares were won in all the chocolate segments. This excellent performance contrasts sharply with the trend of its competitors and made LINDT the driving force behind growth on the UK chocolate market in the eyes of its trading partners.

**Lindt & Sprüngli (Poland) Sp. z o.o.** increased its sales by 21.3%, performing significantly better than the overall market. In the chocolate-bar and praline segments, our market positions were also improved. EXCELLENCE, in particular, contributed to this extremely positive result by doubling its sales. LINDOR, too, reported above-average growth rates. This trend clearly shows that LINDT still has plenty of potential on the Polish confectionery market thanks to its premium positioning and despite the continuing low purchasing power of the country's population.

In the regions of **Central and Eastern Europe, in Scandinavia and in the Benelux Countries,** LINDT once again developed very favorably. All the countries contributed to the exceptional 55% growth rate. In Russia, targeted marketing activities helped to increase the company's presence in the retail trade, and two nationwide TV campaigns for EXCELLENCE brought extraordinarily rapid sales growth. The markets in Denmark, Finland, the Netherlands, the Czech Republic, in Hungary, and Bulgaria are also showing highly promising development: in these regions, the potential for LINDT remains high, and significant annual progress is being made, even if it is still only on a modest level.




Since July 1, 2005, the Swedish market is under the auspices of newly founded **Lindt & Sprüngli (Sweden) AB**. This advance into the biggest Scandinavian chocolate market is the logical consequence of the particularly strong demand for LINDT products over the recent years. Thanks to the consistently high profile of the EXCELLENCE tablet line, LINDT has risen to the position of second largest brand in this segment and continues to experience the most dynamic market-share growth. The success in the tablet segment shall be carried on to the premium praline and seasonal business with LINDOR and the GOLD BUNNY. Initial results in these sectors show attractive future potential. LINDOR sales doubled, representing the biggest leap forward in the praline segment, while the GOLD BUNNY was the most successful new launch for the 2005 Easter business.

The confectionery market in the USA, Canada, and Mexico grew rather slowly, with a 2% increase in value; volumes were not particularly dynamic either. However, a growing number of consumers appreciate high quality and innovative chocolate products. This general trend favors the consistent premium positioning of LINDT and GHIRARDELLI. The **two US subsidiaries,** which together generated growth of 19.8% with sales of USD 336.7 million (USD 281.1 million in the previous year) are able to look back on another very successful year; indeed, they advanced to become the two fastest-growing brands on the American chocolate market.

**Lindt & Sprüngli (USA), Inc.** was clearly able to surpass upon its record result of the previous year, with excellent sales growth of 27.3%. This sustained positive trend is based on two equally strong pillars. Firstly, on constant progress in the food retail trade, where LINDT, as fastest growing supplier, was able to win significant market shares. Secondly, on the good results of LINDT's proprietary retail chain. In a market environment which was generally difficult for the specialty retailers, LINDT boutiques, with a total of 102 permanent and 13 seasonal points of sale, reported healthy growth. The biggest sales gains were made with the exceptionally successful EXCELLENCE tablet range and the LINDOR balls, which are already a classic in the USA – but for the first time in an all-dark version too – and also in the seasonal trade, where demand for the finest LINDT premium chocolate is particularly strong.


The second US subsidiary, **Ghirardelli Chocolate Company, Inc.** also reported extremely positive results. 14.6% growth was supported by all the business segments, but particularly successful were the sales of SQUARES, which were backed by a nationwide TV campaign, expansion of the distribution network, and the successful launch of the new impulse SQUARES for "on-the-go" consumption. To cater to the constantly growing demand, a new molding line was installed, allowing to more than double the previous production capacity. GHIRARDELLI *Baking Chocolates* also made dynamic progress. Against the backdrop of retail trade growth of just 2%, the GHIRARDELLI Retail Division with its stores in cities like San Francisco, Chicago, Miami Beach, Orlando, and other attractive sites, reported above-average results. In recognition of the successful efforts to achieve higher energy efficiency in the newly installed production line, Ghirardelli won an award from the Pacific Gas and Energy Corporation.

Despite political turbulence, the economy in **Canada** continued to grow and the chocolate market also gained 4%. With above-average growth of 12.7%, **Lindt & Sprüngli (Canada) Inc.** significantly expanded its share of the overall Canadian chocolate market, a performance which did not go unnoticed in the retail trade. A stronger presence on the seasonal market brought sustained success throughout the year. With the LINDOR *Grand Festival* at Christmas, LINDOR as the leading brand for Valentine's Day and the GOLD BUNNY as an Easter icon positive results were achieved throughout – boosted by the ubiquitous presence of the EXCELLENCE tablet range and the LINDOR balls. Thanks to stronger promotional and advertising activities and successful product innovations, consumer awareness of the LINDT brand in Canada now exceeds 95%.

In September, **Lindt & Sprüngli de Mexico SA de CV**, the newest subsidiary in Mexico City, began its business with a nationwide TV campaign and intensive sampling activities. The market showed great interest in LINDT as a leading global premium brand and many promising signals have already been noted on the market.


Despite the phase of sustained economic growth in **Australia,** consumer sentiment was negatively influenced to a serious degree by rising oil prices. The chocolate market remained unimpressed and grew nevertheless by 2 to 3%, although with a continuing low level of innovation. **Lindt & Sprüngli (Australia) Pty. Ltd.** once again benefited from its premium positioning and stepped up its sales by 26.5%. In the boxed chocolate category, LINDT remained the market leader for most of the year. While LINDOR is still the leading brand in this segment, the EXCELLENCE line also played a key role in the important chocolate-bar segment. Easter business with the GOLD BUNNY as a seasonal icon made further progress. With the successful completion of the first year of business by the LINDT Café in Sydney, the highly promising potential of this new selling platform was confirmed.

In **Africa and the Near and Middle East,** the political situation deteriorated further, especially in Syria and Iran, but record oil prices boosted consumption in the oil-producing countries. With many new openings or acquisitions of local retail chains, the main distribution partners continue to invest in the expansion of their networks. In this region, Lindt & Sprüngli was able to report double-digit sales growth. South Africa proved particularly successful and became the leading market in the region, together with Israel and UAE. Sales growth on this and other regional markets was promoted mainly by EXCELLENCE and LINDOR.

In **Asia, Lindt & Sprüngli (Asia-Pacific) Ltd.** once again improved its sales to show double-digit growth in percentage terms. Key markets China (with Hong Kong) and Japan reported positive trends. In Japan, particularly high sales were achieved with the support of a targeted PR campaign for the dark EXCELLENCE tablet range and the newly introduced EXCELLENCE *99% Cocoa* bar became a bestseller.

In an economic and political environment which remains as difficult as ever, sales in **South America** were once again higher than in the previous year. The main contribution to this double-digit growth rate was made by EXCELLENCE *85% Cocoa* and EXCELLENCE *Orange Intense*, and by the classic tablets and assorted pralines.

In the **Duty-Free/Travel Retail** segment, LINDT increased its sales by more than 25% to remain the fastest-growing brand on this hotly contested market. The main contribution to this growth was made by a newly introduced assorted LINDOR gift pack in two formats, a new line of chocolate truffles, and the launch of a *Surfin* selection.

## PROCUREMENT

In general, prices on the cocoa futures market moved in a band between GBP 820 and 1020 in the year 2005. March was an exception, when prices were driven up largely by speculation. In the Ivory Coast, the world's most important supplier, no solution has yet been found to promote a lasting peace. The situation, and therefore also the supply side, remains tense and uncertain. The supply of specialty cocoa beans from South America and the Caribbean, particularly important to Lindt & Sprüngli, was hard hit by a succession of tropical hurricanes last Autumn. As a result, the prices charged for fine flavor cocoa varieties showed a substantial premium.

In November 2005, the EU Council of Ministers adopted proposals for reform of the sugar market organization over the next three years. From the middle of the year and in the run-up to this decision, sugar prices on the world market began to climb on the futures markets and rose by 40%. So far, however, this growth has had no influence on the intervention prices fixed by the authorities in the EU, Switzerland, and the USA. Prices for hazelnuts and almonds remained very high throughout the year and rose further, following the disappointing harvest in September 2005. Although hazelnuts have become three times more expensive since the year 2002, demand remains strong.

## SUSTAINABILITY

Cocoa is the principal raw material used in chocolate making. The main areas in which cocoa is grown are to be found in West Africa, Asia, Central and South America, and on the Caribbean Islands. Because of the focus placed by Lindt & Sprüngli on the manufacture and marketing of chocolate products in the top-quality premium segment, countries of origin in South America, which mainly grow fine flavor beans, play a central role.

Prudent and conscientious relations with the environment and with the communities in which we live and work are important to us and enshrined in our Company Credo. In the procurement of our raw materials, great importance is therefore attached to compliance with the rules of sustainable conduct. This includes respect for social and societal aspects, such as working conditions and incomes of farmers in the countries of cultivation, support and promotion of environmentally friendly production conditions, and payment of fair prices for raw materials which satisfy our stringent quality requirements.


Through membership and active participation in local industry associations such as CHOCOSUISSE, or international non-profit organizations such as the WORLD COCOA FOUNDATION (WCF), we support the underlying idea of sustainable cocoa growing and provide financial contribution to that end.

WCF is a partnership between the cocoa-processing industry and government agencies, international associations, trade organizations, and Non Governmental Organizations. The aim of this cooperation is to safeguard stable and secure cocoa supplies. This is done by taking measures to increase revenues and reduce harvest losses, while also securing income situations that enable cocoa farmers in Africa, Latin America, and Asia to lead a viable and worthwhile life.

In addition, through regular visits to the countries of origin and in discussions with local government agencies and trading companies, Lindt & Sprüngli monitors conditions on cocoa plantations and takes action to promote the interests of the farmers.

In compliance with these principles, and to safeguard the uniformly high quality of all its chocolate products, Lindt & Sprüngli is dependent on an adequate supply of selected fine flavor cocoa beans from the best growing areas. The Group is therefore prepared to pay considerable price supplements for the special varieties it purchases. These prices may be as high as three times those quoted on the futures market. This procurement policy guarantees fair, long-term working and price conditions for the farmer, while at the same time satisfying the high expectations placed by demanding consumers on LINDT products.

Lindt & Sprüngli
160 Years

## SWITZERLAND – A BRAND WITH A GLOBAL IMAGE

When people speak of Switzerland, they often use terms like "isolation" or "special case," or make an otherwise critical allusion. The fact is that Switzerland has always been faced with very specific conditions. On the one hand, this country has extraordinary topographic, political, cultural, and linguistic challenges; on the other hand, it possesses no significant economically viable natural resources and raw materials. But this very lack – in addition to what are, at first sight, difficult circumstances – has inspired and bolstered the innovative spirit, the creativity, and the courage of countless Swiss entrepreneurs, inventors, and pioneers in all branches of economic life. Moreover, it has served to broaden their horizons beyond the narrow borders of their own country.

We live in a global world where the number of uniform mass products is constantly growing and where each of their unique and unmistakable profiles is increasingly watered down and neutralized. At the same time, genuine customer benefit is neglected. Switzerland has succeeded over decades, indeed over centuries, in carrying its good reputation and prestige all over the world with concepts such as quality, precision, dependability, and tradition, elevating the country to the status of a brand in its own right.

## THE COUNTRY OF CHOCOLATE PIONEERS

In some areas, Switzerland's economic progress was and is largely attributable to the quality-conscious attitude and know-how of individuals, the achievements of advanced new technologies, and the visions and courage of innumerable groundbreakers. It may seem surprising that these characteristics benefited even the Swiss chocolate industry, since the main raw material, cocoa, had to be imported in those days over long transportation routes across the seas and oceans, a journey that routinely involved significant risks. It is likely that this difficult early situation actually provided additional motivation for the Swiss chocolate pioneers of the 19th century to demonstrate their art and mastery and to make the quality of their products known around the globe. Names like François-Louis Cailler (1796–1852), founder of the first Swiss chocolate factory in 1819, Philippe Suchard (1797–1852), who expanded abroad with a branch in Lörrach (Germany) as far back as 1880, and Daniel Peter (1836–1919), inventor of milk chocolate in 1875, were all landmarks in the history of Swiss chocolate.

But one of the most revolutionary and decisive milestones in those vibrant days of industrial discoveries and achievements was the invention of the "conche" in 1879. With this pioneering new process, which was to be kept under wraps for more than 20 years, Rodolphe Lindt succeeded in making the world's first tender melting chocolate, vastly superior to all others of its day in aroma and melting quality. Lindt called this first chocolate bar Chocolat fondant and it is still on the market today, produced according to the same, strictly secret recipe and wrapped in the same packaging personally designed by Lindt himself. The inventive spirit of Rodolphe Lindt went a long way to making Swiss chocolates famous all over the world.

Contemporary chocolate manufacturers throughout Europe analyzed the new bars from Berne but were unable to figure out the essential secret. In 1889, Lindt sold his factory, his secret manufacturing process, and his already almost legendary brand to Chocolat Sprüngli AG for what was then the enormous sum of one-and-a-half-million gold francs. Since that point in time, the company assumed the new name of Chocoladefabriken Lindt & Sprüngli. Just two years later, the second edition of the standard work *Die Schokoladen-Fabrikation* ("The Chocolate Manufacture") was published, in which the manufacture of Chocolats fondants with the help of a "conche" was described in detail. The precious secret for which such a high price had been paid was now disclosed for good, and the decisive competitive edge was lost – or so it seemed, following this upsetting revelation. Today, however, more than 100 years later, the pioneering spirit and non-stop technological advances of generations of LINDT Maîtres Chocolatiers still set the same high and innovative benchmarks that were laid down so long ago by Rodolphe Lindt.

## LINDT & SPRÜNGLI LOOKS BACK ON 160 YEARS

Lindt & Sprüngli celebrated a great anniversary in 2005. The history of the company reaches all the way back to 1845, when father David Sprüngli-Schwarz and his enterprising son, Rudolf Sprüngli-Ammann, in their small confectionery establishment in the Marktgasse of the old city of Zurich, were the first in German-speaking Switzerland to manufacture solid chocolate. Their product met with immediate acclaim in the Zurich high society. Success was assured in 1859 with the opening of a second confectionery shop on Paradeplatz, this one with adjoining refreshment room. When Rudolf Sprüngli-Ammann retired from professional life in 1892, he divided his businesses up between his two sons. The younger, David Robert, received the two confectionery shops while the elder, Johann Sprüngli-Schifferli, took on the chocolate factory. The growing production necessitated increasingly larger premises until, in 1898, a plant big enough to satisfy the company's need for expansion was built in Kilchberg.

Lindt & Sprüngli, today the biggest industrial employer on the left bank of Lake Zurich, is well aware of its social responsibility, most of all in its traditional territory by the lake, and has for over 100 years remained loyal to its Kilchberg site, where both the head office of the Swiss subsidiary and that of the holding company are situated. The "Schoggi" in Kilchberg, as the factory is casually known in the neighborhood, is easily recognized from afar: the original site with its brick building, which has undergone repeated extensions and expansions in the intervening years and remains a reminder of those pioneering days whose spirit lives on into the new millennium.

## QUALITY IN GOOD AND BAD TIMES

For want of opportunities on the limited domestic market, the export economy was of major – indeed, vital – importance to Switzerland in the 18th and 19th centuries. No wonder that, pro rata, Swiss exports were the highest in Europe in 1830 in terms of value. The chocolate industry was no exception to this phenomenon, thanks to the achievements and performance of its pioneers, and it experienced a period of exceptional prosperity in the first 20 years of the 19th century. Lindt & Sprüngli too expanded very quickly abroad, and in 1915, export sales reached an astonishing 75% of its output. The company's own quality products were even then distributed in more than 20 countries of the world. However, this period of expansion was followed by setbacks. The company suddenly found itself faced with unimaginable

challenges. Protectionism, economic crises, and the Second World War gradually spelled the end of the upturn, along with the loss of practically all foreign markets. By 1937, the export share was a modest 9% of total sales and declining. During the Second World War, import restrictions and rationing left Switzerland as the only market. It is undoubtedly Lindt & Sprüngli's unflinching commitment to highest quality that enabled the company to overcome all obstacles and setbacks while emerging strengthened from every crisis.

**GEOGRAPHIC EXPANSION**

Today, the company has evolved into an international group, present on every continent under the aegis of a holding company and a global network of 15 wholly owned distribution companies with eight production sites in six nations. Geographic expansion began with the progressive acquisition of licensees in Germany, France, and Italy and then marched on at a continuous pace in recent years with external acquisitions such as those of Hofbauer (Vienna, 1994), Caffarel (near Turin, 1997), and Ghirardelli Chocolate Company (San Francisco, 1998). In the year 2005, the group was expanded to include two new subsidiaries, Mexico and Sweden. Today, the various production sites of Lindt & Sprüngli are equipped with the very latest computerized high-performance production lines, some of the most modern in the industry, and the LINDT brand has become byword all over the globe for top class premium chocolate.

Lindt & Sprüngli is one of the few chocolate makers that have complete control over every step of the production chain starting with the precise selection of the finest cocoa varieties from the best growing areas in the world right on through the careful and expert processing until ending with the elegant packaging. The expertise acquired over generations by the LINDT Maîtres Chocolatiers, the decades of experience, and their outstanding know-how in development, manufacture, and marketing of premium chocolate are and remain the most important core competences of Lindt & Sprüngli. They are responsible for the persistent and long-standing success of the company.

## PREPARED FOR THE NEW MILLENNIUM

But the secret of this success does not simply lie with 160 years of expertise in the manufacture of high-quality chocolate; it rests as well on a number of other factors, such as clear positioning in the upper premium segment, competent brand leadership, in-depth familiarity with markets and consumer habits, and the appropriate use of the information gained information in the development of new products. Also of central importance is tried-and-tested excellence in marketing and communication, and, not least of all, the willingness to provide sufficient financial resources to ensure that the production facilities always keep up with the latest state of the art technology. To achieve this ambitious goal, roughly one billion Swiss francs have been invested in all the production sites of the Lindt & Sprüngli group in the past twelve years to finance plant expansions, equipment, and modern technology. This includes more than 200 million Swiss francs in Kilchberg alone.

Bringing all these different factors into harmony to create a new product with an unmistakable character is no mean task. But it is especially noteworthy when the product not only satisfies the needs and expectations of consumers and provides them with genuine added value, but as well offers a balanced and fair performance-benefit ratio and ultimately remains in a strong position on the market. A great many people are involved in this long chain of expertise. Each one of them is a proven specialist in his own field of expertise and very specifically applies his knowledge and talents with the highest motivation to the service of the company. No wonder that the passion and love for the product expressed by the LINDT Maîtres Chocolatiers is reflected in even the smallest piece of LINDT chocolate, in the delicate recipe, the tender melting eating experience, and in the stylish and attractive packaging.

## SUCCESS OF A BRAND

Quality and consumer awareness everywhere is a growing trend – be it on the markets of the western world, some of which are oversaturated, or on the new and emerging markets, which are playing an increasingly important role. Consumers attach great value to the quality of life and they identify with this through the products they buy. Trading-up from quantity to quality has become an established phenomenon. The content and value of a product and brand is of increasing importance. A study of Swiss consumer behavior, carried out by the IHA-GfK Market Research Institute on behalf of Promarca in the Fall of 2005, revealed that a growing number of consumers prefer to buy branded articles. If the per-

formance-benefit ratio is right, they are also willing to accept an extra charge for the value added. When it comes to chocolate, the premium brand LINDT is at the top of their list – proof, if any were needed, that Lindt & Sprüngli has recognized the mood of the times and is perfectly positioned with its brand, strategy, quality, and product performance.

### GENUINE INNOVATION IS THE KEY TO SUCCESS

The markets offer a "uniform diversity" of products. At first glance, this may seem to be contradictory, but it reflects a growing trend in consumer goods. "Without innovation, you will ultimately fall behind the competition": this is so true. However, innovation is all too often misinterpreted and reduced to mean nothing more than a fast-changing product range. Bringing a succession of "new-old products" onto the market, most of which are doomed to a short lifespan, is not the point. In Germany, some 30 000 new products are launched every year. Of this inflationary diversity of new launches, which places an excessive strain on both the trade and the consumers, 75% will have already disappeared from the shelves in the very next year.

The development of true innovations takes time, expertise, and, first and foremost, a keen understanding of current and future consumer market developments. Lindt & Sprüngli marketing and development teams from all the production companies work closely together to spot and implement trends and consumer needs. After months, if not years, of analyzing the broadest range of factors, truly innovative products and product concepts are created that offer consumers true added value and a new sense of eating pleasure. This is the only viable and effective interpretation of "innovation" and the only significance Lindt & Sprüngli attaches to the term. So it comes as no surprise that LINDT products have a long and successful life: from the most innovative chocolate of all, the Chocolat fondant bar invented by Rodolphe Lindt, which has remained unchanged and held its position on the market since 1879, to the line of EXCELLENCE bars, those thin but oversized format bars with an extensive choice of flavors, whose popularity has spread like wildfire all over the world.

**PREMIUM ALSO IN COMMUNICATION**

If you have a prestigious and honest brand and a consumer relevant, unmistakable product of highest quality where the promised brand value results in true consumer benefit, it is of decisive importance to aptly communicate this fact. Appreciation of the value added to the brand and product must be actively promoted. Brand strategy, product policy, and communication must be brought to harmony. Excellent, targeted, and hard-hitting marketing expertise is of the essence.

Lindt & Sprüngli has always attached importance to efficient marketing strategies. However, in the last twelve years the central role of this important topic has increased tremendously. Not only were the finest specialists of the branch called in, but new staff members were hired to reinforce the teams while marketing investments have consistently been increased. At issue is not only what resources are to be spent on brand and product communication but just as important, and ultimately decisive, is the way in which these funds are spent. The success of a sustainable communication policy therefore rests, above all, in the choice and definition of an innovative, hard-hitting concept and its strategic implementation.

**SOCIAL RESPONSIBILITY AS AN IMPORTANT PRINCIPLE**

"People are a company's most important asset." Statements like this are, unfortunately, often no more than a cliché to which mere lip service is paid. For Lindt & Sprüngli, social responsibility has always been central and it is regarded as a real commitment. Since the early days of the company's history, the firm has taken exemplary care of its personnel and, when compared with the general practice, often played a pioneering role with reference to social benefits. Examples include the establishment of the company's own health insurance fund (1900) and the creation of a disability fund (also 1900) that was the precursor of our present company pension fund, which was set up in 1930. (The Social Security Insurance Scheme "AHV" was introduced by the Swiss Confederation in 1948 and the "BVG," Retirement & Pension Plan Legislation, adopted in 1985.) Another example is the introduction (May 1917) of the free Saturday afternoon and, two years later, the 48-hour work week.

The "peace gratuity" paid to the staff in 1919 could be described as a forerunner of the year-end bonus or the 13$^{th}$ monthly salary. The introduction of a lunch canteen and the creation of the first employee committee in 1931 are other significant steps that highlight the company's sense of social responsibility. The first Collective Employment Agreement was signed in 1938. In 1961, Lindt & Sprüngli built a residence, the "Casa Riposo," for its single foreign female employees and, in 1962, a large personnel restaurant started up its operations. These are just some of the instances that document the company's social commitment.

For Lindt & Sprüngli, the principles embodied in its credo are not empty words. Respect and fair play characterize its dealings with employees. Individual commitment and personal initiative are encouraged, acknowledged, and rewarded at every level of the organization. Decisive aspects of management philosophy include not just (industrial) safety and job satisfaction, but also the free development of personal talents and attributes.

Of equal importance is the thoughtful and responsible interaction with the environment and the communities in which we live and work. The production companies of the Lindt & Sprüngli Group have taken a great many diverse measures in the last ten years to cut $CO_2$ emissions and optimize the energy balance. In Switzerland, $CO_2$ emissions were reduced by around 18%, thanks to the energy efficiency increases made by the end of 2004. In the area of prudent and economical use of drinking water and packaging material, and in waste disposal, satisfactory results have also been achieved. It is often these many small steps which together lead to great results.

## LOOKING TO THE FUTURE WITH CONFIDENCE AND MOTIVATION

Lindt & Sprüngli can look back on a long history of success over the past 160 years. But this success is also a challenge and a commitment for the future. We want to respect, safeguard, and extend the inheritance of our predecessors, the visionary inventors and entrepreneurs, and the many generations of motivated staff. We want to look to the future with expertise, creativity, dedication and enthusiasm, without ever forgetting the pioneering spirit that gave rise to the patient attention and professional know-how with which exclusive LINDT products are manufactured. We want to pass on to our successors an intact brand and a strong, flourishing company that looks forward to long-term success. Moreover, we want to delight our loyal consumers, trading partners, suppliers, and shareholders with uncompromising LINDT quality and with our unique and unmistakable chocolate products.

# Corporate Governance

## PREFACE

The Lindt & Sprüngli Group identifies strongly with efficient corporate governance. Both the Board of Directors and Group Management are committed to providing the shareholders, customers and employees with a transparent and detailed overview of the Lindt & Sprüngli Group. Our shareholders shall have full confidence that their interests are strongly considered at all times. Our business associates and customers shall be able to rely on the company and the high quality of our products, and our employees shall understand that they work for a company with a strong ethical culture.

## GROUP STRUCTURE AND SHAREHOLDERS

Chocoladefabriken Lindt & Sprüngli AG is globally active, developing, producing and selling chocolate products in the premium quality segment. The holding company, Chocoladefabriken Lindt & Sprüngli AG, is listed on the SWX Swiss Exchange. The listing numbers of the respective security can be found on page 73 of this report. The market capitalization based on the 2005 year-end prices is CHF 4.9 billion.

The company's group structure is very lean and relies on two governing bodies, the Board of Directors and Group Management. The two bodies have different responsibilities and functions. The individual markets, under their local management, have a broad autonomy, which ensures optimum performance close to the market.

The scope of consolidation of Chocoladefabriken Lindt & Sprüngli AG includes the wholly-owned subsidiaries listed in the Notes to the Financial Statements on page 42. Details about these companies, such as domicile, share capital, participation, etc. can be found there as well.

No company within the Group holds any investments in publicly traded companies.

As of December 31, 2005, Chocoladefabriken Lindt & Sprüngli AG disclosed the following shareholders (in accordance with Art. 663c OR, Swiss Commercial Code) which own voting shares of more than 4%:

| | |
|---|---|
| • Fonds für Pensionsergänzungen der Chocoladefabriken Lindt & Sprüngli AG | 22.3 % |

Chocoladefabriken Lindt & Sprüngli AG does not hold cross interests, and there are no shareholder agreements or voting trusts.

## CAPITAL

As of December 31, 2005, the holding company's capital structure was as follows:

**Ordinary capital**
The ordinary capital is composed of two types of securities:

| | | |
|---|---|---|
| • Registered shares* | CHF | 14 000 000 |
| • Participation certificates** | CHF | 8 005 580 |
| Total ordinary capital | CHF | 22 005 580 |

* 140 000 registered shares par value CHF 100.–
** 800 558 participation certificates par value CHF 10.–

The registered shares have voting rights; the participation certificates have no voting rights. Both types of shares are entitled to a dividend equivalent to their par values. All shares are fully paid. No bonus certificates (Genussscheine) were issued.

**Authorized and conditional capital**
The conditional capital has a total of 489 667 participation certificates with a par value of CHF 10.–. Of this total, 135 217 are reserved for employee stock option programs; the remaining 354 450 participation certificates are reserved for capital market transactions. There is no other authorized capital.

**Changes in capital**
During the past three reporting years, the following changes have occurred in the ordinary and conditional capital:

| | Ordinary capital | | Conditional capital | |
|---|---|---|---|---|
| Year | Registered shares (RS)* | Participation certificates (PC)** | Participation certificates (PC) "Capital market" | "Employees" |
| 2003 | 140 000 | 778 439 | 354 450 | 97 336 |
| 2004 | 140 000 | 783 155 | 354 450 | 152 620 |
| 2005 | 140 000 | 800 558 | 354 450 | 135 217 |

Number of securities, status as at 31.12.

* Registered shares: par value CHF 100.–
** Participation certificates: par value CHF 10.–

**Restrictions and nominee entries**
Both registered shares and participation certificates can be acquired without restrictions. However, the Board of Directors may refuse full shareholder status to a buyer of registered shares if the number of shares held by that buyer exceeds 4% of the total of registered shares as entered in the commercial register. The Board of Directors may permit exceptions to this restriction. During the reporting year, the Board of Directors granted such an exception for 22.3% of the voting rights to Chocoladefabriken Lindt & Sprüngli AG's "Fonds für Pensionsergänzungen," in light of the purpose of this fund.

Nominee entries will be granted full shareholder status for a maximum of 2% of the registered share capital as entered in the commercial register.

**Options and convertible bonds**
Options on Chocoladefabriken Lindt & Sprüngli AG are only outstanding within the scope of the existing employee option plan. Details are reflected in the table below. Details of the options issued and the corresponding terms and conditions are shown in the table below:

| Year of allocation | Number | Exercise price (CHF) * | Maturity |
|---|---|---|---|
| 1999 | 14 950 | 754.00 | 2006 |
| 2000 | 18 460 | 758.60 | 2007 |
| 2001 | 18 638 | 833.00 | 2008 |
| 2002 | 19 150 | 847.00 | 2009 |
| 2003 | 24 750 | 648.00 | 2010 |
| 2004 | 29 400 | 1 095.00 | 2011 |
| 2005 | 28 750 | 1 607.00 | 2012 |
| Total | 154 098 | | |

*All options were issued at an exchange ratio of 1 option:1 participation certificate.

In 2005, a total of 17 403 of the above employee options were exercised (total previous years: 7380). Therefore, the "ordinary" participation capital was increased in 2005 by the corresponding reduction in the "conditional" participation capital reserved for the employee stock option programs. The 129 315 options (see note 26 on page 62) outstanding as of December 31, 2005, and not yet exercised are equivalent to 5,87% of the total capital.

There are no outstanding convertible bonds of Chocoladefabriken Lindt & Sprüngli AG.

## BOARD OF DIRECTORS

**Role and function**
The Board of Directors makes decisions jointly and, for specific matters, is assisted by the Committee of the Board. The Board's primary function is to provide guidance and exercise control over the Group. The Board makes strategic decisions and defines the general means for achieving the goals it has set for the Company. It sets the agenda for the Annual Shareholders' Meeting and approves the annual and interim reports. Decisions regarding the appointment of members to Group Management or of managing directors of subsidiaries as well as the nomination of the external auditors for election at the Annual Shareholders' Meeting are taken by the full board.

**Members**

As of December 31, 2005, the Board had six active members. Dr. Rudolph R. Sprüngli is Honorary Chairman and acts in a purely advisory capacity, drawing on his many years of experience. Mr. Ernst Tanner (CEO) and Antonio Bulgheroni (Chairman of the two Italian subsidiaries) are executive members of the Board.

| Name, Function | 1st election | Until |
|---|---|---|
| Dr. Rudolph R. Sprüngli, Honorary Chairman | 1995 | – |
| Ernst Tanner, Chairman & CEO | 1993 | 2008 |
| Dr. Kurt Widmer, Member | 1987 | 2007 |
| Dr. Rudolf K. Sprüngli, Member | 1988 | 2007 |
| Dr. Franz Peter Oesch, Member | 1991 | 2006 |
| Dr. Peter Baumberger, Member | 1992 | 2006 |
| Antonio Bulgheroni, Member | 1996 | 2008 |

In the past three years, the non-executive members of the Board were not actively engaged in the management of the Group or in a group company and none of them had business relations with any entity within the Group.

The Board of Directors shall convene at least four times a year. In the year under review, four meetings lasting one day each took place. The members of the Board are elected by the shareholders for a term of three years, in staggered terms.

**Ernst Tanner (CH)**

Mr. Tanner was elected CEO and Vice-Chairman by the Board of Directors in 1993. In 1994, he took over as Chairman of the Board. The Board is convinced that this dual mandate allows for effective leadership and excellent communication among shareholders, Board of Directors and Group Management. Mr. Tanner obtained a basic commercial education and thereafter attended a number of management training courses in London and at Harvard University, in order to expand his know-how on a continuous basis. Before coming to Lindt & Sprüngli, Mr. Tanner held top management positions for more than 25 years with the Johnson & Johnson Group in Europe and in the USA, his last position having been "Company Group Chairman Europe." Mr. Tanner is also a member of the Boards of Directors of Credit Suisse Group and Swatch Group.

**Dr. Kurt Widmer (CH)**

Mr. Widmer completed his studies with a doctorate in law and has been a member of the Board since 1987. Mr. Widmer is a proven finance and banking expert and was a member of the Executive Board of Schweizerische Kreditanstalt and Credit Suisse Holding prior to his retirement. As president of the Directorate-General between 1993 and 1995, Mr. Widmer was principally responsible for the repositioning and the successful integration of Schweizerische Volksbank into Credit Suisse Group.

**Dr. Rudolf K. Sprüngli (CH)**

Mr. Sprüngli completed his studies with a doctorate in economics and has been a member of the Board of Directors since 1988. Due to his former executive activities for the Lindt & Sprüngli Group, and for an international premium food-trading company Mr. Sprüngli is considered an expert and authority in the chocolate business. Today, Mr. Sprüngli manages his own consulting firm.

**Dr. Franz Peter Oesch (CH)**

Mr. Oesch completed his studies with a doctorate in law and has been a member of the Board of Directors since 1991. Mr. Oesch is a partner of the law firm "asg. advocati" in St. Gallen and Chairman of the Board of Directors of the St. Galler Kantonalbank.

**Dr. Peter Baumberger (CH)**

Mr. Baumberger holds a doctorate in law and has been a member of the Board since 1992. He gained international experience in the licensing department of Westinghouse International in New York from 1950 through 1955 and was responsible for South America at Olin Mathieson Corporation in New York from 1955 through 1959. Thereafter he was Vice President and Managing Director at RCA Overseas in New York from 1960 through 1976. Between 1976 and 1991 Mr. Baumberger was the Delegate of the Board of Directors of Carba Group in Bern. Mr. Baumberger is also a member of the Boards of Directors of Swatch Group and ABN-AMRO Bank.

**Antonio Bulgheroni (IT)**

Mr. Bulgheroni has been a member of the Board since 1996. Due to decades of gathering experience in all management areas of chocolate production, distribution and Italian retail trade, Mr. Bulgheroni is an expert in the chocolate industry. He has been CEO and Chairman of the Italian subsidiary Lindt & Sprüngli SpA since 1993, and since 1998, has been Chairman of Caffarel SpA. Mr. Bulgheroni holds other board positions with Banche Popolari Unite S.c.r.l., Banca Popolare Commercio e Industria SpA, and Autogrill SpA.

**Allocation of competences**
The essential principles for allocating the competences and responsibilities among the Board of Directors and Group Management are set forth in the organization regulation. Below is a summary of the basic principles:

*Board of Directors*
- Executes its "non-revokable" duties as stipulated in the Swiss Code of Obligations. Therefore, the Board of Directors holds responsibility for the overall guidance and the supervision of Management.
- Determines strategic, organisational, financial planning and accounting guidelines.
- Decides on participations, appoints members of the Group Management and of the significant Group companies.
- Approves the budgets of the Group and the subsidiaries.

The Board of Directors has delegated management of operations to the CEO and Group Management, as stipulated in the business and organisation regulations.

*Group Management*
- Responsible for the implementation of Group strategies
- Manages assigned areas of function and responsibility in accordance with the Group policy and the instructions of the delegate of the Board of Directors.

**Supervisory and controlling instruments concerning audits**
The Board of Directors, as a whole, controls and supervises the external audit. Inter alia, this includes acknowledging the subjects of the in-depth audits and the scope of audit, discussing the annual audit report (audit findings), treatment of special issues of accounting (in particular with regard to the change from Swiss GAAP FER to IFRS), and assessing the work of the external auditor when discussing the items on the agenda of the Annual General Meeting.

**Internal organization**
The Board of Directors receives assistance from the Committee of the Board. The Committee of the Board is responsible for setting the total compensation of the members of Group Management and of the executive board members of the subsidiaries. The Committee monitors the risk parameters of the Group regarding investments, foreign exchange, raw material coverage and liquidity.

The Committee meets at least four times per year, but may convene more often, depending on needs. In 2005, the Committee convened four times, for 2 hours each. The Committee has the following members: Mr. Tanner, Mr. Widmer, and Mr. Bulgheroni.

**Information and control**
The Board is informed on a regular four-month cycle about the Group's income statement, balance sheet, investments and human resources as well as those of the subsidiaries, by means of a comprehensive and complete Management Information System (MIS). This information is available in both historical format and as year-end projection. Upon request, the same comprehensive historical information can be provided to the Board members on a monthly basis. The full Board convened four times in 2005.

A report on risk exposure, including securities and investments, foreign exchange, supply of raw materials and liquidity, is submitted to the Committee of the Board on a quarterly basis. Upon request, this information is available on an ongoing basis.

The Group has no internal audit department. Accordingly, management information and risk control reporting is given special attention. For the annual audit, special assignments are given to the external auditors.

## GROUP MANAGEMENT

As of December 31, 2005, Chocoladefabriken Lindt & Sprüngli AG's Group Management was comprised of four members.

**Members**

| Name, Responsibility | Since |
|---|---|
| Ernst Tanner, Chief Executive Officer | 1993 |
| Hansjürg Klingler, Duty Free & Country responsibility | 1993 |
| Uwe Sommer, Marketing/Sales & Country responsibility | 1993 |
| Dr. Dieter Weisskopf, Chief Financial Officer, Finance/Administration/Purchasing/Manufacturing | 1995 |

**Ernst Tanner (CH)**
For details refer to “Board of Directors” on page 31 of this Annual Report.

**Hansjürg Klingler (CH)**
Lawyer. Mr. Klingler has been a member of Group Management since 1993 and is responsible for establishing overseas and duty free markets. Previously, he was head of Legal and Administration, and then deputy group head at Forbo, an international construction materials supplying Group.

**Uwe Sommer (D)**
Economist, MA. Mr. Sommer joined the Lindt & Sprüngli Group in 1993 as a member of Group Management, responsible for Marketing and Sales with country responsibilities. He gained his professional experience as an executive in the marketing/sales sector of Procter & Gamble and Mars in Germany and England, and as a CEO with Johnson & Johnson in Austria.

**Dr. Dieter Weisskopf (CH)**
PhD in Economics/Business Administration. Mr. Weisskopf joined the Lindt & Sprüngli Group in 1995 as Head of Finance, Administration and Purchasing. Since 2004, he is also responsible for manufacturing. Starting his career at Swiss Union Bank, he gained additional experience in the banking sector in Mexico and Brazil, later changing to the food industry, namely the Jacobs Suchard Group. At Jacobs Suchard and at Klaus Jacobs Holding, he held executive management positions in the financial sector, last as CFO, in Canada and Switzerland.

Apart from the above-mentioned Board assignments of Mr. Tanner, the members of Group Management are not active in other management or supervisory bodies. They are not active in managing or consulting functions with closely related parties, nor do they hold public or political office. There are no noteworthy management agreements with either legal entities or natural persons outside the Group.

## COMPENSATION, EQUITY PARTICIPATIONS AND LOANS

**Compensation and options**
The Committee of the Board defines the principles for the overall compensation of the members of the Board, the members of Group Management and the Managers of significant Group companies, and supervises adherence to the parameters it set out. Within the scope of these principles, the Committee approves the total compensation package (salaries, bonus payments and benefits of the option programme) on an annual basis.

**Remuneration of the members of the Board of Directors**
The members of the Board of Directors are entitled to a remuneration commensurate with their activity and responsibility. The size of the total compensation package is based on comparative market studies of peers with similar functions and responsibilities.

**Remuneration of the members of Group Management and the General Managers of significant Group companies**
Remuneration of the members of Group Management and the General Managers of subsidiaries is composed of a basic salary, a performance-related bonus and a long-term element in the form of employee options. Comparisons of peers with similar activities and responsibilities plus the employee’s performance and experience form the basis of the basic salary. The performance-related part of the compensation package is calculated on the basis of annual individual and company objectives achieved. Earnings before interest and tax (EBIT) is a material target figure in the determination of the bonus. The performance-related part of the salary is a significant aspect of the overall compensation package. Lindt & Sprüngli places high priority on continuity of management in key positions. The existing employee option plan is designed to give important decision-makers in the Group a long-term incentive. The group of persons entitled to participate in the plan, as well as the number of participation certificates issued, is determined according to the importance of each position for the company’s long-term development.

**Compensation of current and former members of governing bodies**

The total gross compensation including pension fund paid to the two executive members of the Board of Directors and to the additional three members of the Group Management was CHF 7.5 million in 2005 (CHF 7.5 million in 2004). Total compensation and fees paid in 2005 to the four non-executive members of the Board and the Honorary Chairman amounted to CHF 0.6 million (CHF 0.6 million in 2004).

In 2005, no payments were made to former members of governing bodies.

**Shares and options**

A total of 100 registered shares were allocated to the executive members of the Board and to Group Management. No participation certificates were allocated.

The non-executive members of the Board did not receive any shares or participation certificates.

The executive members of the Board, the members of Group Management and closely related parties held – according to the share register of the company – a total of 3010 registered shares on December 31, 2005.

The non-executive members of the Board, the Honorary Chairman and closely related parties held – according to the share register of the company – a total of 2682 registered shares on December 31, 2005.

Together, the executive members of the Board and Group Management held the following options on December 31, 2005 (holding period three to five years):

| Year of allocation | Number | Exercise price (CHF)* | Maturity |
|---|---|---|---|
| 1999 | 9 500 | 754.00 | 2006 |
| 2000 | 9 500 | 758.60 | 2007 |
| 2001 | 9 750 | 833.00 | 2008 |
| 2002 | 7 250 | 847.00 | 2009 |
| 2003 | 12 000 | 648.00 | 2010 |
| 2004 | 12 000 | 1 095.00 | 2011 |
| 2005 | 12 500 | 1 607.00 | 2012 |

*All options were issued at an exchange ratio of 1 option: 1 participation certificate.

As of December 31, 2005, the non-executive members of the Board did not hold any options on registered shares or participation certificates of Chocoladefabriken Lindt & Sprüngli AG.

**Additional compensation, fees and loans**

Apart from the above-mentioned payments, no payments were made – neither on a private basis nor via consulting companies – to either an executive or non-executive member of the Board or a member of Group Management. As of December 31, 2005, there were no loans, advances or credits due to the Group or any of its subsidiaries by any of the members of the Board or Group Management.

**Highest total compensation**

The total gross compensation including pension fund of the highest paid Board member amounted to CHF 3.1 million in the reporting year (CHF 3.1 million in 2004). In addition, 100 registered shares with no holding period, and 5000 options on participation certificates in Chocoladefabriken Lindt & Sprüngli AG were granted under the terms and conditions described above.

## SHAREHOLDERS' RIGHTS OF PARTICIPATION

**Restriction of voting rights and proxy**

When exercising the voting rights at the Annual Shareholders' Meeting, no shareholder may combine, in the aggregate, directly or indirectly, whether his own shares or those voted by proxy, more than 6% of total voting shares. Natural persons or legal entities, which either by the number of shares or the pooling of votes are linked to each other or are under common custody, are considered as one shareholder. The Board of Directors may refuse full shareholder status to a buyer of shares if the number of shares held by that buyer exceeds 4% of the total registered shares entered in the commercial register.

In special cases, the Board may make exceptions to the voting rights restrictions. In the reporting year, the Board granted such an exception to the "Fonds für Pensionsergänzungen der Chocoladefabriken Lindt & Sprüngli AG" for 22.3% of the voting rights, in light of the purpose of the fund.

The restriction on voting rights does not apply to representatives of organizations or to independent proxies or proxy votes designated by the company, provided they are retained as proxy by the shareholder.

**Lifting statutory restrictions of voting rights**
Amendments to the statutes with regard to a change in domicile, the transfer of shares, proxies, as well as the dissolution or merger of the Company require a three-quarter majority of the votes represented.

The Annual Shareholders' Meeting passes its resolutions by an absolute majority of the votes represented, unless the statutes or the law prescribe otherwise.

**Calling of the Annual Shareholders' Meeting, agenda and share register**
Shareholders are given notice by the Board of Directors at least 20 days prior to the date of the Annual Shareholders' Meeting.

Shareholder proposals to come before the Annual Shareholders' Meeting must be submitted to the company in writing no later than six weeks prior to calling the meeting.

Shares will be entered into the share register up to 20 days before the Annual Shareholders' Meeting.

## CHANGE IN CONTROL AND DEFENSIVE MEASURES

In the event of a change in control of the company, the employee options granted can be exercised without regard to the three to five year holding period. Other than that, there are no special agreements concerning a change in control that would favor either the members of the Board of Directors or Group Management.

The statutes of incorporation make no special provision for "opting out" or "opting up" pursuant to BEHG Art. 22.

## AUDITORS

The Annual Shareholders' Meeting first appointed PricewaterhouseCoopers AG as its auditors in April 2002. Therefore, 2005 is the fourth year of service for the auditors. In 2005, PricewaterhouseCoopers AG charged audit fees in the amount of TCHF 1057. Additional fee payments for audit related services and other services totalled TCHF 324, and TCHF 89, respectively.

Supervision, control over and evaluation of the external auditor's performance is exercised by the Board of Directors.

## SHAREHOLDER INFORMATION

Chocoladefabriken Lindt & Sprüngli AG issues business related shareholder communications as follows:

| | |
|---|---|
| • End of January | Net sales of the previous year |
| • First half of March | Full-year results |
| • End of April | Annual Shareholders' Meeting |
| • End of August | Half-year report |

For details refer to "Information" on page 75.

The statutory location of publication is the Swiss Official Gazette of Commerce (Schweizerisches Handelsamtsblatt). In addition, information about the company is published and collected by the Swiss and international media and by leading international banks.

All company information is also available on the internet under "Investor Relations" at the Website www.lindt.com. Both the annual and the interim reports can be obtained in hardcopy and free of charge at the Group's head office. For further information contact the investor relations department, phone +41 44 716 25 37.


# Financial Report

**Consolidated Accounts of the Lindt & Sprüngli Group**


**Annual Report of Chocoladefabriken Lindt & Sprüngli AG**


**Financial and other Information**

# Consolidated Balance Sheet

| | | December 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|---|
| | Note | CHF million | % | CHF million | % |
| **ASSETS** | | | | | |
| Property, plant and equipment | 6 | 615.4 | | 539.0 | |
| Intangible assets | 7 | 8.6 | | 10.1 | |
| Financial assets | 8 | 21.4 | | 20.4 | |
| Deferred tax assets | 9 | 7.5 | | 8.5 | |
| **Total Non-current Assets** | | **652.9** | **34.2** | **578.0** | **33.7** |
| Inventories | 10 | 314.8 | | 265.1 | |
| Accounts receivables | 11 | 688.0 | | 583.5 | |
| Other receivables | | 41.7 | | 34.3 | |
| Accrued income | | 6.2 | | 11.2 | |
| Derivative assets | 12 | 1.3 | | 0.0 | |
| Marketable securities | 13 | 35.5 | | 29.3 | |
| Cash and cash equivalents | 14 | 167.7 | | 213.2 | |
| **Total Current Assets** | | **1 255.2** | **65.8** | **1 136.6** | **66.3** |
| **Total Assets** | | **1 908.1** | **100.0** | **1 714.6** | **100.0** |
| **LIABILITIES** | | | | | |
| Share and participation capital | 15 | 22.0 | | 21.8 | |
| Treasury stock | | –6.4 | | –2.1 | |
| Retained earnings and other reserves | | 955.5 | | 774.0 | |
| **Total Shareholders' Equity** | | **971.1** | **50.9** | **793.7** | **46.3** |
| Bonds | 16 | 99.3 | | 100.0 | |
| Loans | 16 | 1.3 | | 1.6 | |
| Deferred tax liabilities | 9 | 31.2 | | 30.7 | |
| Pension liabilities | 17 | 136.0 | | 132.4 | |
| Other non-current liabilities | | 8.6 | | 7.2 | |
| Provisions | 18 | 36.3 | | 42.0 | |
| **Total Non-current Liabilities** | | **312.7** | **16.4** | **313.9** | **18.3** |
| Accounts payable to suppliers | | 185.1 | | 160.6 | |
| Other accounts payable | | 35.9 | | 31.8 | |
| Current tax liabilities | | 20.3 | | 16.9 | |
| Accrued liabilities | 19 | 292.7 | | 253.8 | |
| Derivative liabilities | 12 | 7.7 | | 0.0 | |
| Bank and other borrowings | 16 | 82.6 | | 143.9 | |
| **Total Current Liabilities** | | **624.3** | **32.7** | **607.0** | **35.4** |
| **Total Liabilities** | | **937.0** | **49.1** | **920.9** | **53.7** |
| **Total Liabilities and Shareholders' Equity** | | **1 908.1** | **100.0** | **1 714.6** | **100.0** |

# Consolidated Income Statement

| | Note | 2005 CHF million | 2005 % | 2004 CHF million | 2004 % |
|---|---|---|---|---|---|
| **INCOME** | | | | | |
| Sales | | 2 246.9 | 100.0 | 1 994.6 | 100.0 |
| Other income | 20 | 9.0 | | 7.8 | |
| **Total Income** | | **2 255.9** | **100.4** | **2 002.4** | **100.4** |
| **EXPENSES** | | | | | |
| Material costs | | –686.5 | –30.6 | –602.5 | –30.2 |
| Changes in inventories | | 17.8 | 0.8 | 26.1 | 1.3 |
| Personnel expenses | 21 | –493.1 | –21.9 | –452.8 | –22.7 |
| Operating expenses | | –769.0 | –34.2 | –678.1 | –34.0 |
| Depreciation and amortisation | | –76.5 | –3.4 | –79.3 | –4.0 |
| **Total Expenses** | | **–2 007.3** | **–89.3** | **–1 786.6** | **–89.6** |
| Operating profit | | 248.6 | 11.1 | 215.8 | 10.8 |
| Net financial result | 22 | –2.9 | | –3.4 | |
| Operating profit before taxes | | 245.7 | 10.9 | 212.4 | 10.6 |
| Taxes | 23 | –73.0 | | –63.4 | |
| **NET INCOME** | | **172.7** | **7.7** | **149.0** | **7.5** |
| Attributable to shareholders | | 172.7 | | 149.0 | |
| Non-diluted earnings per share/10 PC | 24 | 788.2 | | 683.6 | |
| Diluted earnings per share/10 PC | 24 | 768.2 | | 671.9 | |

# Consolidated Statement of Changes in Equity

| CHF million | Share-/PC-capital | Treasury stock | Consolidated reserves | Hedge Accounting | Retained earnings | Currency translation | Share-holders' equity[7] |
|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2004** | **21.8** | **0.0** | **234.7** | **0.0** | **437.6** | **0.0** | **694.1** |
| Net income 2004[1] | | | | | 149.0 | | 149.0 |
| Capital increase[2] | 0.047 | | 3.5 | | | | 3.5 |
| Purchase of own PCs[3] | | –2.1 | | | | | –2.1 |
| Share-based payment | | | | | 1.6 | | 1.6 |
| Dividends | | | | | –31.0 | | –31.0 |
| Currency translation[1] | | | | | | –21.4 | –21.4 |
| **Balance as at December 31, 2004** | **21.8** | **–2.1** | **238.2** | **0.0** | **557.2** | **–21.4** | **793.7** |
| Introduction IAS 32/39[4] | | | | 1.3 | 0.1 | | 1.4 |
| Net income 2005[1] | | | | | 172.7 | | 172.7 |
| Capital increase[2] | 0.174 | | 13.2 | | | | 13.4 |
| Purchase of own shares[5] | | –6.4 | | | | | –6.4 |
| Sale of own PCs[6] | | 2.1 | | | 0.9 | | 3.0 |
| Hedge accounting[1] | | | | –5.7 | | | –5.7 |
| Share-based payment | | | | | 6.4 | | 6.4 |
| Dividends | | | | | –39.9 | | –39.9 |
| Currency translation[1] | | | | | | 32.5 | 32.5 |
| **Balance as at December 31, 2005** | **22.0** | **–6.4** | **251.4** | **–4.4** | **697.4** | **11.1** | **971.1** |

[1] Net income recognised directly in equity (i.e. the net of all income and expenses) amount to CHF 199.5 million (CHF 127.6 million in 2004).

[2] Capital increase from stock option plan: All directly attributable transaction costs are netted against the premium realised on exercise of options (2005: TCHF 178, 2004: TCHF 49).

[3] The Group acquired 1611 of its own participation certificates on August 25, 2004 (1111), and December 13, 2004 (500). The total amount paid to acquire the certificates was CHF 2.1 million and has been deducted from shareholders' equity.

[4] With the introduction of IAS 32/39, the derivative financial instruments have been reported on the Balance Sheet as of January 1, 2005, and were netted against equity (CHF 1.3 million). In addition, the bond has been reported according to the effective interest method as of January 1, 2005, and CHF 0.1 million has been booked against equity.

[5] The Group acquired 400 of its own registered shares on January 17, 2005. The total amount paid to acquire the shares was CHF 6.4 million, which has been deducted from shareholders' equity as treasury stock. The Company has the right to reissue these shares at a later date.

[6] The Group sold all 1611 of its own participation certificates on May 23, 2005, at a sales price of CHF 1875.00 per PC. The gain on sale of CHF 0.9 million has been recognised in shareholders' equity.

[7] Minority interests do not exist.

# Consolidated Cash Flow Statement

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | CHF million | CHF million | CHF million | CHF million |
| Net income | 172.7 | | 149.0 | |
| Depreciation and amortisation | 76.5 | | 79.3 | |
| Changes in provisions and value adjustments | –0.5 | | 3.1 | |
| Non-cash effective items | 8.5 | | –0.2 | |
| **Cash Flow from Operations before Changes in Net-current Assets** | | **257.2** | | **231.2** |
| Decrease (+) / Increase (–) of accounts receivables | –86.6 | | –62.0 | |
| Decrease (+) / Increase (–) of inventories | –36.6 | | –27.2 | |
| Decrease (+) / Increase (–) of prepayments and other receivables | –4.9 | | –2.8 | |
| Decrease (+) / Increase (–) of accrued income | 6.1 | | 5.7 | |
| Decrease (–) / Increase (+) of accounts payable | 18.9 | | 42.8 | |
| Decrease (–) / Increase (+) of other payables and accrued liabilities | 35.1 | –68.0 | 1.9 | –41.6 |
| **Cash Flow from Operating Activities** | | **189.2** | | **189.6** |
| Investments in property, plant and equipment | –126.1 | | –94.5 | |
| Disposals of property, plant and equipment | 0.8 | | 0.9 | |
| Investment in intangible assets | –2.8 | | –4.7 | |
| Disposal financial assets | 0.5 | | 0.0 | |
| Investments in marketable securities | –5.5 | | –21.8 | |
| **Cash Flow from Investment Activities** | | **–133.1** | | **–120.1** |
| Proceeds from borrowings | 31.2 | | 0.0 | |
| Repayments of borrowings | 0.0 | | –22.2 | |
| Proceeds from loans | 1.3 | | 6.5 | |
| Repayment of bonds | –96.7 | | 0.0 | |
| Capital increase (including premium) | 13.4 | | 3.5 | |
| Purchase of treasury stock – shares/PC | –6.4 | | –2.1 | |
| Sale of treasury PCs | 3.0 | | 0.0 | |
| Dividends paid to shareholders | –39.9 | | –31.0 | |
| **Cash Flow from Financing Activities** | | **–94.1** | | **–45.3** |
| **Net Increase (+) / Decrease (–) in cash and cash equivalents** | | **–38.0** | | **24.2** |
| **Cash and cash equivalents as at January 1** | **213.2** | | **187.7** | |
| **Exchange gains/losses on cash and cash equivalents** | **–7.5** | **205.7** | **1.3** | **189.0** |
| **Cash and cash equivalents as at December 31** | | **167.7** | | **213.2** |
| Interest received from 3rd parties* | | 6.4 | | 6.4 |
| Interest paid to 3rd parties* | | 12.9 | | 14.4 |
| Income tax paid* | | 66.5 | | 56.5 |

*Included in Cash Flow from Operating Activities

# Notes to the Financial Statements

## 1. Organisation, Business Activities and Group Companies

Chocoladefabriken Lindt & Sprüngli AG and its subsidiaries manufactures and sells premium chocolate products. The products are sold under the brand names: Lindt, Ghirardelli, Caffarel, Hofbauer and Küfferle. Worldwide the Group has 8 manufacturing plants (6 in Europe and 2 in the United States) and sells mainly in countries within the Euro-zone and the NAFTA countries. During 2005, the Group opened 2 distribution subsidiaries located in Mexico City, Mexico, and Stockholm, Sweden, respectively.

The Company is a limited liability company incorporated and domiciled in Kilchberg, Switzerland.

The Company is listed on the SWX Swiss Exchange (ISIN Number: Registered shares CH0010570759, Participation certificates CH0010570767).

These consolidated financial statements have been approved by the Board of Directors on March 6, 2006.

The subsidiaries of Chocoladefabriken Lindt & Sprüngli AG as at December 31, 2005, are:

| Country | Domicile | Subsidiary | Business activity | Percentage of ownership | Currency | Capital |
|---|---|---|---|---|---|---|
| Switzerland | Kilchberg | Chocoladefabriken Lindt & Sprüngli (Schweiz) AG | P&D | 100% | CHF | 10.0 |
| Switzerland | Kilchberg | Indestro AG | M | 100% | CHF | 0.1 |
| Switzerland | Kilchberg | Lindt & Sprüngli (International) AG | M | 100% | CHF | 0.2 |
| Switzerland | Kilchberg | Lindt & Sprüngli Financière AG | M | 100% | CHF | 5.0 |
| Germany | Aachen | Chocoladefabriken Lindt & Sprüngli GmbH | P&D | 100% | EUR | 15.5 |
| France | Paris | Lindt & Sprüngli SAS | P&D | 100% | EUR | 13.0 |
| Italy | Induno | Lindt & Sprüngli SpA | P&D | 100% | EUR | 5.2 |
| | Luserna | Caffarel SpA | P&D | 100% | EUR | 2.2 |
| Great Britain | Middlesex | Lindt & Sprüngli (UK) Ltd. | D | 100% | GBP | 1.5 |
| USA | Stratham, NH | Lindt & Sprüngli (USA) Inc. | P&D | 100% | USD | 1.0 |
| | San Leandro, CA | Ghirardelli Chocolate Company | P&D | 100% | USD | 0.1 |
| Spain | Barcelona | Lindt & Sprüngli (Espana) SA | D | 100% | EUR | 3.0 |
| Austria | Vienna | Lindt & Sprüngli (Austria) Ges.m.b.H. | P&D | 100% | EUR | 4.5 |
| Poland | Warsaw | Lindt & Sprüngli (Poland) Sp. z o.o. | D | 100% | PLN | 1.3 |
| Canada | Toronto | Lindt & Sprüngli (Canada) Inc. | D | 100% | CAD | 2.8 |
| Austalia | Sydney | Lindt & Sprüngli (Australia) Pty. Ltd. | D | 100% | AUD | 1.0 |
| Mexico | Mexico City | Lindt & Sprüngli (Mexico) SA de CV | D | 100% | MXN | 0.5 |
| Sweden | Stockholm | Lindt & Sprüngli (Sweden) AB | D | 100% | SEK | 0.5 |
| Hong Kong | Hong Kong | Lindt & Sprüngli (Asia-Pacific) Ltd. | D | 100% | HKD | 0.5 |
| Guernsey | St. Peter Port | Lindt & Sprüngli (Finance) Ltd | M | 100% | EUR | 0.1 |

D – Distribution, P – Production, M – Management

## 2. Accounting Principles

**Basis of preparation**

The consolidated financial statements of Chocoladenfabriken Lindt & Sprüngli AG (Lindt & Sprüngli Group) were prepared in accordance with International Financial Reporting Standards (IFRS) for the first time as at December 31, 2005.

Swiss GAAP FER was applied for the last time as at December 31, 2004. Where differences in methods of reporting, valuation and consolidation existed between Swiss GAAP FER and IFRS, adjustments were made to meet IFRS guidelines. This is relevant of the period of reporting under review as well as the previous period. The details of the transition are disclosed in note 4 on page 50.

With the exception of the financial investments and the derivative financial instruments, the consolidated financial statements are based on historical costs.

When preparing the financial statements, Management makes estimates and assumptions that have an impact on the disclosed assets and liabilities in the report, the disclosure of contingent assets and liabilities as at closing date of the financial statements and the disclosed expenses and income in the reporting period. The actual results may differ from these estimates.

With the exception of the early introduction of IFRS standards and interpretations specified in the individual accounting principles, no other standards were adopted early. The Group is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2006. The Group does not expect that new and revised standards and interpretations will have a significant effect on the Group's results and financial position, although they will expand the disclosures in certain areas, notably IFRS 7 "Financial Instruments: "Disclosures."

**Consolidation method**
The consolidated financial statements include the accounts of the parent company and all the entities it controls (subsidiaries) up to December 31st of each year. An entity is controlled if the parent company has the possibility to govern its financial and operating policies and as a result realizes an economic benefit.

At the time an entity is acquired, the subsidiary's assets, liabilities and contingent liabilities are valued at fair value. If the purchase price exceeds the fair value of the identifiable net assets, the difference is reported as goodwill. Negative goodwill exists when the acquisition price is below the fair value of the net assets; this is reflected in the profit and loss statement in the financial year of the business combination. The shares acquired of minority interests are disclosed pro rata as part of the fair value of recorded assets and liabilities.

The results of subsidiaries acquired or sold during the year are included in the Group's profit and loss statements when the acquisition or the sale takes place.

Intercompany receivables and liabilities, as well as expenses and income are offset against each other. Unrealised profits resulting from intercompany transactions are fully eliminated. The reporting and valuation methods of the subsidiaries are – if necessary – changed so that a single method is applied to the entire Group's balance sheet.

**Foreign currency translation**
*Functional currency and reporting currency*
The subsidiaries prepare their financial statements in the currency of the primary economic environment in which the entity operates, the so-called functional currency. The consolidated financial statements are presented in Swiss francs, which is the Group's reporting currency.

*Business transactions and balances*
Foreign currency transactions are translated into the functional currency at the rates valid at the date of transaction. Currency gains and losses resulting from these transactions or from the conversion of foreign exchange positions are reflected in the income statement. In order to hedge against currency risks, the Group engages in futures and options trading (the methods of recording and evaluating these derivative financial instruments in the balance sheet are explained below).

*Subsidiaries*
All subsidiaries that use a functional currency other than the Swiss franc (CHF) are translated into the Group's reporting currency as follows (none of the subsidiaries use a highly inflationary currency):

– Assets and liabilities of the entities are translated at the closing rate at balance sheet date.
– Income and expenses are translated at a weighted yearly average exchange rate.
– All resulting translation differences are disclosed in a separate category of shareholders‘ equity not affecting operating result ("currency translation").

Differences of exchange resulting from the translation of loans to be considered as net investments in foreign entities at the time of consolidation, are initially recorded separately in shareholders‘ equity. In the financial year of the disposal, currency translation differences are recorded as part of the proceeds or losses from sales. The changes stipulated in IAS 21 "revised" ("Effects of changes in exchange rates") of December 2005 are already being applied.

*Foreign exchange rates*
The following exchange rates were applied for the Group's foreign currencies:

| | | Balance sheet year-end rates 2005 | 2004 | Income statement average rates 2005 | 2004 |
|---|---|---|---|---|---|
| Euro-zone | 1 EUR | 1.56 | 1.54 | 1.55 | 1.55 |
| USA | 1 USD | 1.32 | 1.13 | 1.26 | 1.23 |
| Great Britain | 1 GBP | 2.27 | 2.18 | 2.26 | 2.27 |
| Canada | 1 CAD | 1.13 | 0.94 | 1.06 | 0.96 |
| Australia | 1 AUD | 0.97 | 0.88 | 0.95 | 0.92 |
| Poland | 100 PLN | 40.37 | 38.15 | 38.76 | 34.58 |
| Mexico | 100 MXN | 12.34 | – | 12.10 | – |
| Sweden | 100 SEK | 16.52 | – | 16.41 | – |

**Fixed assets**
Fixed assets are valued at historical cost, less the accumulated depreciation. The assets are depreciated using the straight-line method over the period of their expected useful economic life.

Historical cost includes all costs associated with the acquisition. Subsequent costs increasing the value of an asset are, depending on the case, either recorded in the book value of the asset or as a separate asset, to the extent that it can be assumed that it is likely that the Group will benefit from it in the future and that its costs can be calculated in a reliable manner. All other repair or maintenance costs are reflected in the income statement in the year of their occurrence.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write down their cost to their residual values. The following useful lives have been applied:

| | |
|---|---|
| Buildings (incl. installations) | 5–40 years |
| Machinery | 10–15 years |
| Other fixed assets | 3–8 years |

The Group records the difference between the realisable value and the book value of fixed assets, goodwill or intangible assets as impairment. The valuation occurs at the level of the individual asset or, if this is not possible, at the level of a group of assets, which are allocated separate sources of cash flows. In order to appraise the future benefits, the expected future cash flows are discounted.

Profits and losses from disposals are recorded in the income statement.

**Intangible assets**
*Software*
Acquired computer software licences, as well as development costs, are capitalised with the costs incurred to bring the software to use. The capitalised costs are depreciated using the straight-line method over the period of the economic useful life (3–5 years).

**Leasing**
Leasing agreements are classified as finance leases if the leasing conditions transfer most risks and benefits resulting from ownership to the lessee. All other leasing agreements are classified as operating leases.

Assets held under finance leasing agreements are recorded at the lower of fair value and the net present value of the minimum leasing rates in the balance sheet. The resulting liabilities towards the lessor are recorded as payables to finance leases. The leasing rates are spread in proportion to the interest expense and the decrease in leasing liabilities, thus generating a constant interest rate for the remaining balance of the liabilities for each reporting period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received or expected from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**Inventories**
Inventories are valued at the lower of cost and net realisable value. Costs include all direct material and production costs, as well as overhead, which are incurred in order to bring inventories to their current location and con-

dition. Costs are calculated using the FIFO method. Net realisable value equals the estimated selling price in the ordinary course of business less cost of goods produced and applicable variable selling expenses.

**Cash and cash equivalents**
Cash and cash equivalents includes cash in hand, cash in bank, other short-term highly liquid investments with maturity periods of up to 90 days.

**Financial assets**
On the basis of the rule of exception stipulated in IFRS 1, the directives of IAS 32 and 39 have been implemented as at January 1, 2005.

**– January 1, 2004 to December 31, 2004**
Non-current financial assets include investments in subsidiaries as well as other securities. They are valued at acquisition cost.

Current assets include financial investments and securities that were acquired as temporary investments. These are valued at fair value.

**– As at January 1, 2005**
The Group classifies its financial assets into four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. At each balance sheet date, Management re-assesses the classification of its investments at initial recording.

*Financial assets at fair value through profit or loss*
This category of financial assets is subdivided into the following 2 categories:
– financial assets held for trading and
– those designated "at fair value through profit or loss" at the time of acquisition

Financial assets are allocated to this category if they were acquired with the intention to selling in the short term or if Management categorised them as such voluntarily. Derivative financial instruments are also allocated to the category "at fair value through profit or loss" unless they are designated as hedging transactions. Financial assets allocated to this category are disclosed as short-term assets unless they belong to the category "held for trading" or it is expected that they will be sold within a maximum of 12 months after the balance sheet date.

*Loans and receivables*
Loans and receivables are considered non-derivative financial assets with fixed and determinable payments and for which no quoted market rate exists in an active market. They include credit loans and trade receivables in as far as they are not intended for resale (otherwise they are to be allocated to "available for sale"). Loans and receivables are categorised as short-term assets, unless their remaining post-balance sheet date life exceeds 12 months. Within the reporting period all loans and receivables have been accounted for as short-term commitments; they were included in the balance sheet item "trade receivables". Value adjustments are made to outstanding receivables for which repayment is considered doubtful.

*Financial investments held to maturity*
Financial investments held to maturity are non-derivative financial assets with fixed and determinable payments and maturities and for which Management has the intention – and the possibility – to hold until their final maturity elapses. During the reporting period, the Group did not hold any financial investments in this category.

*"Available for sale" financial assets*
The category "available for sale" consists of non-derivative financial assets which either cannot be allocated to any other category or which are allocated to this category voluntarily. They are disclosed as long-term assets, unless Management intends to sell them within 12 months of the balance sheet date. During the reporting period, the Group did not hold any financial investments in this category.

Purchases and sales of financial assets are recorded on trade-date – the date on which the Group has committed to buy or sell the asset. Investments in financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried "at fair value through profit or loss." The derecognition of a financial investment occurs at the moment when the right to receive future cash flows from the investment expires or have been transferred to a third party and the Group has transferred substantially all risks and benefits of ownership. Financial investments categorised as "available for sale" and "at fair value through profit or loss" are valued at fair value.

“Loans and receivables“ and “held to maturity” investments are valued at amortised cost using the effective interest method. Realised and unrealised profits and losses arising from changes in the fair value of financial investments categorised as “fair value through profit or loss” are reflected in the income statement in the reporting period, in which they occur.

The fair values of listed investments is defined by using the current bid price. If the market for a financial asset is not active and/or the security is unlisted, the Group can determine the fair value by using valuation procedures. These are based on recent arm’s length transactions, reference to similar financial instruments, the discounting of the future cash flows and the application of the option pricing models.

**Provisions**
Provisions are recognised when the Group has a legal or constructive obligation arising from a past event, where it is likely that there will be an outflow of resources and a reasonable estimate can be made thereof.

**Borrowings**
Borrowings are recognised initally when the Group commits to a contract and records the amount of the proceeds (net of transaction costs) received. Borrowings are then valued at amortised cost using the effective interest method. The amortised cost consists of a financial obligation at its initial recording, minus repayment, plus or minus accumulated amortisation (the difference possible between the original amount and the amount due at maturity). Because of the transition rules of IFRS, borrowings were recorded at their nominal value (transitional provisions) for the year 2004. Profits or losses are recognised in the income statement as result of amortisation or when a borrowing is written off. A borrowing is written off when it is repaid, abandoned or it expires.

**Employee benefits**
The expense and defined benefit obligations for the material defined benefit plans and other long-term employee benefits in accordance with IAS 19 are determined using the Projected Unit Credit Method. This takes into account insurance years up to the valuation date. Valuation of defined benefit obligations is conducted periodically, at least every three years. In intervening years the obligations are projected on the basis of the valuations. The last valuation of the defined benefit obligations for the material benefit plans was carried out for the period ending December 31, 2005. Valuation of pension assets is done annually, at market value.

Current service cost is recorded in the income statement for the period in which they are incurred.

Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees’ expected average remaining working lives.

The recognised asset will be limited to the present value of any economic benefits available in the form of reductions in future employer contributions to the plan.

In its disclosure note, the Group already complies with the requirements of the revised IAS 19 of December 2004.

**Revenue recognition**
Revenue consists of delivery of goods and services to third parties minus price reductions and net of value-added taxes. Revenue is to be recorded in the income statement once the risks and rewards of the goods are transferred to the buyer. For goods returned or other types of payments regarding the sales, adequate accruals are recorded.

Interest income is recognised on an accrual basis, taking into consideration the outstanding sums lent and the actual interest rate to be applied.

Dividend income resulting from financial investments is recorded upon legal entitlement to payment of the share owner.

**Operating expenses**
Operating expenses include marketing, distribution and administrative expenses. Trade promotion payments, for which distributors or retailers perform clearly identifiable services, are not deducted from sales but are disclosed as marketing expenses.

**Borrowing costs**
Interest expenses incurred from borrowings, used to finance the construction of fixed assets, are capitalised for the period in which it takes to build the asset for its intended purpose. All other borrowing costs are immediately expensed in the income statement.

**Taxes**
Taxes are based on the yearly profit and include non-refundable taxes at source levied on the amounts received or paid for dividends, interest and licence fees. These taxes are levied according to a country's directives.

Deferred income taxes are accounted for according to the "Balance Sheet Liability Method", on temporary differences arising between the tax bases of assets and liabilities and the IFRS bases. In order to calculate the deferred income taxes, the legal tax rate in use at the time is applied.

Deferred income tax assets – for unutilised tax losses – are recorded to the extent that it is probable that future taxable profit is likely to be achieved against which the temporary differences can be offset.

**Research and development costs**
Research and development costs are fully expensed in the income statement in the year in which they are incurred. Development costs for new products are not capitalised because the certainty of a future economic benefit is only proven once the newly developed products have been introduced to the market.

**Share-based payments**
In compliance with the transitional directives, IFRS 2 was applied to all equity instruments granted after November 7, 2002, which have not been vested at January 1, 2005. The Group grants several employees options on officially listed participation certificates. These options have a blocking period of 3 to 5 years and a maximum maturity of 7 years. The options expire once the employee leaves the company. Cash settlements are not allowed. The disbursement of these equity instruments are valued at fair value at grant date. The fair value determined at grant date is recorded in a straight-line method over the blocking period. This is based on the estimated number of participation certificates which entitle a holder to additional benefits. The fair value was defined with the help of the binomial model used to determine the price of the options. The anticipated maturity period included the conditions of the employee option plan, such as the blocking period and the non-transferability.

On December 17, 2005, 10 500 out of the 28 850 outstanding options have been modified, as the vesting periods were eliminated. All the other parameters, especially the blocking periods of 3, 4 and 5 years as well as the exercise price remained unchanged. The weighted average of incremental fair values of the modified options increased by CHF 27 562 (CHF 2.75 per option). Based on the modification, the total fair value of these options must be directly charged to the income statement in the period under review and cannot be spread over 3 years. This impact increased the expenses for share based payment in 2005 by CHF 2.9 million and will relieve the expenses for the following years.

**Accounting for derivative financial instruments and hedging activities**
Based on the rule of exception stipulated in IFRS 1, the directives of IAS 32 and 39 have been implemented as at January 1, 2005.

**– From January 1, 2004 to December 31, 2004**
The Group uses derivative financial instruments in order to hedge against operating risks, due to fluctuations in raw material prices, currencies or interest rates. This is usually achieved with forward transactions. Such hedging transactions are valued at the same rate as the hedged underlying transactions. The same valuation method is applied when hedging similar transactions expected in the future.

**– As at January 1, 2005**
Derivative financial instruments are recorded when the contract is entered into and valued at fair value. The treatment of recognising the resulting profit or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (securing the cash flow).

At the beginning of the business transaction, the Group documents the relationship between the hedge and the hedged items, as well as its risk management targets and strategies for undertaking the various hedging transactions. Furthermore, the Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging intransactions are effective in offsetting changes in fair values or cash flows of hedged items.

**Hedging of the cash flow**
The effective portion of changes in fair value of derivatives, which are designated and qualify as cash flow hedges, are accounted for in equity. Profit and loss from the ineffective portion of the value adjustment are recognised immediately in the income statement.

Amounts accumulated in equity are recognised in the income statement in the same reporting period when the hedged items affects profit and loss.

**Critical accounting estimates and judgements**
The “Fonds für Pensionsergänzungen der Chocoladefabriken Lindt & Sprüngli AG” is disclosed as a pension fund according to IAS 19.48 (defined benefit pension plan). The fund takes over disbursements to employees who take early retirement as well as the inflationary adjustment on pension payments. The plan assets of the fund cannot be repatriated to the company. The future obligations, as well as the benefits, were calculated according to the rules stipulated in IAS 19. The recorded assets are limited to the net present value of the future use in the form of expected reductions of future employer contributions. As at December 31, 2005, the calculated benefit amounted to CHF 17.0 million (CHF 17.0 million in 2004) and is disclosed in the item “Financial Assets” (see note 8).

## 3. Risk Management

Due to its global activity, the Group is exposed to a number of risks: strategic, operational and financial. Within the scope of the annual risk management process, the individual risk positions are classified into these 3 categories, where they are assessed, limited and assigned to authorities.

In view of the existing and inevitable strategic and operating risks of the core business, Management's objective is to minimise the impact of the financial risks on the operating and net profit for the reporting period.

**Financial Risk Management**
The Group is exposed to financial risks. These are divided into the following categories: market risks (exchange rates, interest rates and commodities), credit risks, and liquidity risks. The central treasury department (Corporate Treasury) is responsible for the coordination of risk management and works closely with the operational Group companies. The de-centralised Group structure gives strong autonomy to the individual operational Group companies, particularly with regard to the management of exchange rate and commodity risks. The risk policies issued by the Committee of the Board serve as guidelines for the entire risk management.

Centralised systems, specifically for the regular recording and consolidation of the Group-wide commodity positions, as well as regular internal reporting, ensure that the risk positions can be consolidated and managed in a timely manner despite the Group's de-centralised management system. The Group only engages in derivative financial transactions if a highly probable forecast transaction or a recognised asset or liability exists.

**– Market risks**
*Exchange rate risks*
The Group's reporting currency is the Swiss franc, which is exposed to fluctuations in foreign exchange rates, primarily with respect to the Euro, the various dollar currencies and Pound Sterling. Subsidiaries use forward and option instruments in order to hedge against foreign exchange risks from existing or expected future assets and trade payables for goods and services. The operational Group companies enter into spot, forward and option instruments directly with Corporate Treasury, which hedges net positions by means of financial instruments with credit-worthy financial institutes.

*Interest rate risk*
Corporate Treasury monitors and minimises interest rate risks from a mismatch of quality, maturity period and currency of the liquid funds on a continuous basis.

Corporate Treasury may use derivative financial instruments such as interest rate swaps in order to manage the interest rate risk of balance sheet assets and liabilities and future cash flows.

*Commodity price risk*
The Group's products are manufactured with raw materials (commodities) that are subject to strong price fluctuations due to climatic conditions, seasonal demand and market speculation. In order to mitigate the price and quality risks of the expected future net demand, the operational Group companies enter into contracts with suppliers for the future physical delivery of the raw materials. In exceptional market conditions, commodity futures are also used; however, they are only processed centrally by Corporate Treasury.

**– Credit risks**
Credit risks occur when a counterparty, such as a supplier, a client or a financial institute is unable to fulfil its contractual duties. This risk is minimized since the Group companies have implemented standard processes for defining lending limits for clients and suppliers, and monitor adherence to these processes on an ongoing basis. Due to the geographical spread of the turnover and the large number of clients, the debtor risk of the Group is limited. Financial credit risks are limited by investing (liquid funds and/or derivative financial instruments) with lending institutions holding an A1/P1-rating only.

**– Liquidity risks**
The Group's liquidity is ensured by means of regular Group-wide monitoring and planning of liquidity as well as an investment policy coordinated by Corporate Treasury. For extraordinary financing needs, adequate credit lines with financial institutes have been arranged for.

## 4. Transitioning from Swiss GAAP FER to IFRS

The transition of accounting principles from Swiss GAAP FER to IFRS complies with the directives of IFRS 1 (first-time application of International Financial Reporting Standards).

Recording and valuation methods specified in the Notes to the consolidated financial statements were applied uniformly to all business years shown in this annual report, with the exception of the classifications and the valuation directives to be applied for financial instruments. The Group has elected to apply the optional exemption in IFRS 1, which stipulates that the directives of IAS 32 (Financial instruments: disclosure and presentation) and IAS 39 (Financial instruments: recognition and measurement) can be applied as at January 1, 2005.

Furthermore, the Group made use of the following optional exemptions according to IFRS 1:
– For business combinations made prior to the point of transition to IFRS (January 1, 2004), revaluation was not made.
– Employee benefits: the accumulated actuarial profits and losses were recognised in the IFRS opening balance.
– All accumulated currency translation differences were deemed to be zero at the time of transition.

The transition from Swiss GAAP FER to IFRS is presented in the following tables:

### Shareholders' equity

| CHF million | Information | January 1, 2004 | December 31, 2004 |
|---|---|---|---|
| **Total shareholders' equity according to Swiss GAAP FER** | | **728.7** | **830.5** |
| Accrued liabilities | a | –21.4 | –20.8 |
| Employee benefits according to IAS 19 | b | –18.0 | –17.7 |
| Property, plant and equipment | c | –2.5 | –2.5 |
| Inventories | d | –3.2 | –4.8 |
| Other valuation differences | | –2.6 | –5.1 |
| Deferred tax liabilities | e | 13.1 | 14.1 |
| **Total shareholders‘ equity according to IFRS** | | **694.1** | **793.7** |

### Net income

| CHF million | Information | 2004 |
|---|---|---|
| **Net income according to Swiss GAAP FER** | | **151.2** |
| Adjustment in valuation of inventories | d | –1.6 |
| Share-based payments | f | –1.6 |
| Tax impact on valuation differences | e | 1.0 |
| **Net income according to IFRS** | | **149.0** |

### Statement of cash flows

According to IFRS, the fund only includes cash and cash equivalents, contrary to Swiss GAAP FER, where marketable securities are included as well. Accordingly, the use of funds resulting from investment activities increases by CHF 21.8 million.

| CHF million | IFRS 2004 | Swiss GAAP FER 2004 |
|---|---|---|
| Cash flow from operating activities | 189.6 | 198.8 |
| Cash flow from investment activities | –120.1 | –98.3 |
| Cash flow from financing activities | –45.3 | –50.4 |
| **Net increase in cash and cash equivalents** | **24.2** | **50.1** |

**Additional Information**

*a) Accrued liabilities*
Upon transition from Swiss GAAP FER to IFRS the processes to calculate the accruals related to reimbursements to trade partners (i.e. returned goods) have been reviewed and improved. This led to an increase in accrued liabilities of CHF 15.4 million, which has been booked against equity as at January 1, 2004. Since these accruals are calculated on a yearly basis, this adjustment had no material impact on the 2004 income statement. Under Swiss GAAP FER some short-term employee-related benefits (for example, bonuses, which were approved after the balance sheet date) were expensed in the income statement on a cash basis. According to the criteria of IAS 19 these indemnities must be expensed on an accrual basis. As a result accrued liabilities were increased by CHF 5.0 million as at January 1, 2004. Since these expenses are recurrent, this adjustment has no material impact on the income statement.

*b) Employee benefits*
All of the Group's pension plans were reviewed in detail taking into consideration the criteria of IAS 19. As a result, additional plans with defined benefit plan characteristics were identified, which led to an increase of employee-benefit liabilities of CHF 4.8 million. The discount rate is no longer based on the expected return (including a discount for risk) as required under Swiss GAAP FER. Under IAS 19, the discount rate corresponds to the interest rate applied to government bonds, which have maturity dates corresponding to those of the pension obligations. The Group decided to eliminate all accumulated actuarial gains and losses against shareholder's equity as of January 1, 2004. The Group will apply the corridor approach hereafter. As a result, employee benefits liabilities increased by CHF 30.2 million. On the other hand, the expected future benefit of the overfunding of the pension fund (Fonds für Pensionsergänzungen) was capitalised for the first time at CHF 17.0 million.

*c) Property, plant and equipment*
According to IAS 16, property, plant and equipment, presented in meaningful categories with appropriate effective lives, are to be depreciated separately (component approach). The useful lives of the Group's property, plant and equipment, therefore, were reviewed and adjusted. This led to a reduction in value of property, plant and equipment of CHF 2.5 million.

*d) Inventories*
The valuation of inventories is based on the FIFO method as at January 1, 2004. Furthermore, according to IFRS, auxiliary materials formerly recognised as a part of inventory are no longer be capitalised.

*e) Deferred tax liabilities*
The changes in valuations have resulted in a reduction in deferred tax liabilities. In additon, deferred taxes were recognised on the appreciation of land, from past acquisitions.

*f) Share-based payments*
Expenses related to the employee stock option plan must be immediately recorded in the income statement according to IFRS 2 (see note 26).

*g) Other material changes balance sheet*
Disclosure of cash and cash equivalents as at December 31, 2004, is CHF 19.2 million lower than shown under Swiss GAAP FER. The difference is mainly explained by the reclassification to accounts receivables of factored receivables totalling CHF 16.5 million, which do not meet IFRS criteria.

*h) Other material changes income statement*
Sales, reported according to IFRS instead of Swiss GAAP FER, are lowered by CHF 22.0 million, or –1.1% of a total of CHF 1994.6 million. Certain trade payments (especially credit notes to trade partners for price reductions on seasonal products) are deducted directly from sales instead of being disclosed as marketing expenses.

### 5. Segment information: According to geographic segments

A business segment is a group of investment and business activities which offers or manufactures products or services and the risks and income of which is different from other business segments. A geographic segment – usually a separate division within a company – provides products or services within a specific economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Group is active in a single business segment: the production and sale of premium chocolates. The segment reporting is therefore represented from the geographical viewpoint. The segment reporting is based on the management structure and internal reporting procedures. Separating the carrying values and the capitalised earnings values according to geographical segments depends on where assets are situated. The location of clients does not diverge significantly from those of the assets. The three geographical segments are: Europe and Middle East, North and Latin America and the "Rest of the World". The segment Europe and Middle East also contains the revenue generated in the countries of the Middle East because these are made through European subsidiaries. The Group considers the operating result as the segment result. Transactions between segments are valued and recorded in accordance with the cost plus method.

**Segment income**

| | Europe and Middle East | | North and Latin America | | Rest of the world | | Total | |
|---|---|---|---|---|---|---|---|---|
| CHF million | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Sales | 1 697.7 | 1 533.3 | 526.1 | 426.8 | 148.7 | 112.9 | 2 372.5 | 2 073.0 |
| ./. Sales between segments | 124.8 | 78.4 | 0.7 | 0.0 | 0.1 | 0.0 | 125.6 | 78.4 |
| Third parties sales | 1 572.9 | 1 454.9 | 525.4 | 426.8 | 148.6 | 112.9 | 2 246.9 | 1 994.6 |
| Operating profit | 192.9 | 171.6 | 30.9 | 25.0 | 24.8 | 19.2 | 248.6 | 215.8 |
| Net financial result | | | | | | | –2.9 | –3.4 |
| Income before taxes | | | | | | | 245.7 | 212.4 |
| Taxes | | | | | | | –73.0 | –63.4 |
| **Net income** | | | | | | | **172.7** | **149.0** |

**Balance sheet and other information**

| | Europe and Middle East | | North and Latin America | | Rest of the world | | Total | |
|---|---|---|---|---|---|---|---|---|
| CHF million | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets [1)] | 1 457.0 | 1 381.5 | 372.3 | 285.3 | 78.8 | 47.8 | 1 908.1 | 1 714.6 |
| Liabilities [1)] | 773.3 | 815.5 | 95.7 | 61.5 | 68.0 | 43.9 | 937.0 | 920.9 |
| Investments | 89.2 | 63.8 | 39.2 | 31.9 | 0.5 | 3.5 | 128.9 | 99.2 |
| Depreciation and amortisation | 57.0 | 56.8 | 18.8 | 16.2 | 0.7 | 0.4 | 76.5 | 73.4 |
| Impairment of value | 0.0 | 2.2 | 0.0 | 3.7 | 0.0 | 0.0 | 0.0 | 5.9 |

[1)] Assets and liabilities which cannot be clearly allocated to a particular segment are disclosed in the category "Rest of the World".

### 6. Property, plant and equipment

| CHF million | Land Buildings | Machinery | Other fixed assets | Construction in progress | 2005 Total | 2004 Total |
|---|---|---|---|---|---|---|
| Acquisition costs as at January 1 | 508.0 | 629.3 | 135.1 | 28.5 | 1 300.9 | 1 252.8 |
| Additions | 38.9 | 55.3 | 11.3 | 20.6 | 126.1 | 94.5 |
| Retirements | –3.2 | –16.2 | –11.4 | –0.1 | –30.9 | –18.0 |
| Transfers | 1.8 | 12.7 | 0.6 | –15.4 | –0.3 | –0.6 |
| Currency translation | 19.3 | 18.3 | 4.5 | 1.7 | 43.8 | –27.8 |
| Acquisition costs as at December 31 | 564.8 | 699.4 | 140.1 | 35.3 | 1 439.6 | 1 300.9 |
| | | | | | | |
| Accumulated depreciation as at January 1 | 221.4 | 431.9 | 108.6 | 0.0 | 761.9 | 717.9 |
| Income statement charge | 22.4 | 38.5 | 11.4 | 0.0 | 72.3 | 68.4 |
| Impairments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.9 |
| Retirements | –3.0 | –15.5 | –11.1 | 0.0 | –29.6 | –17.4 |
| Currency translation | 7.4 | 9.0 | 3.2 | 0.0 | 19.6 | –12.9 |
| Accumulated depreciation as at December 31 | 248.2 | 463.9 | 112.1 | 0.0 | 824.2 | 761.9 |
| **Net fixed assets as at December 31** | **316.6** | **235.5** | **28.0** | **35.3** | **615.4** | **539.0** |

Advance payments of CHF 10.3 million (CHF 6.1 million in 2004) are included in the position construction in progress . The insurance value of the property, plant and equipment amounts to CHF 1780.0 million (CHF 1728.8 million). No mortgages exist on land and buildings.

The net book value (NBV) of capitalised assets, under financial lease, amounted to CHF 2.0 million (CHF 2.1 million in 2004). Operating lease commitments are expensed immediately.

## 7. Intangible Assets

| | EDP software | Other intangible assets | 2005 Total | 2004 Total |
|---|---|---|---|---|
| Acquisition costs as at January 1 | 33.0 | 4.0 | 37.0 | 34.1 |
| Introduction IAS 32/39 | 0.0 | –4.0 | –4.0 | 0.0 |
| Additions | 2.8 | 0.0 | 2.8 | 4.7 |
| Retirements | –0.3 | 0.0 | –0.3 | –1.5 |
| Transfers | 0.3 | 0.0 | 0.3 | 0.6 |
| Currency translation | 1.5 | 0.0 | 1.5 | –0.9 |
| Acquisition costs as at December 31 | 37.3 | 0.0 | 37.3 | 37.0 |
| Accumuated Amortisation as at January 1 | 23.8 | 3.1 | 26.9 | 24.0 |
| Introduction IAS 32/39 | 0.0 | –3.1 | –3.1 | 0.0 |
| Income statement charge | 4.2 | 0.0 | 4.2 | 5.0 |
| Retirements | –0.3 | 0.0 | –0.3 | –1.5 |
| Currency translation | 1.0 | 0.0 | 1.0 | –0.6 |
| Accumulated Amortisation as at December 31 | 28.7 | 0.0 | 28.7 | 26.9 |
| **Net intangible assets as at December 31** | **8.6** | **0.0** | **8.6** | **10.1** |

With the introduction of IAS 32/39, the 3⁵/₈% bond has been reported according to the effective interest method as at Janaury 1, 2005. The net book value of the capitalised bond issue costs have been booked against equity and therefore becomes part of the revaluation of the bond.

Research and development expenditures amounted to CHF 6.1 million (CHF 5.5 million in 2004) and are expensed immediately.

## 8. Financial Assets

| CHF million | 2005 | 2004 |
|---|---|---|
| Prepaid pension funds [1)] | 19.2 | 18.6 |
| Loans to 3rd party | 1.5 | 0.8 |
| Investments 3rd party | 0.7 | 1.0 |
| **Total** | **21.4** | **20.4** |

[1)] See note 17

## 9. Deferred tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The net value of deferred tax liabilities is as follows:

| | CHF million |
|---|---|
| **January 1, 2004** | **22.0** |
| Currency translation | 0.3 |
| Income statement charge | –0.1 |
| **December 31, 2004** | **22.2** |
| Currency translation | –0.9 |
| Income statement charge | 2.4 |
| **December 31, 2005** | **23.7** |

Deferred tax assets and liabilities have been generated during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, from the following balance sheet positions:

| CHF million | 2005 | 2004 |
|---|---|---|
| **Deferred tax assets** | | |
| Fixed and intangible assets | 3.0 | 3.2 |
| Pension liabilities | 16.3 | 17.0 |
| Receivables | 4.9 | 3.2 |
| Inventories | 4.3 | 5.3 |
| Liabilities and provisions | 11.4 | 18.1 |
| Other | 0.5 | 0.7 |
| Deferred tax assets gross | 40.4 | 47.5 |
| Netting | –32.9 | –39.0 |
| **Total** | **7.5** | **8.5** |
| **Deferred tax liabilities** | | |
| Fixed and intangible assets | 48.6 | 54.3 |
| Pension assets | 5.1 | 5.1 |
| Receivables | 1.1 | 1.0 |
| Inventories | 3.5 | 3.6 |
| Liabilities and provisions | 5.8 | 5.7 |
| Deferred tax liabilities gross | 64.1 | 69.7 |
| Netting | –32.9 | –39.0 |
| **Total** | **31.2** | **30.7** |
| **Net Deferred Tax Liabilities** | **23.7** | **22.2** |

**Tax Loss Carryforwards**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets on tax loss carry-forwards, which expire as follows:

| CHF million | 2005 | 2004 |
|---|---|---|
| Between 1 and 5 years | 4.4 | 2.3 |
| Between 5 and 10 years | 14.3 | 15.2 |
| Over 10 years | 57.1 | 48.1 |

Tax loss carry-forwards utilized in 2005 amounted to CHF 10.6 million (CHF 9.5 million in 2004).

### 10. Inventories

| CHF million | 2005 | 2004 |
|---|---|---|
| Raw material | 37.6 | 27.0 |
| Packaging material | 59.4 | 51.4 |
| Semi-finished and finished products | 237.7 | 205.5 |
| Value adjustment | –19.9 | –18.8 |
| **Total** | **314.8** | **265.1** |

### 11. Accounts receivables

| CHF million | 2005 | 2004 |
|---|---|---|
| Accounts receivable | 703.5 | 596.6 |
| Value adjustment | –15.5 | –13.1 |
| **Total** | **688.0** | **583.5** |

### 12. Derivative financial instruments and hedging reserves

On the basis of the rule of exception stipulated in IFRS 1, the directives of IAS 32 and 39 have been implemented only as at January 1, 2005. At balance sheet date, the fair value of derivative financial instruments was as follows:

| | 2005 | |
|---|---|---|
| CHF million | Assets | Liabilities |
| Forward foreign exchange contracts (cash flow hedges) | 1.2 | 6.5 |
| Other | 0.1 | 1.2 |
| **Total** | **1.3** | **7.7** |

The carrying amount (contract value) of the outstanding forward foreign exchange contracts as at December 31, 2005, are CHF 299.0 million. The majority of gains and losses recognised in the hedging reserve, as shown in the Consolidated Statement of Changes in Equity in the amount of CHF 5.7 million, on forward foreign exchange contracts as of December 31, 2005, will be released to the income statement at various dates within the next 12 months from the balance sheet date. Other derivative instruments, which have been executed in accordance with the risk policy and do not qualify for hedge accounting under the criteria of IAS 39, as well as the ineffective portion of designated derivative instruments, have been recognized immediately in the income statement.

### 13. Marketable Securities

| CHF million | 2005 | 2004 |
|---|---|---|
| CHF – equity securities | 7.8 | 7.2 |
| EUR – bonds | 27.4 | 21.9 |
| USD – equity securities | 0.3 | 0.2 |
| **Total** | **35.5** | **29.3** |

The carrying amounts of the above financial assets are designated as “Fair value through P&L” upon intial recognition.

### 14. Cash and Cash Equivalents

| CHF million | 2005 | 2004 |
|---|---|---|
| Cash at bank and on hand | 96.1 | 117.6 |
| Short-term bank deposits | 71.6 | 95.6 |
| **Total** | **167.7** | **213.2** |

The effective interest rate on short-term bank deposits reflects the average interest rate of the market as well as the development of the currencies invested for the period of up to 3 months.

## 15. Share and participation capital

| CHF million | Number of Registered shares (RS)* | Number of Participation certificates (PC)** | Registered shares | Participation Certificates | Total |
|---|---|---|---|---|---|
| **At January 1, 2004** | **140 000** | **778 439** | **14.0** | **7.8** | **21.8** |
| Capital increase | | 4 716 | | 0.047 | 0.0 |
| **At December 31, 2004** | **140 000** | **783 155** | **14.0** | **7.8** | **21.8** |
| Capital increase | | 17 403 | | 0.174 | 0.2 |
| **At December 31, 2005** | **140 000** | **800 558** | **14.0** | **8.0** | **22.0** |

* At par value of CHF 100.–
** At par value of CHF 10.–

The conditional capital has a total of 489 667 participation certificates with a par value of CHF 10.–. Of this total, 135 217 are reserved for employee stock option programs; the remaining 354 450 participation certificates are reserved for capital market transactions. There is no other authorised capital. In 2005, a total of 17 403 (4716 in 2004) of the employee options were exercised. The participation certificate has no voting right, but otherwise has the same ownership rights as the registered share.

## 16. Borrowings

| CHF million | 2005 | 2004 |
|---|---|---|
| **Non-Current** | | |
| $3^5/_8$% Bond, 1998–2008 | 99.3 | 100 .0 |
| Bank borrowings | 1.3 | 1.6 |
| | 100.6 | 101.6 |
| **Current** | | |
| 3% Bond, 1998–2005 | 0.0 | 100 .0 |
| Own 3% bond | 0.0 | –3.3 |
| Bank borrowings | 82.6 | 47.2 |
| | 82.6 | 143.9 |
| **Total Borrowings** | **183.2** | **245.5** |

The 3% bond, repaid on March 31, 2005, was reported on the line, Bank and other borrowings as at December 31, 2004. With the introduction of IAS 32 and IAS 39, the $3^5/_8$% bond has been reported according to the effective interest method as of January 1, 2005. The fair value of the bond as at December 31, 2005, was CHF 104.2 million. Due to the short-term character of bank borrowings, the carrying value equals fair value.

The maturity of non-current borrowings is as follows:

| CHF million | 2005 | 2004 |
|---|---|---|
| Between 1 and 2 years | 0.7 | 0.8 |
| Between 2 and 5 years | 99.9 | 100.8 |
| **Total** | **100.6** | **101.6** |

The effective interest rates at the balance sheet date were as follows:

| | 2005 | 2004 |
|---|---|---|
| Bank Borrowings | | |
| EUR | 2.45% | 2.13% |
| AUD | 5.50% | 5.33% |
| MXN | 8.50% | – |
| PLN | 4.50% | – |
| $3^5/_8$% Bond, 1998–2008 | 3.90% | 3.63% |

The carrying amounts of the Groups borrowings denominated in the following currencies are:

| CHF million | 2005 | 2004 |
|---|---|---|
| CHF | 99.3 | 196.7 |
| EUR | 63.4 | 37.2 |
| AUD | 6.9 | 4.7 |
| MXN | 6.9 | 0.0 |
| PLN | 4.5 | 1.2 |
| Other currencies | 2.2 | 5.7 |
| **Total** | 183.2 | 245.5 |

## 17. Pension plans and other long-term employee benefits

In accordance with local laws and practices, the Group operates various benefit plans. Among these plans are defined benefits and defined contribution plans. These plans cover the majority of employees for death, disability and retirement. There are also plans for anniversay benefits or other benefits related to years of service, which qualify as plans for other long-term employee benefits.

Benefits are usually dependent on one or more factors such as the number of years the employee was covered in the plan, age, insurable salary and to some extent on the accumulated old age capital. The assets of the funded pension plans are held within separate foundations or insurances and may not revert to the employer.

### Defined benefits pension plans and other long-term employee benefits

The following amounts have been recorded in the profit and loss account as personnel expense:

**– Employee benefits expense**

| | Pension Plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| CHF million | 2005 | 2004 | 2005 | 2004 |
| Current service cost | 10.8 | 10.8 | 0.8 | 0.6 |
| Interest on obligation | 14.1 | 13.8 | 0.2 | 0.2 |
| Expected return on plan assets | –33.3 | –24.0 | – | – |
| Changes in unrecognized assets (IAS 19.58) | 167.8 | 178.3 | – | – |
| Net actuarial losses (gains) recognised | –146.6 | –166.6 | 0.4 | – |
| Others | –0.2 | 0.0 | – | – |
| **Total, included in 'employee benefits expense'** | **12.6** | **12.3** | **1.4** | **0.8** |
| | | | | |
| Actual return on plan assets | 186.9 | 188.7 | | |

**– Changes in the present value of the defined benefit obligation**

| | Pension Plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| CHF million | 2005 | 2004 | 2005 | 2004 |
| Defined benefit obligation as at January 1 | 375.9 | 361.8 | 4.6 | 4.5 |
| Current service cost | 10.8 | 10.8 | 0.8 | 0.6 |
| Plan participants' contributions | 3.0 | 2.5 | – | – |
| Interest on obligation | 14.1 | 13.8 | 0.2 | 0.2 |
| Benefit payments and net transferrals | –23.5 | –14.5 | –0.4 | –0.7 |
| Actuarial (gains) or losses | 8.4 | 2.5 | 0.4 | 0.0 |
| Currency translation | 1.2 | –1.0 | – | – |
| **Defined benefit obligation as at December 31** | **389.9** | **375.9** | **5.6** | **4.6** |

**– Changes in the fair value of plan assets**

| CHF million | Pension Plans 2005 | 2004 |
|---|---|---|
| Fair value of plan assets as at January 1 | 668.1 | 481.9 |
| Plan participants' contributions | 3.0 | 2.5 |
| Contributions by employer | 11.5 | 9.6 |
| Benefit payments and net transferrals | –23.5 | –14.5 |
| Expected return on plan assets | 33.3 | 24.0 |
| Actuarial gains or (losses) | 153.6 | 164.7 |
| Others | 0.3 | 0.0 |
| Currency translation | 0.2 | –0.1 |
| **Fair value of plan assets as at December 31** | **846.5** | **668.1** |

The pension assets are composed of the following essential asset classes:

**– Asset classes**

| Valuation date December 31 | Pension Plans 2005 in % | 2004 in % |
|---|---|---|
| Equities | 79 | 73 |
| Bonds | 10 | 11 |
| Real estate | 9 | 12 |
| Others including cash | 2 | 4 |
| **Total** | **100** | **100** |

The pension assets as at December 31, 2005, include shares of Lindt & Sprüngli with a market value of CHF 687.4 million (CHF 523.0 million in 2004). The market value of real estate rented by the Group is CHF 10.1 million (CHF 10.7 million in 2004).

Expected employer contributions for 2006 amount to CHF 10.5 million for defined benefit plans and CHF 0.5 million for other long-term benefits.

The net position of pension obligations in the balance sheet can be summarised as follows:

**– Amount recognised in the balance sheet**

| CHF million<br>Valuation date December 31 | Pension Plans<br>2005 | <br>2004 | Other long-term employee benefits<br>2005 | <br>2004 |
|---|---|---|---|---|
| Present value of funded obligation | 359.3 | 295.7 | – | – |
| Fair value of plan assets | –846.6 | –668.0 | – | – |
| Under-/(Over-)funding | –487.3 | –372.3 | – | – |
| Present value of unfunded obligations | 30.6 | 80.2 | 5.6 | 4.6 |
| Unrecognised actuarial gains or (losses) | –5.8 | –4.4 | – | – |
| Unrecognised prepaid pension cost | 573.7 | 405.7 | – | – |
| **Net liability** | **111.2** | **109.2** | **5.6** | **4.6** |

**– Amounts in the balance sheet**

| | | | | |
|---|---|---|---|---|
| Liabilities | 130.4 | 127.8 | 5.6 | 4.6 |
| Assets (prepaid pension funds)[1)] | –19.2 | –18.6 | 0.0 | 0.0 |
| **Net liability** | **111.2** | **109.2** | **5.6** | **4.6** |

[1)]See note 8

The following principal assumptions form the basis for the actuarial calculation:

**– Calculation of defined benefit obligations**

| | Pension Plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| Valuation date December 31 | 2005 | 2004 | 2005 | 2004 |
| Discount rate | 3.40% | 3.80% | 4.00% | 5.00% |
| Future salary increases | 2.30% | 2.30% | | |
| Future pension increases | 1.10% | 1.20% | | |
| **– Calculation of expense** | | | | |
| Discount rate | 3.80% | 3.90% | 5.00% | 5.00% |
| Expected return on plan assets | 5.00% | 5.00% | | |

The following table shows how the actual development of obligations and assets for the benefit plans deviates from their expected development.

| CHF million<br>Valuation date December 31 | 2005 | 2004 |
|---|---|---|
| Defined benefit obligation | 389.9 | 375.9 |
| Fair value of assets | –846.5 | –668.1 |
| Under-/(Over-)funding | –456.6 | –292.2 |
| Experience adjustments on plan liabilities | 7.8 | 0.1 |
| Experience adjustments on plan assets | 153.6 | 164.7 |
| Net liability | 111.2 | 109.2 |

**Defined contributions plans**

In the 2005 financial year, contributions to defined contribution plans came to CHF 2.4 million (CHF 1.5 million in 2004).

## 18. Provisions

| CHF million | Business risks | Other | Total |
|---|---|---|---|
| Provisions as at January 1, 2005 | 39.2 | 2.8 | 42.0 |
| Addition | 2.3 | 1.0 | 3.3 |
| Utilisation | –1.7 | –0.4 | –2.1 |
| Release | –10.1 | –0.4 | –10.5 |
| Regroupment | 0.0 | 0.3 | 0.3 |
| Currency translation | 3.2 | 0.1 | 3.3 |
| **Provisions as at December 31, 2005** | **32.9** | **3.4** | **36.3** |

| CHF million | 2005 | 2004 |
|---|---|---|
| Current | 2.0 | 6.0 |
| Non-current | 34.3 | 36.0 |
| **Total** | **36.3** | **42.0** |

Other provisions for business risks include unsettled claims, onerous contracts as well as legal and administrative proceedings, which arise during the normal course of business. Provisions are recognised at balance sheet date when a present legal or constructive obligation as a result of past events occurs and the expected outflow of resources can be reliably estimated.

In management’s opinion, after taking appropriate legal and administrative advice, the outcome of these business risks will not give rise to any significant loss beyond the amounts provided at December 31, 2005.

## 19. Accrued liabilities

| CHF million | 2005 | 2004 |
|---|---|---|
| Trade-related costs | 149.9 | 133.3 |
| Salaries/wages and social costs | 59.7 | 52.9 |
| Other | 83.1 | 67.6 |
| **Total** | **292.7** | **253.8** |

Trade-related accrued liabilities comprise year-end rebates, returns, markdowns and other services provided by trade partners.

The line salaries/wages and social costs is related to bonuses, overtime and outstanding vacation days.

The position, Other, comprises accruals for 3rd-party services rendered as well as commissions.

## 20. Other income

| CHF million | 2005 | 2004 |
|---|---|---|
| Fees from 3rd parties | 3.9 | 2.9 |
| Insurance reimbursements | 0.5 | 1.1 |
| Other | 4.6 | 3.8 |
| **Total** | **9.0** | **7.8** |

The position, "Fees from 3rd parties", comprises mainly income from license fees. The position, Other, includes mainly gains from the sale of fixed assets and rental income.

## 21. Personnel expenses/Headcount

| CHF million | 2005 | 2004 |
|---|---|---|
| Wages and salaries | 359.2 | 329.8 |
| Social benefits | 99.8 | 91.6 |
| Other | 34.1 | 31.4 |
| **Total** | **493.1** | **452.8** |

For the year 2005, the Group employed an average of 6652 people (6293 in 2004).

## 22. Net financial result

| CHF million | 2005 | 2004 |
|---|---|---|
| Interest income | 7.0 | 7.1 |
| Interest expense | | |
| $3^5/_8$% Bond | –3.9 | –3.6 |
| 3% Bond | –0.8 | –3.0 |
| Other | –6.8 | –7.2 |
| Portfolio gains/losses on securities | | |
| Realized | 1.0 | 0.2 |
| Unrealized | 0.1 | 1.8 |
| Net gains/losses on foreign currencies | | |
| Realized | 1.2 | 2.2 |
| Unrealized | –0.7 | –0.9 |
| **Total** | **–2.9** | **–3.4** |

The position, Other, represents interest expense incurred in connection with third-party deposits.

## 23. Taxes

| CHF million | 2005 | 2004 |
|---|---|---|
| Current taxes | 71.0 | 60.6 |
| Deferred taxes | 2.4 | –0.1 |
| Other taxes | –0.4 | 2.9 |
| **Total** | **73.0** | **63.4** |

The tax on the Group‘s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

| CHF million | 2005 | 2004 |
|---|---|---|
| Profit before tax | 245.7 | 212.4 |
| Expected tax[1)] calculated on profits in the respective countries | 76.1 | 71.7 |
| Change in applicable tax rates on temporary differences | –0.8 | –0.8 |
| Utilization of unrecognized tax loss carry forwards from prior years | –3.6 | –3.3 |
| Other | 1.3 | –4.2 |
| **Total** | **73.0** | **63.4** |

[1)]Based on the weighted average applicable tax rate (2005: 31.0%, 2004: 33.8%).

## 24. Earnings per share

| | 2005 | 2004 |
|---|---|---|
| **Non-diluted earnings per share/10 PC (CHF)** | **788.2** | **683.6** |
| Net income (CHF million) | 172.7 | 149.0 |
| Weighted average number of registered shares/10 participation certificates | 219 103 | 217 973 |
| | | |
| **Diluted earnings per share/10 PC (CHF)** | **768.2** | **671.9** |
| Net income (CHF million) | 172.7 | 149.0 |
| Weighted average number of registered shares/10 participation certificates/ outstanding options on 10 PC | 224 806 | 221 760 |

## 25. Dividend per share

| | 2005 | 2004 |
|---|---|---|
| **Dividend per share/10 PC** | **225.0** [1)] | **180.0** |

[1)]Proposal of the Board of Directors

Indications regarding the number of entitled shares and participation certificates and the total dividend payment are disclosed in the financial report of the Chocoladefabriken Lindt & Sprüngli AG.

## 26. Share-based payments

Options on participation certificates (PC) of Chocoladefabriken Lindt & Sprüngli AG are only outstanding within the scope of the existing employee stock option programme. An option entitles an employee to a participation certificate at an exercise price, which consists of an average of the price of the five days preceding the issue date. The options have a blocking period of 3–5 years and if not exercised, they expire after 7 years. Changes in outstanding options can be viewed in the table below:

### Changes in the option rights

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (CHF/PC) | Number of options | Weighted average exercise price (CHF/PC) |
| **Outstanding options as at January 1** | **118 620** | **844.24** | **95 056** | **761.50** |
| New option rights | 28 850 | 1 607.00 | 29 500 | 1 095.00 |
| Exercised rights | –17 403 | 779.35 | –4 716 | 765.42 |
| Cancelled rights | –752 | 895.41 | –1 220 | 765.81 |
| **Outstanding options as at December 31** | **129 315** | **1 022.84*** | **118 620** | **844.24** |
| of which exerciseable at December 31 | | 28 578 | 798.05 | 27 554 |
| 773.84 | | | | |
| Average remaining time to expiry | 661 days | | 752 days | |

*The exercise price varies between CHF 648.00 and CHF 1607.00

For options offered after November 7, 2002, the expenses are charged to the income statement in a straight proportion to the option's expected period of expiry. The recorded expenses amount to CHF 6.4 million (CHF 1.6 million in 2004). The assumptions used to calculate the expenses are listed in the following table:

| Date of issue | March 3, 2005 | March 22, 2004 | March 11, 2003 |
|---|---|---|---|
| Number of issued options | 28 850 | 29 500 | 25 400 |
| of which in Bracket A (blocking period 3 years) | 10 107 | 10 338 | 8 879 |
| of which in Bracket B (blocking period 4 years) | 10 088 | 10 312 | 8 899 |
| of which in Bracket C (blocking period 5 years) | 8 655 | 8 850 | 7 622 |
| Issuing price (in CHF) | 1 607 | 1 095 | 648 |
| Rate of participation certificates on date of issue | 1 629 | 1 082 | 658 |
| Value of options on issuing date | | | |
| Bracket A (blocking period 3 years) | 283.28 | 168.02 | 104.60 |
| Bracket B (blocking period 4 years) | 300.78 | 180.77 | 110.43 |
| Bracket C (blocking period 5 years) | 317.01 | 192.07 | 115.24 |
| Maximum life span (in years) | 7.08 | 7.03 | 7.06 |
| Form of compensation | PC from conditional capital | | |
| Maximum life span (in years) | 4–6 | 4–6 | 4–6 |
| Expected rate of retirement per year | 4.1% | 4.6% | 4.4% |
| Expected volatility | 19.4% | 19.3% | 18.8% |
| Expected dividend yield | 1.20% | 1.23% | 1.28% |
| Risk-free interest rate | 1.95–2.14% | 1.71–1.97% | 1.40–1.64% |
| Model | Binomial model | | |

## 27. Contingencies

The Group has contingent liabilities in respect of bank guarantees. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees amounting to CHF 0.6 (CHF 0.4 million in 2004) to third parties.

## 28. Commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is:

| CHF million | 2005 | 2004 |
|---|---|---|
| Property, plant and equipment | 31.1 | 44.5 |

The future lease payments under operating lease commitments are:

| CHF million | 2005 | 2004 |
|---|---|---|
| Up to 1 year | 18.0 | 12.6 |
| Between 1 and 5 years | 58.2 | 36.8 |
| Over 5 years | 35.7 | 15.7 |
| **Total** | **111.9** | **65.1** |

Leasing commitments are related to retail stores in the USA and Australia, office space, cars and IT hardware.

## 29. Transactions with related parties

A family member of a member of the Board of Directors has a majority share in a company, to which products were sold at arm's length for the value of CHF 3.9 million (CHF 0.6 million in 2004) and receivables were outstanding at the balance sheet date of CHF 1.8 million (CHF 0.5 million in 2004).

At the balance sheet date a liability to a member of the Board of Directors of CHF 0.1 million exists (CHF 0.1 million in 2004).

100 registered shares (100 in 2004) were bought from the "Pensionskasse Lindt & Sprüngli AG" at a value of CHF 1.7 million (CHF 1.4 million in 2004), which corresponds to the market value at transaction date.

### – Remuneration of Group Management and Board of Directors

| CHF million | 2005 | 2004 |
|---|---|---|
| Group Management and executive members of the Board of Directors | 7.5 | 7.5 |
| Non-executive members of the Board of Directors, Honorary Chairman | 0.6 | 0.6 |
| **Total** | **8.1** | **8.1** |

### – Options and share allotments to Group Management and Board of Directors

Number of options on participation certificates (see note 26):

| | 2005 | 2004 |
|---|---|---|
| Group Management and executive members of the Board of Directors | 12 500 | 12 000 |

Number of shares:

| | 2005 | 2004 |
|---|---|---|
| Group Management and executive members of Board of Directors | 100 | 100 |

## 30. Events after the balance sheet date

The consolidated financial statements were approved for publication by the Board of Directors on March 6, 2006. No events have occurred up to March 6, 2006, which would necessitate adjustments to the carrying values of the Group's assets or liabilities, or which require additional disclosure.

# Report of the Group Auditors

PRICEWATERHOUSECOOPERS

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Report of the group auditors
to the general meeting of
Chocoladefabriken Lindt & Sprüngli AG
Kilchberg

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of changes in equity, cash flows statement and notes / pages 38 - 64) of Chocoladefabriken Lindt & Sprüngli AG for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers AG

Daniel Ketterer    Ivo Bischofsberger

Zürich, 6 March 2006

# Balance Sheet before Profit Distribution

| | Note | December 31, 2005<br>CHF 1000 | December 31, 2004<br>CHF 1000 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | | 41 975 | 42 265 |
| Investments | | 325 740 | 322 538 |
| Loans to subsidiaries | | 17 630 | 58 576 |
| **Total Fixed Assets** | | **385 345** | **423 379** |
| Receivables from subsidiaries | | 205 523 | 193 057 |
| Other receivables | | 3 272 | 2 230 |
| Financial investments | | 10 980 | 7 172 |
| Treasury stock, participation certificates and bonds | | 6 440 | 5 382 |
| Cash and cash equivalents | | 64 861 | 73 606 |
| Accrued income | | 25 | 165 |
| **Total Current Assets** | | **291 101** | **281 612** |
| **Total Assets** | | **676 446** | **704 991** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Share capital | | 14 000 | 14 000 |
| Participation capital | 11 | 8 006 | 7 832 |
| Legal reserves | | 94 724 | 81 514 |
| Special reserves | | 208 010 | 152 263 |
| Reserves for participation certificates | | 6 440 | 2 085 |
| Net earnings | | 73 901 | 115 953 |
| **Total Shareholders' Equity** | | **405 081** | **373 647** |
| Bond (expiring on June 30, 2008) | 6 | 100 000 | 100 000 |
| Bond (repaid on March 31, 2005) | 6 | 0 | 100 000 |
| Accounts payable to subsidiaries | | 163 485 | 122 196 |
| Tax liabilities | | 4 300 | 3 799 |
| Accrued liabilities | | 3 050 | 5 222 |
| Other liabilities | | 530 | 127 |
| **Total Liabilities** | | **271 365** | **331 344** |
| **Total Liabilities and Shareholders' Equity** | | **676 446** | **704 991** |

# Income Statement

| | 2005<br>CHF 1000 | 2004<br>CHF 1000 |
|---|---|---|
| **INCOME** | | |
| Dividends and other income from subsidiaries | 69 266 | 114 398 |
| Income from financial assets | 6 305 | 3 275 |
| Interest received from subsidiaries | 6 316 | 6 065 |
| Other income | 32 | 33 |
| **Total Income** | **81 919** | **123 771** |
| **EXPENSES** | | |
| Administrative and miscellaneous overhead costs | 10 424 | 6 627 |
| Interest | 10 211 | 11 915 |
| Taxes | 3 323 | 3 695 |
| **Total Expenses** | **23 958** | **22 237** |
| **NET INCOME** | **57 961** | **101 534** |
| **NET EARNINGS** | | |
| Net earnings as at January 1 | 115 953 | 72 413 |
| Dividend | –39 533 | –30 514 |
| Emoluments to directors | –480 | –480 |
| Allocation to special reserves | –60 000 | –27 000 |
| Net income | 57 961 | 101 534 |
| **Net Earnings as at December 31** | **73 901** | **115 953** |

# Notes to the Financial Statements

### 1. Liabilities arising from guarantees and pledges in favor of third parties

Contingent liabilities as at December 31, 2005, amounted to CHF 144.8 million (CHF 104.8 million in 2004). This figure comprises guarantees to third parties for subsidiaries, mainly to banks in the form of allocating credit lines for subsidiaries.

### 2. Assets pledged or assigned

There were no pledged or assigned assets as at December 31, 2005.

### 3. Leasing liabilities

The company has no leasing liabilities.

### 4. Fire insurance values

The company does not own fixed assets.

### 5. Liabilities due to welfare schemes

The company does not have any outstanding accounts payable to welfare schemes.

### 6. Bonds

| CHF million | |
|---|---|
| $3\,^5/_8$% Bond 1998–2008 | 100.0 |
| **Total** | **100.0** |

The 3% bond was repaid on March 31, 2005.

### 7. Investments

The investments in subsidiaries are listed in the notes on page 42.

### 8. Dissolution of undisclosed reserves

No undisclosed reserves were dissolved during 2005 that would have had any significant effect on the results.

### 9. Revaluations

No revaluations, which exceed acquisition costs, were recognized.

### 10. Acquisition and sale of treasury stock (registered shares (RS) and participation certificates (PC))

| Inventory of treasury stock | RS | PC |
|---|---|---|
| Inventory as at January 1, 2005 | 0 | 1 611 |
| Additions | 400 | 0 |
| Retirements | 0 | 1 611 |
| Inventory as at December 31, 2005 | 400 | 0 |
| Average cost of additions | CHF 16 100 | – |
| Average sales price of retirements | – | CHF 1 875 |

### 11. Conditional and approved capital

As of December 31, 2005, the conditional capital had a total of 489 667 participation certificates with a par value of CHF 10. Of this total, 135 217 are reserved for employee stock option programs and the remaining 354 450 for capital market transactions. In the year under review, a total of 17 403 employee stock options were exercised at an average price of CHF 779.35.

### 12. Mandatory disclosure of interest positions pursuant to OR Art. 663c

As of December 31, 2005, Chocoladefabriken Lindt & Sprüngli AG disclosed the following shareholders (in accordance with Art. 663c OR, Swiss Commercial Code) which own voting shares of more than 4%:

- Fonds für Pensionsergänzungen der Chocoladefabriken Lindt & Sprüngli AG, 22.3% (22.3% in 2004)

# Proposal for the Distribution of Net Earnings

| | December 31, 2005<br>CHF | December 31, 2004<br>CHF |
|---|---|---|
| Balances brought forward | 15 939 979 | 14 418 970 |
| Net income | 57 961 360 | 101 533 545 |
| **NET EARNINGS** | **73 901 339** | **115 952 515** |
| 5% statutory dividend | –1 100 279 [1)] | –1 098 126 |
| 220% (175% in 2004) additional dividend on the dividend-bearing shares and participation certificates of CHF 22 005 580 (CHF 21 962 520 in 2004) | –48 412 277 [1)] | –38 434 410 |
| Emoluments to directors | –480 000 | –480 000 |
| Allocations to special reserves | –8 000 000 | –60 000 000 |
| **BALANCE CARRIED FORWARD** | **15 908 783** | **15 939 979** |

[1)] Number of registered shares and participation certificates, status as at December 31, 2005: during the period, January 1 to April 25, 2006 (date of the dividend distribution), the number of dividend-bearing participation certificates can change as a result of options, granted through the employee stock option plan, being exercised.

# Report of the Statutory Auditors

PRICEWATERHOUSECOOPERS

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Report of the statutory auditors
to the general meeting of
Chocoladefabriken Lindt & Sprüngli AG
Kilchberg

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes / pages 66 – 70) of Chocoladefabriken Lindt & Sprüngli AG for the year ended 31 December 2005.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Daniel Ketterer Ivo Bischofsberger

Zürich, 6 March 2006

# Group Financial Data – 5-Year Review

### Income Statement

| | | **2005 IFRS** | 2004 IFRS | 2003 Swiss GAAP FER | 2002 Swiss GAAP FER | 2001 Swiss GAAP FER |
|---|---|---|---|---|---|---|
| Consolidated sales | CHF million | **2 246.9** | 1 994.6 | 1 800.5 | 1 680.5 | 1 590.8 |
| EBITDA | CHF million | **325.1** | 295.1 | 265.2 | 242.4 | 230.8 |
| in % of consolidated sales | % | **14.5** | 14.8 | 14.7 | 14.4 | 14.5 |
| EBIT | CHF million | **248.6** | 215.8 | 188.7 | 170.8 | 158.4 |
| in % of consolidated sales | % | **11.1** | 10.8 | 10.5 | 10.2 | 10.0 |
| Net income | CHF million | **172.7** | 149.0 | 122.4 | 101.9 | 91.5 |
| in % of consolidated sales | % | **7.7** | 7.5 | 6.8 | 6.1 | 5.8 |
| in % of average shareholders' equity | % | **19.6** | 19.6 | 18.3 | 17.8 | 17.7 |
| Cash flow | CHF million | **257.2** | 231.2 | 206.2 | 178.3 | 175.2 |
| in % of consolidated sales | % | **11.4** | 11.6 | 11.5 | 10.6 | 11.0 |
| Depreciation and amortisation | CHF million | **76.5** | 79.3 | 76.5 | 71.6 | 72.4 |

### Balance Sheet

| | | | | | | |
|---|---|---|---|---|---|---|
| Total assets | CHF million | **1 908.1** | 1 714.6 | 1 592.3 | 1 492.1 | 1 500.2 |
| Current assets | CHF million | **1 255.2** | 1 136.6 | 1 042.2 | 940.0 | 915.0 |
| Net current assets | CHF million | **630.9** | 529.6 | 561.2 | 436.6 | 339.5 |
| PPE/intangible assets | CHF million | **652.9** | 578.0 | 550.1 | 552.1 | 585.2 |
| in % of total assets | % | **34.2** | 33.7 | 34.5 | 37.0 | 39.0 |
| Long-term liabilities | CHF million | **312.7** | 313.9 | 382.6 | 379.8 | 386.1 |
| in % of total assets | % | **16.4** | 18.3 | 24.0 | 25.5 | 25.7 |
| Shareholders' equity | CHF million | **971.1** | 793.7 | 728.7 | 608.9 | 538.6 |
| in % of total assets | % | **50.9** | 46.3 | 45.8 | 40.8 | 35.9 |
| Investments in PPE/intangible assets | CHF million | **128.9** | 99.2 | 75.1 | 77.6 | 72.2 |
| in % of cash flow | % | **50.1** | 42.9 | 36.4 | 43.5 | 41.2 |

### Employees

| | | | | | | |
|---|---|---|---|---|---|---|
| Average number of employees | | **6 652** | 6 293 | 6 011 | 6 029 | 6 068 |
| Sales per employee | CHF 1000 | **337.8** | 317.0 | 299.5 | 278.7 | 262.2 |

# Data per Share – 5-Year Review

| | | 2005 IFRS | 2004 IFRS | 2003 Swiss GAAP FER | 2002 Swiss GAAP FER | 2001 Swiss GAAP FER |
|---|---|---|---|---|---|---|
| **Shares** | | | | | | |
| Number of registered shares at CHF 100.– par [1] | | **140 000** | 140 000 | 140 000 | 140 000 | 140 000 |
| Number of participation certificates at CHF 10.– par [2] | | **800 558** | 783 155 | 778 439 | 775 775 | 775 775 |
| Earnings per share/10 PC [3] | CHF | **788** | 684 | 562 | 468 | 421 |
| Cash flow per share/10 PC | CHF | **1 169** | 1 059 | 947 | 819 | 805 |
| Shareholders' equity per share/10 PC [4] | CHF | **4 413** | 3 636 | 3 345 | 2 799 | 2 475 |
| Payout Ratio | % | **28.7** | 26.5 | 24.9 | 23.5 | 21.4 |
| **Registered share** | | | | | | |
| Year-end price | CHF | **21 950** | 16 650 | 11 050 | 8 600 | 9 400 |
| High of the year | CHF | **22 990** | 16 650 | 11 475 | 10 000 | 10 200 |
| Low of the year | CHF | **15 720** | 10 975 | 6 800 | 7 800 | 7 980 |
| Dividend | CHF | **225.00** [5] | 180.00 | 140.00 | 110.00 | 90.00 |
| P/E Ratio [6] | Factor | **27.86** | 24.34 | 19.66 | 18.38 | 22.33 |
| **Participation certificate** | | | | | | |
| Year-end price | CHF | **2 237** | 1 618 | 1 030 | 800 | 930 |
| High of the year | CHF | **2 350** | 1 630 | 1 065 | 960 | 1 010 |
| Low of the year | CHF | **1 526** | 990 | 631 | 730 | 775 |
| Dividend | CHF | **22.50** [5] | 18.00 | 14.00 | 11.00 | 9.00 |
| P/E Ratio [6] | Factor | **28.39** | 23.65 | 18.33 | 17.09 | 22.09 |
| Market capitalization [6] | CHF million | **4 863.8** | 3 598.1 | 2 348.8 | 1 824.6 | 2 037.5 |
| in % of shareholders' equity [4] | % | **500.9** | 453.3 | 322.3 | 299.7 | 378.3 |

[1] Valor 1 057 075
[2] Valor 1 057 076
[3] For 2004 and 2005 based on weighted average number of registered shares/10 participation certificates
[4] Year-end shareholders' equity
[5] Proposal of the Board of Directors
[6] Based on the year-end prices of registered shares and participation certificates

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**Honorary Chairman**

Dr. Rudolph R. Sprüngli

| **Board of Directors** | Term expires Spring |
|---|---|
| Ernst Tanner<br>Chairman and CEO | 2008 |
| Dr. Kurt Widmer | 2007 |
| Dr. Rudolf K. Sprüngli | 2007 |
| Dr. Franz Peter Oesch | 2006 |
| Dr. Peter F. Baumberger | 2006 |
| Antonio Bulgheroni | 2008 |

**Group Management**

Ernst Tanner
Chairman of the Board
and CEO

Uwe Sommer
Director
Marketing/Sales
Country responsibilities

Hansjürg Klingler
Director
Duty Free
Country responsibilities

Dr. Dieter Weisskopf
Director
Finance/Administration/
Purchasing/Manufacturing

Realization: Peter Bütikofer & Company AG, Zurich; Design: Tricom AG, Zurich
Photos: Martin Schmitter; Print: Neidhart + Schön AG, Zurich
Paper: chlorine free

# Information

**Agenda**

| | |
|---|---|
| April 20, 2006 | 108th Annual Shareholders' Meeting |
| April 25, 2006 | Payment of Dividend |
| August 22, 2006 | Half-year report 2006 |
| January 23, 2007 | Net sales 2006 |
| March 20, 2007 | Full-year results 2006 |
| April 26, 2007 | 109th Annual Shareholders' Meeting |

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