LINDT & SPRÜNGLI

Semi-Annual Report

JANUARY – JUNE 2006

Kilchberg, August 22, 2006

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Lindt & Sprüngli accelerates growth and gains further market shares.
High double-digit increase in sales: in local currencies +14.8%, in CHF +17.2%.
Operating profit (EBIT) grows by CHF 9.8 million to CHF 15.5 million.

The 2006 semi-annual report is the first to be based on IFRS accounting standards. To permit a comparison between the 2006 and 2005 half-yearly statements, the sales and profits figures, drawn up on the basis of Swiss GAAP FER in 2005, have been restated accordingly. The differences in IFRS compared with the former FER standards are minimal and are described in detail in the 2005 Annual Report.

COMMENT

Chocoladefabriken Lindt & Sprüngli AG further accelerates its growth rate and confirms yet again the sustained positive developments of recent years. With a high, double-digit sales increase in Swiss francs of 17.2% to CHF 983.4 million and organic growth in local currencies of +14.8%, Lindt & Sprüngli has once again grown faster than the overall market and is winning market share in all its markets and segments.

When analyzing the Group's earnings in the first half of 2006, it is important to bear in mind the seasonal and gift-oriented nature of the premium chocolate business: the Lindt & Sprüngli Group makes around 40% of its annual sales during the first half of each year, but at the end of June these sales are charged with around half of the fixed costs of production, administration and marketing. This means that the profitability of the Lindt & Sprüngli Group in relation to sales in the first half of the year cannot be equated with its profitability over the year as a whole. The excellent growth in sales during the first half of 2006 has seen operating profit rise by CHF 9.8 million to CHF 15.5 million, while the semi-annual net income has increased by CHF 6.0 million to CHF 9.9 million.

MARKET

In harmony with an environment of slow economic recovery and the slight progress in the employment market, consumer sentiment has improved somewhat in the European countries over the last six months and remains positive in the overseas markets of importance to Lindt & Sprüngli such as the USA, Canada and Australia. A similar trend can be identified in retail sales. Despite further increases in the cost of energy and rising interest rates, most chocolate markets are seeing their overall value develop slightly over the equivalent period last year even though volumes continue to stagnate or may even be continuing to decline. In this slow-growing environment, two different trends are becoming increasingly important: on the one hand, there is continuing growth in the premium quality segment with an increasing preference for dark chocolate with a high cocoa content and, on the other, an overall positive development of the low-priced private labels. Thanks to its renowned positioning as the premium brand and decades of excellence in producing high-quality chocolate products, LINDT has an outstanding foundation for future development.

SALES

In the first half of 2006, Lindt & Sprüngli achieved sales of CHF 983.4 million. This represents an increase over the same period in 2005 of around CHF 145 million or +17.2% in Swiss francs and 14.8% in local currencies. The slightly higher growth in Swiss franc terms can be attributed to the currency's weakness against the euro and the dollar currencies. The increase in sales has primarily been driven by a strong +11.6% increase in volume together with the combined effects of price increases and product mix, which contributed 3.2%.

All the Group's companies contributed to this excellent growth and hence gained market shares everywhere. One positive repercussion is that it was possible to increase marketing activities, in particular by investing in advertising, in all areas. This demonstrates once again that the Group's long-pursued strategy of exclusive positioning in the premium chocolate segment, uncompromising product quality and the continuous flow of innovations are beginning to bear fruit in the long term. A uniform global communications strategy and ongoing brand support are other factors in the Group's success. In the seasonal sector (Valentine's Day, Mother's Day, Easter), where LINDT products continue to play an increasingly important role thanks to their suitability as exclusive chocolate gifts and the prestigious image they convey to consumers, developments remained positive, while the major all-year-round products LINDOR and EXCELLENCE continued to consolidate their positions worldwide. In the dark chocolate segment, a large number of LINDT innovations enlivened what has become a fast-growing market. Developments in the world's three largest chocolate markets – the USA, Germany and the UK – were again extremely encouraging due to a further expansion of distribution and more rapid product rotation at outlets. A late Easter and the rather cool spring weather in many important countries also had a positive effect on chocolate sales.

PRODUCT SEGMENTS

Continuous renewal of the product range, an in-depth understanding of customer requirements and accurate anticipation of consumer habits and trends have also made a major contribution to the Group's success. In the chocolate sector, there are two basic types of purchasing decisions: planned purchases (gifts for others) and impulse purchases (for self-consumption). LINDT products enjoy very high acceptance in both categories: firstly, because consumers know they can trust both the value and quality of LINDT products and ingredients as well as the company's in-house expertise; and secondly, because of the high level of new product introductions. As usual, festive, highly gift-oriented events such as Valentine's Day, Easter and Mother's Day made a very significant contribution to *business in the Spring season*. On *Valentine's Day*, the red, heart-shaped LINDOR specialities once again achieved encouraging growth, in particular in the English-speaking markets (UK, Australia, USA, Canada). However, Valentine's Day is becoming increasingly important in other western European countries thanks to the new, innovative packaging used for the LINDOR line. The lateness of Easter this year further boosted *Easter business*. With its attractive, extremely festive Easter collection, which is updated every year and adapted to the traditions and preferences of local markets, LINDT was able to further extend its position in this important segment and win additional market share. The GOLD BUNNY continued to enjoy success in both existing and new markets, not just in Europe but also overseas.

The somewhat static *chocolate tablet segment* was again given a boost by LINDT's new, truly innovative product concepts which respond perfectly to consumers' demands. These include the introduction of EXCELLENCE specialties in the form of very thin chocolate tiles. Samples were sent to a large number of Swiss households to accompany the launch of this new product. LINDT's second and highly successful product line is the filled tablet segment. Here, LINDT was able to generate great interest in all markets with its range of new, original tastes. The existing speciality chocolate bars based on long proven milk recipes continue to be popular and extremely successful. In addition, innovative product concepts have been launched in a number of countries, offering consumers a genuinely new, interesting taste experience. The trend toward dark, high-quality chocolate is becoming ever stronger in the USA. Consequently, Ghirardelli was able to achieve great success with the launch of its SQUARES with 60% cocoa content and a new specialty line with a cocoa content of 72%.

In the *pralinés segment*, the LINDOR balls have risen to new heights with the introduction of novel specialities such as a dark chocolate variant with 60% cocoa and are far and away the most successful and best known LINDT product worldwide. In Switzerland, Italy and the English-speaking markets particularly, the popular LINDOR balls have been an outstanding success story for many years. The rest of the assorted dark chocolate praliné products have also further established themselves in a number of countries. More new product concepts and innovations are in preparation everywhere as the autumn and Christmas season approaches.

COMPANIES

European companies: Lindt & Sprüngli has achieved above-average sales growth in all its markets and gained new market shares. The growth achieved by the European Lindt & Sprüngli subsidiaries in both the seasonal and all-year-round sectors has been driven by the broad product range, the creativity shown in product development and the use of innovative marketing concepts. This development has been further supported by the continuing improvement in consumer sentiment and the sustained trend toward quality products, particularly high-value dark chocolate products. As a result, Lindt & Sprüngli's sales in Switzerland, Germany, Italy, England and Spain rose between 10% and 20%. LINDT's companies in France, Austria and Poland, as well as Caffarel, also enjoyed encouraging single-digit growth rates substantially above the market average. In Sweden, the new Lindt & Sprüngli marketing company founded in 2005 made a very encouraging start.

North American companies: In the USA and Canada, the premium chocolate segment has been growing faster than the overall chocolate market owing to the positive economic conditions in these countries and, to a considerable extent, the efforts made by LINDT and GHIRARDELLI. At more than 20%, the growth rate achieved by the three North American companies combined are well ahead of the market average and translate into a substantial gain in market share. These excellent developments are due to faster product rotation, the extension of the product range available to existing trade channels and expanded distribution in the shape of new customers. For LINDT, the product focus remains firmly on LINDOR and EXCELLENCE, while Ghirardelli concentrated on its extremely successful SQUARES, which were complemented by new specialties with a high cocoa content. These positive developments were given an additional boost by the expansion of the seasonal range to include high-quality gift items from LINDT and GHIRARDELLI, thus further enhancing the awareness and image of the two brands. The proprietary retail business of the two American subsidiaries continued to advance with a more or less unchanged number of sales outlets. The recently founded marketing company in Mexico City can also look back to an encouraging start.

Other markets: In *Australia* Lindt & Sprüngli has advanced to a leading position in the total chocolate market and achieved once again high double-digit sales growth. Excellent progress was also made in *duty free* business as well as by *export markets* in Europe and overseas. In Japan especially, LINDT's dark chocolate specialities are enjoying increasing popularity.

COSTS

Materials costs as a proportion of sales during the first half of 2006 were unchanged compared with the same period in 2005 at 31.9%. As a result of increasing worldwide demand for chocolate with a high cocoa content, the price of *high-quality cocoa* has increased in recent months. These increased costs were compensated for by a slight fall in cocoa butter costs and stable bulk *cocoa* prices. The costs of milk, sugar and *packaging materials* remained largely unchanged. The prospect of a good harvest suggests that the price of hazelnuts and almonds may fall again after the large increases of the last three years. If this trend continues, it should be reflected in reduced costs as of 2007. The average workforce grew by 7.6% to 6397 employees. This increase relates primarily to the production sector, where capacity was further improved. This resulted in *personnel costs* as a proportion of sales being further reduced by 1.1 percentage points from the previous year's figure to reach 24.8%. As a percentage of sales, *operating costs* also fell slightly compared with the same period in 2005, to 38.1%. As in the previous few years *marketing investments*, which are included under operating expenses, continued to rise at an above-average rate, helping to consolidate the LINDT and GHIRARDELI brands and reinforce product-related communication. In contrast, the increase in the other operating costs as a proportion of sales was below average and more than compensated for the increased advertising expenditure.

INCOME

Thanks to excellent sales growth and cost control in all areas, *operating profit (EBIT)* rose by CHF 9.8 million over the same period last year to close at CHF 15.5 million. All three geographical segments contributed to this increase. After taking account of the higher net financial result and a slightly reduced tax rate, the *semi-annual net income* rose by CHF 6.0 million to CHF 9.9 million.

BALANCE SHEET

Compared with the previous year, the balance sheet total fell by approximately CHF 250 million as a result of the seasonal reduction of working capital. In the single positions, this can be seen in a decline in accounts receivable of CHF 400 million accompanied by a simultaneous increase in goods in stock and liquidity. Shareholder's equity at June 30, 2006 was 56.1%, thus reflecting the Group's continuing financial strength. The net financial position at the half-year balance date was CHF 174.0 million which corresponds to an increase of CHF 41.7 million over the first half of 2005.

OUTLOOK FOR FULL YEAR 2006

Sales: Despite the impact of the hot summer in Europe and the USA, and the very strong growth achieved in the second half of 2005, Lindt & Sprüngli expects an increase in sales for the full year 2006 of 10–12%.

Capital Expenditures: To provide the capacity required in the light of the Group's high level of growth in terms of both sales and volume, the annual capital expenditure requirements for 2006 and 2007 will increase to more than CHF 160 million. Investments will be focused on production lines, long-term infrastructure for distribution, logistics, and the extension of production facilities. Currently, it is expected that annual capital expenditures from 2008 onward will stabilize at lower levels of CHF 100–130 million.

Profit: As in previous years, Lindt & Sprüngli is striving to achieve a long-term increase in operating profit margin (EBIT) of approximately 20–40 base points compared with the equivalent period in 2005 and is confident that it can achieve this objective again in 2006.

Consolidated Balance Sheet (unaudited)

	June 30, 2006 CHF millions	%	December 31, 2005 CHF millions	%
ASSETS				
Property, plant and equipment	625.5		615.4	
Intangible assets	7.8		8.6	
Financial assets	20.9		21.4	
Deferred tax assets	7.5		7.5	
Total Non-current Assets	**661.7**	**39.8**	**652.9**	**34.2**
Inventories	345.8		314.8	
Accounts receivable	289.4		688.0	
Other receivables	55.6		41.7	
Accrued income	6.0		6.2	
Derivative assets	1.8		1.3	
Marketable securities	77.2		35.5	
Cash and cash equivalents	223.6		167.7	
Total Current Assets	**999.4**	**60.2**	**1 255.2**	**65.8**
Total Assets	**1 661.1**	**100.0**	**1 908.1**	**100.0**
LIABILITIES				
Share and participation capital	22.1		22.0	
Treasury stock	–4.8		–6.4	
Retained earnings and other reserves	915.1		955.5	
Total Shareholders' Equity	**932.4**	**56.1**	**971.1**	**50.9**
Bonds	99.5		99.3	
Loans	1.6		1.3	
Deferred tax liabilities	31.4		31.2	
Pension liabilities	138.5		136.0	
Other non-current liabilities	7.7		8.6	
Provisions	36.2		36.3	
Total Non-current Liabilities	**314.9**	**19.0**	**312.7**	**16.4**
Accounts payable to suppliers	102.2		185.1	
Other accounts payable	19.0		35.9	
Current tax liabilities	12.7		20.3	
Accrued liabilities	249.7		292.7	
Derivative liabilities	2.8		7.7	
Bank and other borrowings	27.4		82.6	
Total Current Liabilities	**413.8**	**24.9**	**624.3**	**32.7**
Total Liabilities	**728.7**	**43.9**	**937.0**	**49.1**
Total Liabilities and Shareholders' Equity	**1 661.1**	**100.0**	**1 908.1**	**100.0**

Consolidated Income Statement (unaudited)

	June 30, 2006		June 30, 2005	
	CHF millions	%	CHF millions	%
INCOME				
Sales	983.4	100.0	839.1	100.0
Other income	3.7		3.9	
Total Income	**987.1**	**100.4**	**843.0**	**100.5**
EXPENSES				
Material costs	–313.4	–31.9	–267.6	–31.9
Changes in inventories	2.9	0.3	10.2	1.2
Personnel costs	–244.1	–24.8	–217.6	–25.9
Operating expenses	–374.6	–38.1	–325.4	–38.8
Depreciation and amortisation	–42.4	–4.3	–36.9	–4.4
Total Expenses	**–971.6**	**–98.8**	**–837.3**	**–99.8**
Operating profit	15.5	1.6	5.7	0.7
Net financial result	–1.4		–0.1	
Operating profit before taxes	14.1	1.4	5.6	0.7
Taxes	–4.2		–1.7	
NET INCOME	**9.9**	**1.0**	**3.9**	**0.5**
Attributable to shareholders	9.9		3.9	
Non-diluted earnings per share/10 PC	44.9		17.8	
Diluted earnings per share/10 PC	43.8		17.5	

Consolidated Statement of Changes in Equity (unaudited)

CHF millions	Share-/PC-capital	Treasury stock	Consolidated reserves	Hedge Accounting	Retained earnings	Currency translation	Share-holders' equity
Balance as at December 31, 2004	**21.8**	**–2.1**	**238.2**	**0.0**	**557.2**	**–21.4**	**793.7**
Introduction IAS 32/39 [1]				1.3	0.1		1.4
Net income for the period					3.9		3.9
Capital increase [2]	0.151		11.4				11.6
Purchase of own shares [3]		–6.4					–6.4
Sale of own PCs [4]		2.1			0.9		3.0
Hedge accounting				–2.2			–2.2
Share-based payment					1.6		1.6
Dividends					–39.9		–39.9
Currency translation						22.2	22.2
Balance as at June 30, 2005	**22.0**	**–6.4**	**249.6**	**–0.9**	**523.8**	**0.8**	**788.9**
Balance as at December 31, 2005	**22.0**	**–6.4**	**251.4**	**–4.4**	**697.4**	**11.1**	**971.1**
Net income for the period					9.9		9.9
Capital increase [2]	0.098		7.1				7.2
Hedge accounting				3.8			3.8
Share-based payment		1.6			2.6		4.2
Dividends					–50.1		–50.1
Currency translation						–13.7	–13.7
Balance as at June 30, 2006	**22.1**	**–4.8**	**258.5**	**–0.6**	**659.8**	**–2.6**	**932.4**

[1] With the introduction of IAS 32 and 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.

[2] Capital increase from stock option plan: All directly attributable transaction costs are netted against the premium realized on exercise of options (2006: TCHF 124, 2005: TCHF 169)

[3] 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 and has been deducted from shareholders' equity as treasury stock. The Company has the right to reissue these shares at a later date.

[4] 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 recognized in shareholders' equity.

Consolidated Cash Flow Statement (unaudited)

	June 30, 2006		June 30, 2005	
	CHF millions	CHF millions	CHF millions	CHF millions
Net income	9.9		3.9	
Depreciation and amortization	42.4		36.9	
Changes in provisions and value adjustments	3.3		–4.9	
Non-cash effective items	5.8		2.5	
Cash Flow from Operations before Changes in Net-current Assets		**61.4**		**38.4**
Decrease (+) / Increase (–) of accounts receivable	395.4		340.1	
Decrease (+) / Increase (–) of inventories	–39.3		–12.4	
Decrease (+) / Increase (–) of prepayments and other receivables	–2.2		–1.2	
Decrease (+) / Increase (–) of accrued income	0.9		6.4	
Decrease (–) / Increase (+) of accounts payable	–87.1		–81.7	
Decrease (–) / Increase (+) of other payables and accrued liabilities	–77.8	189.9	–78.8	172.4
Cash Flow from Operating Activities		**251.3**		**210.8**
Investments in property, plant and equipment	–60.4		–48.1	
Disposals of property, plant and equipment	0.3		0.2	
Investments in intangible assets	–1.5		–0.9	
Disposals of financial assets	0.5		0.7	
Investments in marketable securities	–42.2		–6.7	
Cash Flow from Investment Activities		**–103.3**		**–54.8**
Repayment of borrowings	–46.7		–14.3	
Repayment of loans	–7.2		–6.4	
Repayment of bonds	0.0		–96.7	
Capital increase (including premium)	7.2		11.6	
Purchase of treasury stock-shares/PC	0.0		–6.4	
Sale of treasury PCs	0.0		3.0	
Dividends paid to shareholders	–50.1		–39.9	
Cash Flow from Financing Activities		**–96.8**		**–149.1**
Net Increase (+) / Decrease (–) in Cash and Cash Equivalents		**51.2**		**6.9**
Cash and Cash Equivalents as at January 1	**167.7**		**213.2**	
Exchange Gains/Losses on Cash and Cash Equivalents	**4.7**	**172.4**	**1.7**	**214.9**
Cash and Cash Equivalents as at June 30		**223.6**		**221.8**

Notes to the Semi-Annual Report

1. Accounting principles

The consolidated half-year report as at June 30, 2006, has been prepared in accordance with the accounting principles described in the annual financial statements for the year ended December 31, 2005, as well as the requirements of IAS 34 – Interim Financial Reporting. The condensed form of financial statements has been chosen for this report.

When preparing the half-year report, Management makes estimates and assumptions that have an impact on the disclosed assets and liabilities at the balance sheet date, as well as the disclosed expenses and income in the reporting period. The actual results may differ from these estimates.

2. Seasonality

When analyzing the Group's results in the first half of 2006, it is important to bear in mind the seasonal and gift-oriented nature of the premium chocolate business. The Lindt & Sprüngli Group makes less than 40% of its annual sales during the first half of each year, but at the end of June these sales are charged with approximately half of the fixed costs of production, administration and marketing. This means that the profitability of the Lindt & Sprüngli Group in relation to sales in the first half of the year cannot be equated with its profitability over the year as a whole. Likewise, the balance of accounts receivable are substantially lower at the end of the first half of the year as at the end of the year (declining orders during the summer season compared to the Christmas business).

3. Share and participation capital

The conditional capital as at June 30, 2006, has a total of 599 819 (491 978 as at June 30, 2005) participation certificates with a par value of CHF 10.00. Of this total, 245 369 (137 528 as at June 30, 2005) are reserved for employee stock option programs; the remaining 354 450 (354 450 as at June 30, 2005) participation certificates are reserved for capital market transactions. In the 6-month period ended June 30, 2006, a total of 9848 employee options were exercised at an average exercise price of CHF 747.39 (for the 6-month period ended June 30, 2005: 15 092 employee options were exercised at an average exercise price of CHF 775.41).

4. Dividends

The proposed dividend – CHF 225.00 per registered share and CHF 22.50 per participation certificate – was approved at the annual shareholders' meeting held on April 20, 2006. The payment of dividends followed as of April 25, 2006.

5. Segment information: According to geographic segments

The segment reporting is based on the management structure and internal reporting procedures. Separating the capitalized 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.

CHF millions	Europe and Middle East		North- and Latin America		Rest of the world		Total	
January – June	2006	2005	2006	2005	2006	2005	2006	2005
Third-party sales	**688.8**	615.9	**214.2**	160.9	**80.4**	62.3	**983.4**	839.1
Operating profit	**18.1**	10.1	**–13.6**	–11.9	**11.0**	7.5	**15.5**	5.7

Information

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

Agenda

January 23, 2007:	Net Sales for 2006
March 20, 2007:	2006 Year-end Presentation to the Press (morning) 2006 Year-end Presentation to Financial Analysts' (afternoon)
April 26, 2007:	109th Annual General Meeting
Second-half of August 2007:	Release of Semi-Annual Report January to June 2007

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