



Lindt & Sprüngli
160 Years

Annual Report 2005



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 1899, 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.



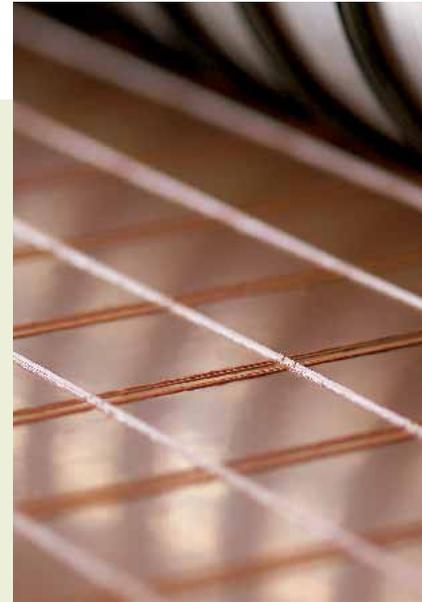
PREPARED FOR THE NEW MILLENNIUM

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 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 13th 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 CO₂ emissions and optimize the energy balance. In Switzerland, CO₂ 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.