



LINDT & SPRÜNGLI

ANNUAL REPORT 2006

Key Financial Data of the Lindt & Sprüngli Group

2006 2005 Change
in %

Income Statement

Consolidated sales	CHF million	2 585.6	2 246.9	15.1
EBITDA	CHF million	380.9	325.1	17.2
in % of consolidated sales	%	14.7	14.5	
EBIT	CHF million	296.9	248.6	19.4
in % of consolidated sales	%	11.5	11.1	
Net income	CHF million	209.0	172.7	21.0
in % of consolidated sales	%	8.1	7.7	
Cash flow	CHF million	312.6	257.2	21.5
in % of consolidated sales	%	12.1	11.4	

Balance Sheet

Total assets	CHF million	2 131.1	1 908.1	11.7
Current assets	CHF million	1 419.6	1 255.2	13.1
in % of total assets	%	66.6	65.8	
Non-current assets	CHF million	711.5	652.9	9.0
in % of total assets	%	33.4	34.2	
Non-current liabilities	CHF million	318.8	312.7	2.0
in % of total assets	%	15.0	16.4	
Shareholders' equity	CHF million	1 155.8	971.1	19.0
in % of total assets	%	54.2	50.9	
Investments in property, plant and equipment/intangible assets	CHF million	146.4	128.9	13.6
in % of cash flow	%	46.8	50.1	

Employees

Average number of employees		7 044	6 652	5.9
Sales per employee	1000 CHF	367.1	337.8	8.7

Data per share

Net income per share/10 PC ¹⁾	CHF	947	788	20.2
Cash flow per share/10 PC	CHF	1 410	1 169	20.6
Dividend per share/10 PC	CHF	275 ²⁾	225	22.2
Payout ratio	%	29.2	28.7	
Shareholders' equity per share/10 PC	CHF	5 214	4 413	18.2
Price registered share 31.12.	CHF	30 700	21 950	39.9
Price participation certificate 31.12.	CHF	3 008	2 237	34.5
Market capitalization per 31.12.	CHF million	6 754.4	4 863.8	38.9

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

²⁾Proposal of the Board of Directors



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109th Annual Shareholders' Meeting
Thursday, April 26, 2007, 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

I am pleased to report that 2006 was another exceptionally successful year for Lindt & Sprüngli in many ways. The excellent results confirm that Lindt & Sprüngli is following the successful path taken in past years. This gratifying continuity is proof that with our uncompromising and focused commitment to our core expertise of chocolate making, with our positioning in the premium segment and with our strategy of targeted geographical expansion, we are certainly on the right track and ready for future challenges. Once again, our management philosophy has won us valuable gains in market share in all our important markets while providing us with our own resources to expand our production capacities.

In an economic environment that showed a slight recovery in the context of challenging competition, Lindt & Sprüngli again achieved record growth in 2006. In fact, we did exceed the targets we had set for ourselves: it is no easy undertaking to sell more and more chocolate year after year on partially saturated high-consumption markets. Yet we were again able to up worldwide sales by nearly 340 million Swiss francs despite last year already having been a record in our corporate history. This is the highest growth rate the group ever achieved. All our subsidiaries played a part in this impressive feat through higher sales in every important market segment, not least owing to many innovative products and

outstanding marketing activities. Our group has once again outpaced the growth of the overall chocolate market many times over. The proprietary sales and distribution organizations that have been set up in recent years confirm our ability for organic growth: the decision to expand at the appropriate time by establishing subsidiaries in geographically targeted markets has once again proven us right.

In the year under review, 2006, the group reported sales worth 2,586 billion Swiss francs, representing organic growth of 13.7% in local currency terms or 15.1% in Swiss francs.

The operating result before interest and taxes stands at 296.9 million Swiss francs or a gain of 19.4% over the previous year – the highest increase in our entire history. The group net profit shows the same exceptional performance, increasing by 21% to 209 million Swiss francs, with a return on sales of 8.1% compared to 7.7% in the previous year. Group cash flow rose by 21.5% to 312.6 million Swiss francs. The equity ratio increased at 54.2% at the end of 2006 and the average return on equity was 19.7%.

In view of the growth in both sales and profits, the Board of Directors will again propose a higher dividend at the annual general meeting of April 26, 2007. Assuming a dividend of 275 Swiss francs per registered share and 27.50 Swiss francs per participation certificate, this represents an increase of

22.2% over the previous year. The good news, which Lindt & Sprüngli are able to announce year after year, are also recognized for their value by the stock market. After our equities had gained more than 50% in 2004 and over 30% in 2005, Lindt & Sprüngli's shares and participation certificates rightly earned a place among the aristocrats of the Swiss stock market in 2006. The registered shares gained nearly 40% in the year under review, while the participation certificate was up 34% over the previous year. Once again, this performance was better than the food index as a whole. At the end of 2006, Lindt & Sprüngli's market capitalization stood at 6.8 billion Swiss francs. This sustained and continuous development is a confirmation that our investors approve of our strategy, are convinced of Lindt & Sprüngli's long-term success on the world market, and place their confidence in our management.

The continuously rising demand for Lindt & Sprüngli products and the excellent business development naturally also has sustained implications on our production volume. In order to ensure our future success, the necessary capacities must be made available; this is vitally important. We are therefore pleased to report that we are able to make the necessary investments in the expansion of our subsidiaries' production capacities using our own financial resources. In the USA, for example, the foundation cornerstone was laid for a new packaging and distribution center. Through this expansion program, Lindt

& Sprüngli will create a substantial number of new jobs. In our German plant in Aachen, a new factory bay is being added to produce our world famous and popular hollow products like the GOLD BUNNY, the GOLD REINDEER and the "Santa Claus." In Italy, where production capacity is also being expanded, we were able to double our landholding in Varese. Finally, at our plant in Olten, our cocoa liquor manufacturing capacity will be doubled. Expansions in Kilchberg and at our Altendorf distribution center are at planning stage. Overall, we plan to make investments approximative 500 million Swiss francs in the years 2007 to 2009, mainly on the production level. As a result, Lindt & Sprüngli will not only be equipped with the most modern production lines, but will also be admirably placed in the future as a dependable supplier of top quality products.

The chocolate industry is a very capital intensive business. This holds true in particular for a company like Lindt & Sprüngli that manufactures premium quality chocolate. In the increasingly important segment of dark chocolate with high cocoa contents, the production processes are becoming more and more complex and necessitate enormous expertise and technological resources. In addition to the selection of the finest, and consequently most expensive raw materials from best growing regions, the weight must be placed on sound know-how and extensive experience. Because of its pursuit

of highest quality, Lindt & Sprüngli are one of the very few chocolate manufacturers handling every single step of the production entirely in-house and therefore exercising real and comprehensive control over these processes. Hence the quality of the finished product depends on numerous factors all of which which must be combined to reach the desired high standard. Each step of the production must therefore be uniformly controlled: during roasting many characteristic cocoa aromas already begin to unfold and reach their peak at conching stage. The fine rolling of the cocoa mass – being the essence for soft melting chocolate – is also of great significance. Without these and other enormously crucial steps during refining, even conching lasting for days could not possibly meet the demand for highest quality. The know-how of the LINDT Maîtres Chocolatiers acquired over generations, their decades of experience and their profound understanding of the development, manufacture and marketing of premium chocolate are and remain the most important core competences of Lindt & Sprüngli and are the foundation of our business' ongoing success.

Successful marketing of chocolate in the premium segment calls for a spirit of innovation, know-how, experience and creativity. Lindt & Sprüngli have always focused exclusively on these core competences, which belong to a long process that began over 160 years ago and is being constantly enhanced. This strategy is certainly the main reason



why the LINDT brand is an omnipresent and trusted quality symbol for consumers all over the world and regularly acknowledged as one of the most popular brands both in Switzerland and abroad. It has brought Lindt & Sprüngli the well-merited reputation of being one of the most innovative and creative firms in its branch.

Lindt & Sprüngli places stringent demands on the quality of its products. It is also proud to be able to count on the most highly qualified and motivated staff. In fact, exceptional performance can only be realized by exceptional people. On behalf of the Board of Directors and Group Management, I want to express my gratitude to all our 7000 employees around the world who are passionately dedicated to the success of our business be they in production, in marketing and sales, in the various research and development departments, in finance and EDP, in administration or human resources. I also want to thank consumers all over the world, those people who love our products and appreciate LINDT quality: in 2006, they enjoyed LINDT chocolate worth more than 2.5 billion Swiss francs. Naturally we are also indebted to our trade partners and suppliers, without whom our success would not be possible. Likewise, we wish to thank our shareholders who through their confidence in our strategy permit the continuing prosperity of our company.

Outlook

Consumer confidence and economic forecasts make us optimistic for the year 2007. We are convinced of our ability to win still higher market shares. This year will once again see a great many innovations. Marketing activities will be intensified everywhere and our own organizations around the world further strengthened. In addition, the biggest group-wide investment program in the company's history to date will be put in place. These substantial resources will center mainly on capacity expansions while simultaneously increasing the technological lead of our group. These investments, but also the uncompromising commitment to highest quality and the continuous strive for innovative products and attractive marketing activities, provide us with the medium- and long-term guarantee and perspective for a substantial competitive edge that will lead our group forward into a solid and secure future.



Ernst Tanner
Chairman of the Board of Directors
Chief Executive Officer





THE GENERAL ECONOMIC SITUATION IN SWITZERLAND WAS BETTER THAN IN PREVIOUS YEARS AND, PARTICULARLY TOWARDS THE END OF THE YEAR, CONSUMER CONFIDENCE ALSO IMPROVED. UNFORTUNATELY, HOWEVER, THE SWISS CHOCOLATE MARKET LAGGED BEHIND THIS GOOD DEVELOPMENT: THE LIGHT INCREASE OF VOLUME AND THE PARTLY DOWNWARD MOVEMENT IN TERMS OF VALUE CLEARLY REFLECT THE CONTINUING TREND TOWARDS LOWER PRICES ON THE SWISS MARKET. AFTER THE MASSIVE RESTRUCTURINGS AND MERGERS OF RECENT YEARS, WHICH SAW A SUBSTANTIAL ADVANCED CHANGE IN THE RETAIL LANDSCAPE WITH THE MARKET ENTRY OF EUROPEAN DISCOUNTERS, THE SITUATION IN THE TRADE REMAINED COMPARATIVELY CALM THIS YEAR. THE STRONGER DEVELOPMENT OF PRIVATE LABELS IS NO LONGER CONFINED TO THE CHEAP OR BUDGET SEGMENT, BUT IS NOW ALSO INCREASINGLY MOVING UP TO THE PREMIUM SEGMENT.

In a highly competitive environment typified by some striking and fundamentally new marketing approaches taken by competitors, LINDT consistently held fast to its premium strategy and enriched the market with a great many successful innovations. As a result, **Chocoladefabriken Lindt & Sprüngli (Schweiz) AG** was able to increase its sales by 16.6% to CHF 275.2 million reaching growth that significantly exceeded that of the overall chocolate market. This result was due to the excellent development of the duty-free and export sectors. Thanks to this excellent progress in every sector, the position on the domestic market, too, was further strengthened, as reflected in the substantial gain of market shares.

The successful EXCELLENCE range was supplemented by two new varieties of "Thins" made from cocoa of pure

origin. A delicate specialty in the same format was also recently launched with 70% cocoa from different origins as "Orange Intense." These dark, ultra thin squares provide the full bouquet of all the aromas of the selected recipes in a unique way. A sample gift sent to 700 000 households increased enthusiasm for this new chocolate creation from the outset. The LINDT Maîtres Chocolatiers also extended the EXCELLENCE tablets range with the flavors "Mint," "Cocoa 99%" and "Chili," an innovative tangy flavor. The new light "Les Mousses" pralines rounded off the range of PETIT DESSERTS, while the "Double Lait" and the new "Double Lait Crisp" tablets were introduced for milk chocolate lovers, alongside the LINDT classics. LINDOR consolidated its position primarily through seasonal gift offers with a strong emotional touch for Valentine's Day, Mother's Day and Christmas. For the rest of the as-

sortment, the LINDT Maîtres Chocolatiers once again proved their skills with seasonally inspired new recipes and attractive packaging. For the various festive occasions, they created innovative and exciting specialties and high-quality emotive special editions. At promotional events, including the now traditional "Lindt Gourmet Festival" in early autumn, 180 LINDT Maîtres Chocolatiers once again led consumers into the sensuous world of premium chocolate pleasures by creating an unforgettable experience of LINDT chocolate creations. During the "Soul of Chocolate" exhibition at Zurich Airport, the spotlight was turned on Lindt & Sprüngli for six weeks beginning in mid-September 2006, not only boosting sales in the duty-free sector, but also convincing hundreds of thousands of local and foreign airline passengers of the excellent brand image and high quality of LINDT products.



Large-scale investment projects enabled production capacities in the Kilchberg and Olten plants to be extended. The Swiss production site is therefore well equipped to live up to its growing importance, especially in the export and duty free business.

In **Germany**, a substantial rise in exports and reinvigorated domestic demand brought economic growth of 2.3%. Despite ongoing debates over reform, an exceptional increase in private insolvencies and the latest corporate crises, private consumption grew at its fastest rate for years at almost 1%. At 0.8%, the only moderate growth of the overall chocolate market conceals the particularly good Easter business. Competition in the retail trade continues to be marked mainly by the dynamic performance of the hard discounters, thus posing a great challenge to the other distribu-

tion channels in which LINDT products are on offer.

In this difficult environment, the German subsidiary **Chocoladefabriken Lindt & Sprüngli GmbH** once again grew much stronger than the overall market with sales up 10.1% at EUR 301.4 million. This positive trend again made LINDT the fastest-growing brand in the German chocolate market. On the chocolate tablets side, LINDT continued its dynamic development of recent years with a double-digit rise in sales. Good progress was made primarily thanks to successful new launches, such as the "Träumen & Geniessen" (Dreaming & Enjoying) tablet range that appeals mainly to a younger public with its unusual recipes such as the "Vanilla/Lemon-grass" variety, the re-launch of the classic chocolate tablets with innovative recipe extensions, including the

new "Edelbitter Mousse" range with exquisite, soft-melting fillings. In the praline sector, LINDT also achieved considerable success. The "Pralines Hochfein" classic offer was completed with an elegant gift package, while the monopralines and assorted pralines also benefited from the product offering in the new "Träumen & Geniessen" and "Edelbitter Mousse" ranges. With product innovations such as the sophisticated "Gourmet Easter Eggs" and the renewed double-digit sales growth of the GOLD BUNNY, LINDT greatly extended its market leadership in the Easter business. In the Christmas segment, the "Santa" achieved exceptional growth. A new and unique companion now stands by his side in the shape of the REINDEER. These are just a few examples of the extensive and creative Christmas assortment that LINDT launched on the market. To satisfy rising demand, significant



investments were also made to extend the capacity of the German plant at Aachen.

Nationwide strikes marked the start of 2006 in **France**. As the year progressed, the French economy achieved satisfactory growth and good signs of economic recovery emerged. The unemployment rate also fell continuously. With moderate growth, the chocolate market was typified by intensive price competition in the retail trade. After the repeal of the "Galland" law, which had imposed permanent price parity in different distribution channels, all the big market players focused strongly on prices and promotions in all the important product categories. In this competitive environment, LINDT once again proved dynamic partnership with the trade through the clear commitment to its premium strategy and strong product innovations. The outstand-

ing quality of LINDT products and the know-how of the *Maîtres Chocolatiers* were duly rewarded by the public at the annual "Salon du Chocolat" event in Paris: a jury of visitors and professionals chose the EXCELLENCE "70% Cocoa" as the finest chocolate tablet.

Lindt & Sprüngli SAS confirmed its growth dynamic of recent years with sales up by 6.4% to EUR 275.5 million. This success is attributable primarily to the focus on the key LINDT brands, which were strongly promoted in the trade by additional market launches, advertising, promotions and targeted supporting activities.

Thanks to product innovations and new launches, the seasonal business also reported continuing good results. In the Easter segment, hollow figures played a key role and the introduction of additional Easter egg products

in the premium segment was favorably received by consumers. The Christmas campaign also made a substantial contribution to overall success. Here, consumers were delighted by the re-launch of the LINDOLA and CONNAISSEUR collections and the new introduction of the "Sensation Fruits" pralines. The introduction of LES PYRÉNÉENS "Rocher Noir" further strengthened this key brand in LINDT's Christmas business. LINDT succeeded in maintaining its position in the chocolate tablets market. The milk tablet "Recette Originale," EXCELLENCE and PETITS DESSERTS reported increasing success and achieved an excellent overall result. The newly introduced "Sensation Fruits" tablet range far outstripped expectations and from the outset became a key component of the brand portfolio.



A new praline manufacturing line was installed at the Oloron site. Thanks to this additional investment in production capacity, Lindt & Sprüngli is admirably placed to satisfy rising demand, especially in the seasonal business.

The **Italian** economy reported modest growth after years of stagnation and against the somewhat unstable background, although it still occupies one of the last places in European comparison. With slightly higher growth of 3.3% against the previous year (2.6%), the chocolate market is, however, showing positive signals. Clear growth was observed in particular in the important Easter business segment, thus interrupting the negative trend of recent years in this sector. In a retail environment in which modern distribution channels are playing an increasingly important role, Lindt & Sprüngli with its two subsidiaries LINDT and CAFFAREL

hieved sales of EUR 234.6 million representing a growth of 8.3% and continuous gain of market shares for both brands. Significant investments in production and logistics facilities at the Induno Olona and Luserna S. Giovanni sites will help to enable future challenges to be successfully mastered.

With sales growth of 9.4%, **Lindt & Sprüngli SpA** reported one of the best results of recent years. For the first time the LINDT brand awareness topped the ranking on the Italian chocolate market. This significant achievement is attributable in particular to creative and innovative seasonal offerings and their perfect implementation at the point of sale. LINDOR once again achieved substantial success thanks to the introduction of a "Dark Orange" recipe and extended distribution channels. Because of a completely new and broader offering through

modern distribution channels, the Easter business reported excellent growth. Although the Easter Bunny is not a real tradition in Italy, the GOLD BUNNY continued to consolidate its success with substantial sales progress. In a highly competitive environment, the EXCELLENCE tablet range continues to successfully defend its market share. In addition, particularly good progress was achieved in the tablet segment by the traditional "Blue" range, the big "Gold Tablets" as well as the PETITS DESSERTS and LINDOR range. Positive development was also reported in the praline segment with the successful introduction of a completely updated assortment for the Christmas business, the success of "Nocciolatte" in the modern food trade, and the re-launch of a fine pralines gift assortment in the specialized retail trade.



Caffarel SpA, which celebrated its 180th anniversary in 2006, also recorded a very successful year. The special product range for the Winter Olympic Games in Turin and the market launch of "Eccellenza Piemontese", along with the new market image of Caffarel and additional product innovations, had a particularly positive influence on sales which rose by 5.9%. With its exclusive premium products, Caffarel is only present in the specialized retail trade and continues to be the most important partner for these traditional distribution channels, which are suffering under the strong shift towards modern distribution. The importance of the business-to-business activity, which once again won over customers with a multi-faceted and attractive product offering, is continuously growing. Thanks to rising demand for high-quality Italian products, the export business continued to show pleasing growth.

The food trade in **Austria** showed signs of a slight recovery with a modest upturn of 1.1%, which also influenced the chocolate market. After a decline in the previous year, some growth was once again reported (+1.2%). **Lindt & Sprüngli (Austria) Ges.m.b.H.** was the first to benefit from this trend with growth of 7.4%, far above the average for the segment, and once again proved to be the fastest-growing company on the confectionery market. Increasing pressure on prices and intense competition in the premium segment were countered by a wide range of innovative new products and strengthened advertising activity. The EXCELLENCE tablet range and LINDOR experienced particularly strong and constant growth and, alongside the new launches, played a key role in extending the market position. In the seasonal business, which reported double-digit growth, the GOLD

BUNNY significantly strengthened its position as the best-selling single product in the Easter segment.

The **Spanish economy** once again grew more strongly than other European countries. The chocolate market benefited from this positive development with an increase of 10%. In this positive environment, **Lindt y Sprüngli (España) SA** significantly exceeded the general market trend with sales growth running at an excellent 17.4% and winning significant new market shares. Thanks to the focus on LINDOR with new launches such as "60% Cocoa" or "Dark Orange", intensive marketing activities and a broadly based distribution system, LINDT was the fastest growing brand on the Spanish praline market for the fourth year in a row. Broader distribution and successful new launches such as "Mint Intense" brought substantial extra sales for the



EXCELLENCE tablet range too. LINDT was therefore able to consolidate its market leadership in the dark chocolate tablet segment. The PETITS DESSERTS also reported substantial sales growth, while the GOLD BUNNY clearly dominated the Easter business.

The **British chocolate market** grew by 2.8% in terms of value, thanks in particular to the chocolate tablet sector which saw dynamic activity in the premium chocolate market. This segment, where LINDT holds a leading position, reported highly significant growth and now represents an increasingly large share of the overall chocolate market. The phase of consolidation of the British retail trade is continuing and this is leading to even stronger price competition than before. In this environment, which also suffered from the exceptionally warm weather, **Lindt & Sprüngli (UK) Ltd.** achieved a remarkable

growth of 22.1%, consolidating its market position as the fourth largest supplier in the praline, tablet and seasonal segments.

In 2006, economic growth in **Poland** again improved to just over 5%. Similarly, the chocolate market gained around 5.5%. Competition on this strategic market is becoming increasingly challenging. In particular, concentration in the retail trade continues unbroken. To counteract this situation, the chocolate manufacturers again increased their investments in advertising and marketing by a significant amount. In this highly challenging environment, **Lindt & Sprüngli (Poland) Sp. z o.o.** managed to grow somewhat faster than the market as a whole at 7.1%. The premium segment is still seriously underdeveloped on the Polish market. Here, LINDT sets the standard with respect to premium characteristics





and pricing policy; chocolate tablets are by far the most important product segment. For LINDT, seasonal business proved to be the most dynamic segment. Taking account of the rising purchasing power and increasingly significant quality awareness of Polish consumers, the exclusive premium-positioning of the LINDT brand continues to hold out great potential for the future.

In the **central, northern and eastern European regions and the Benelux countries**, LINDT further consolidated its market positions with 21.3% growth. This good result was mainly attributable to the excellent trend in the second half of the year, which more than compensated the somewhat modest start into 2006 because of the unanticipated high inventories at a number of distributors.

Many product launches, substantial investments in marketing and advertising activities and a premium image at the point of sale, enabled LINDT to outperform the already ambitious targets for the first full trading year as **Lindt & Sprüngli (Sweden) AB**. The Swedish chocolate market again proved highly dynamic with 8% growth, thanks to a sustained trend towards dark chocolate and a broader selection in the praline segment. Innovation and premium quality make LINDT one of the leading players in this positive environment. In the chocolate tablet segment, the market position as the second largest supplier was strongly



consolidated with new recipes in the EXCELLENCE range such as "Les Origines" or "Mint Intense." At the same time, LINDT substantially stepped up its market shares in the pralines segment, thanks to the consistent focus on LINDOR as well as exceptional offerings and activities in the gift segment during the 2006 Christmas season.

The North American taste for chocolate is becoming increasingly mature, differentiated and exacting. Accordingly, the market for premium chocolate grew much faster in the **USA, Canada and Mexico** than the confectionery market as a whole. LINDT and GHIRARDELLI are the driving forces behind this nationwide development, thanks to their excellent quality, consistent product innovations and sustainable expansion. Another important trend, which goes hand-in-hand with the growing expectations of consumers, is the rising demand for dark chocolate. This resulted in a more than proportional growth in this specific area. LINDT and GHIRARDELLI, which made a decisive impact on this trend from the outset, were able to satisfy growing demand in the dark chocolate segment with the market launch of a great many innovative products, such as LINDOR "60% Extra Dark," the EXCELLENCE "Origins" range and EXCELLENCE "99%." The consistent premium positioning, dynamic market image and above-average rate of innovation are the reasons why Lindt & Sprüngli has succeeded with its organizations in the USA, Canada and now also in Mexico,

in achieving sales worth a total of USD 507 million in North America. These accomplishments brought high double-digit growth to this big market.

Lindt & Sprüngli (USA) Inc. attained excellent sales growth of 27.7% which corresponds once more to a record result. This sustained positive development is attributable largely to exceptional performance in the wholesale trade. On this market, LINDT gained substantial market shares and became the fastest-growing chocolate brand. The success of the very own LINDT boutiques is also pleasing: in a market environment that proved difficult for specialty retailers, the boutiques once again grew strongly and now number 105 permanent and six seasonal points of sale. The biggest sales growth was again due to the extraordinarily successful EXCELLENCE tablet range, the increasingly popular LINDOR balls and the seasonal business when Swiss premium chocolate is particularly asked for.

In order to satisfy this booming demand, a number of projects to increase production capacities were implemented. The chocolate refining capacity was expanded by installing an additional conche and starting up a third LINDOR manufacturing line. In November, the groundbreaking ceremony took place for the major packaging, warehouse and distribution center that will significantly optimize logistics. Once this expansion program is completed, **Lindt & Sprüngli (USA) Inc.** will be one

of the largest employers on the New Hampshire coast.

The second US subsidiary, **Ghirardelli Chocolate Company** reported an excellent result as well, with overall growth of 16.5% and a sales increase of 25.1% in the strategically important branded business. Another sign of the changes currently under way on the chocolate market, which is increasingly shifting from mass produced to premium products, is the fact that the entire chocolate market grew in value by 4.5%, but gained just 1.2% in volume. GHIRARDELLI contributed significantly to this development and, like LINDT, is one of the fastest-growing brands on the US chocolate market. The main pillar of this success are the SQUARES which, supported by a nationwide TV campaign, showed substantial growth and were able to strengthen their position in the trade still further with new flavors and attractive seasonal offers. With the market launch of the new "Intense Dark" tablet range and simultaneous support from a nationwide print campaign while also benefitting from the national TV advertising for SQUARES, substantial market shares were gained in the premium dark chocolate segment. Thanks to the equally positive development of "Baking Chocolate," GHIRARDELLI also firmed up its position as No. 2 in this market segment. GHIRARDELLI stores and restaurants developed well despite the currently ongoing refurbishment of the most popular and traditional site at Ghirardelli Square in San Francisco.

GHIRARDELLI'S excellent quality standards were publicly confirmed when an unannounced audit was performed by an independent agency, the American Institute of Bakers, which awarded GHIRARDELLI chocolate the highest rating: superior.

In a generally favorable economic situation, the chocolate market in **Canada** grew by 7%. With excellent growth of 14.6%, **Lindt & Sprüngli (Canada), Inc.** did significantly better and extended its market shares by corresponding amounts. The market responded to this impressive progress: LINDT benefited from a greater presence in retail outlets for the seasonal business, which then led to sustained success throughout the year. The LINDOR "Gourmet Festival," the new GOLD REINDEER at Christmas, the market leadership enjoyed by LINDT for Valentine's Day, and the dominance of the GOLD BUNNY at Easter, all made

major contributions to this result, supported by the EXCELLENCE tablet range and the meanwhile traditional LINDOR balls. Thanks to a growing number of product innovations and continuing marketing and advertising activities, the LINDT brand recognition was further advanced to over 95%.

The market entry of **Lindt & Sprüngli de Mexico SA de CV** will reinvigorate the Mexican chocolate market and set new standards for consumers, the trade, and other market participants. LINDT achieved pioneering status with the introduction of family tablets, a product category that was previously almost non-existent on the Mexican market. The principal contribution to sales was made by the key brands LINDOR and EXCELLENCE, which, with their strong image and high quality, fostered ever-growing familiarity with the LINDT brand.

In a generally buoyant economic environment, the chocolate market in Australia rose by 2 to 3%, with product pricing playing a key role.

Lindt & Sprüngli (Australia) Pty. Ltd. was able to report another excellent result of 17.2% growth overall, thanks to ongoing product innovations and a consistent focus on the premium segment. While LINDOR remains the most important brand in the category of boxed chocolates, the EXCELLENCE range was also prominent. In the Easter business, especially with the GOLD BUNNY, significant progress was again made. With double-digit sales growth, the LINDT Chocolate Café in Sydney is also enjoying growing success; this was followed by the opening of a second café at Cockle Bay.

In **Africa, the Near East and the Middle East**, the political situation remained exceptionally tense throughout the year



and was marked by military conflict in Lebanon. At the same time, oil prices remained very high, which in turn boosted positive consumer sentiment in the oil-producing countries. Lindt & Sprüngli once again recorded excellent sales growth in these markets. Sales of LINDT chocolate in South Africa, the United Arab Emirates, Pakistan, Egypt and Qatar more than doubled. These significant extra sales were backed by improved distribution, product innovation and intensified promotional and advertising activities.

Lindt & Sprüngli (Asia-Pacific) Ltd. realized strong double-digit sales growth in a positive environment and was able to report above-average gains on the key Japanese and Chinese markets. The dark EXCELLENCE tablets proved to be the driving force behind the Asian markets. They enjoyed ever-increasing popularity throughout the region.

In the year under review, the economic and political situation in **South America** stabilized further. These favorable conditions were used by Lindt & Sprüngli to expand its market position. The successful launch of the EXCELLENCE tablet range and the expansion of distribution of the popular LINDOR balls helped achieve high double-digit growth in this region once again.

The **Duty-Free/Travel Retail** branch was affected by heightened and increasingly time-consuming safety regulations. Besides, air passengers are uncertain about exactly what articles can be carried in their hand luggage. In this difficult environment, it is all the more pleasing to note that LINDT remains set for success with its double-digit growth and is one of the fastest-growing brands in the chocolate segment. This outstanding development is due in particular to the success-

ful launch of the EXCELLENCE "Thins" and "Pralinés Noirs d'Origine", backed up by innovative promotional activities. These culminated in the "Soul of Chocolate Festival" at Zurich Airport in autumn of 2006 where LINDT made a major contribution.

Procurement

Prices on the cocoa futures market in 2006 moved within much the same range as the previous year. However, the big difference from 2005 was the sustained steep increase in premiums charged for the flavor cocoa varieties from South America and the Caribbean: for months, demand has far outpaced the supply of these high-quality grades, which are used on a particularly large scale by Lindt & Sprüngli.

Not only price cuts in the EU area, but also a significant reduction of the pro-





duction volume were brought about by the introduction of the new EU sugar market regulation in the middle of the year, which caused serious shortages in Switzerland as the year drew to its close. Despite falling world market prices, the limited export supply caused prices to rise further. The WTO Doha round is believed to have failed and the new EU sugar market regulation was introduced with some difficulty, while Switzerland's agricultural policy 2011 is in the decisive phase.

During the second quarter, the very high prices of hazel nuts reported at the beginning of 2006 fell off again slightly, but due to government regulation, they are still higher than the lowest average price.

On the milk market, the situation in some of the sectors altered significantly towards the end of the year. Production in the USA and South America proved lower than expected while in the EU milk processing plants are concentrating increasingly more on innovative and profitable products.

Sustainability

Lindt & Sprüngli feels obligated to take all aspects of sustainable action into account. Social responsibility and careful use of environmental resources have always been of central importance and are therefore part of the overall approach that forms the basis of the economic success of our business.



Lindt & Sprüngli's commitment in the areas of cocoa production and sustainability will be strengthened by our membership in the World Cocoa Foundation (WCF) and also by our direct support of specific projects that bring direct benefits to the countries of origin. With that aim in mind, we support, for example, the Sustainable Tree Crop Program (STCP) in West Africa as well as research projects to secure and develop cocoa cultivation and processing with a view toward the supply of high-quality raw materials.

With a share of around 70% of world cocoa production, West Africa is the key region in this regard. Yields on the cultivation and sale of cocoa are the key to the survival of a high proportion of the local farming population. The STCP was started as a pilot project primarily to improve the cocoa economy, which is based on small farming structures in the West African countries of the Ivory Coast, Ghana, Nigeria and Cameroon. The project is a partnership of farmers' and producers' organizations, the global chocolate industry, national government agencies and non-governmental organizations. The responsibility for the coordination of the various project segments among and between the countries of origin and the project's partners lies with the "International Institute of Tropical Agriculture" in Accra, Ghana.

The aim of STCP is to improve the economic and social welfare of small farmers and their communities, accompanied

by safeguards for ecological sustainability in agriculture, with the primary focus on the cocoa economy. The project responsables were able to jointly reach agreement on the following main points of action: promotion of production and distribution of high-quality cocoa, improvement of market access and of the incomes of the small producers, development of environmentally-friendly, socially responsible and economically sustainable systems of cocoa cultivation.

The results of the three-year STCP pilot project were so encouraging that the program is now moving into phase II. This phase will draw on the successes of the pilot project which concentrated mainly on integrated cultivation and harvest management, control of insect damages, cocoa quality improvement, the development of organizational skills and tools and the awareness of social aspects, such as child labor and diseases like AIDS. This information was passed on to the cocoa farmers primarily at the "Farmer Field Schools," a participative training and educational scheme. Definition of the new five-year program (Phase II) was completed in autumn 2006. A commitment by Lindt & Sprüngli in Ghana to this STCP project is currently in preparation and the necessary financial resources have already been allocated.

Support for scientific projects in the area of external applied research is another element in the promotion of a sustainable cocoa economy.

In 1727 most of the Criollo cocoa trees that originally grew in Trinidad were destroyed by a hurricane. Plants of the Amazonas-Forastero cocoa type were then introduced instead. The famous Trinitario fine grade cocoa is the result of a spontaneous hybridization with remaining Criollo cocoa plants. A significant outcome of botanical research work performed in the 1930s on the dissemination of cocoa varieties in Trinidad, consisted of the collection of genotypes of the local Trinitario plant population, which became known as the "Imperial College Selections." Today, these are among the world's most important reference collections of genetic cocoa resources. A systematic evaluation of quality features and sensory properties is now being conducted as part of a project of the "Cocoa Research Unit" at the University of the West Indies in Trinidad with a view to future cultivation projects. Lindt & Sprüngli will support this project as a partner.

The group also intends to assist in further applied cocoa research projects. The focus will be on the South American branch of the cocoa industry. The necessary contacts have already been established.





"AT NO OTHER TIME HAS NATURE CONCENTRATED SUCH A WEALTH OF VALUABLE NOURISHMENT INTO SUCH A SMALL SPACE AS IN THE COCOA BEAN."

ALEXANDER VON HUMBOLDT (1769–1859)

THE MAGICAL WORLD OF COCOA

ORIGINATING FROM THE LEGENDARY AGE OF THE CENTRAL AMERICAN ANCIENT CULTURES, COCOA WENT ON TO CONQUER THE WORLD. WITH ITS HIGH COCOA CONTENT, TODAY DARK CHOCOLATE IN PARTICULAR IS CAUSING FOOD-LOVERS EVERYWHERE TO FALL FOR THE CHARMS OF THE TROPICAL BEAN. EVEN IN OUR MODERN WORLD, THIS „FOOD OF THE GODS“ HAS LOST NONE OF ITS MAGIC: ITS ARRAY OF FLAVORS AND THE SENSORY FINESSE OF THE PRODUCTS MADE FROM IT OPEN UP NEW CULINARY WORLDS OF EXOTIC ABUNDANCE, WHILST GIVING US A TASTE OF ITS MYTHICAL ORIGINS.



The Gift of the Feathered Serpent

Steeped in myth and legend, cocoa holds an almost mystical fascination for human beings. The ancient Central American civilizations believed that the precious seeds were a gift from the god Quetzalcoatl, the feathered serpent, and treated the brown gold with corresponding reverence. Recent research suggests that the Olmecs were cultivating cocoa on the Mexican Gulf Coast as early as 1500 BC. The Mayas not only carried on growing cocoa, but also used the beans to brew a bitter drink spiced with pepper, chili and other ingredients that was consumed by the ruling classes and priests at sacred rituals. Over the centuries, other advanced Central American civilizations adopted this tradition. The Aztecs also used the sacred drink, which they called “Xoco-atl” (xoco = bitter; atl = water), as an essential element of their rites. Precious cocoa was presented to the gods as a sacrificial offering and was also used as a form of payment. For instance, according to a price list dated 1545, a turkey cost 200 cocoa beans and a rabbit 100. Some taxes were also collected in this “currency”. It took the arrival of the Spanish peso to replace the precious brown seeds as a currency in the conquered Aztec empire. It is recorded that the bitter spicy drink was regarded as a source of wisdom and energy, an aphrodisiac and a soothing balsam, and was regularly drunk from golden goblets in large quantities by Moctezuma II, the last ruler of the Aztecs, and his warriors as a source of strength.



The European Elite Succumbs to the Sacred Fruit

In 1502, Christopher Columbus became the first European to encounter cocoa on his fourth voyage. However, he did not find the bitter drink to his taste. It was not until several years later, in 1528, that Spanish conquistador Hernán Cortéz brought the brown gold and probably also the recipe for the exotic drink to Europe. At the Spanish court, sugar or honey and other ingredients were added to the drink, which was called "chocolate." It soon went on to become an exclusive delicacy that was the preserve of the highest levels of nobility. Not until 1615, when the Spanish Princess Anne of Austria married the French King Louis XIII, did the select drink reach France, from where it spread to the royal courts of Europe, high nobility and the upper echelons of society. However, until the Industrial Revolution, the pleasure of chocolate – still in the form of hot drinking chocolate dissolved in water, wine or beer – remained a privilege of the wealthy. In Switzerland, drinking chocolate was popularized in 1697 by the Mayor of Zurich, Heinrich Escher (1626–1710), who had discovered the exquisite drink in Brussels. Even so, Zurich society did not enjoy this exotic luxury for very long. In 1722, the strict city fathers began to fear that "gluttony" could cause a decline in moral standards, and banned the serving of chocolate at guild feasts and public banquets.

Chocolate Inspires Great Art...

Fortunately, this type of dismissive attitude remained the exception. Over the centuries, there is no lack of historical evidence that chocolate – both in liquid and solid form – has constantly fired the imagination of famous authors, composers, painters and other figures. In the first performance of his opera "Così fan tutte" at the Burgtheater in Vienna in 1790, Mozart had the maid Despina come on stage with a cup of chocolate, and Goethe is said to have always taken his personal supply of chocolate with him on his numerous travels, together with special crockery for preparation. The master poet was a real admirer: "Anyone who has drunk a cup of chocolate can withstand a whole day of traveling. I have been doing it ever since Mr. von Humboldt advised me to." He even managed to win over the hypochondriac Schiller with his passion for the sweet drink. Erich Kästner was no doubt smiling in his usual way when he wrote in 1930: "Whatever happens: never should you sink so far as to drink the cocoa they throw in your face." In painting, the motif of the "chocolate girl" was particularly popular in the 18th and 19th centuries. Perhaps the most famous painting, which was to inspire many later artists, was the work of the Swiss painter Jean Etienne Liotard, which he completed in 1744 at the court of the Empress Maria Theresa in Vienna and now on exhibition in the "Old Masters" gallery at the Zwinger in Dresden.

... and Preoccupies Theologians

The Church was also preoccupied with chocolate for quite some time. The question was repeatedly raised as to whether the pleasure of chocolate was a sin in theological terms. What is clear is that in 1569, Pope Pius V (1504–1572) saw no sufficient reason why the bitter drink should cause a moral decline in the Church and society, and therefore pronounced that cocoa did not constitute a breaking of the fast. He was evidently not aware that the clergy were adding lots of sugar and vanilla to the recipe turning it into a highly sensual pleasure. The dispute surrounding the permissibility of drinking chocolate during Lent constantly flared up until, under Pope Alexander VII (1599–1667), the conflict was resolved thanks to an ode to chocolate by the Italian Cardinal Francesco Maria Brancaccio. The original canonical

judgment was definitively confirmed in 1662 with the words “liquidum non frangit jejunium” (liquid does not break the fast). The famous Casanova paid little attention to such religious considerations. Instead, he is said to have frequently tempted his many female conquests with the fashionable cocoa drink rather than champagne, and used it to keep his strength up.

Cocoa and Chocolate as Medicine

Cocoa contains a host of valuable substances, so no wonder there is plenty of evidence for the beneficial effect of the liquid elixir in early medical literature. In the less than scientific medical practices of centuries past, cocoa and chocolate were used to treat all kinds of ailments and diseases. The price reflected this: Philippe Suchard, who regularly had to get hold of chocolate for his ailing

mother as a young boy, is said to have paid three days' wages of a laborer for 500 grams of the curative substance. For many years, chocolate powder or paste was regarded as a universal household remedy and was available from chemists under the name “co-coculata indic” for all circumstances. In his “Traité des Aliments” of 1702, the French nutritionist Louis Lémery wrote the following words about chocolate: “It is invigorating, fortifying and suitable for restoring spent energy. It aids digestion and soothes the fierce vapors that afflict the lungs. It clears the fog of wine, stimulates the flesh and withstands the perishability of the humors.” It is reported that Cardinal Alphonse-Louis du Plessis de Richelieu, brother of the chief minister Cardinal Armand-Jean, used a chocolate mixture prepared specially for him to treat not only his chronic fatigue and tendency towards melancholy, but also his dis-



eased spleen. Back in 1870, the Swiss Army introduced a chocolate ration as an avowedly valuable and energy-giving food for the soldiers.

Chocolate Becomes an Economic Factor

In the 18th and especially the 19th century, the cocoa bean inspired inventors throughout Europe to employ their ambitious visions, genius and skill to manufacture solid chocolate from the popular drink using different methods and recipes and eventually make it accessible to all people. Switzerland in particular produced lots of renowned chocolate pioneers whose inventions helped to write a piece of chocolate history, successfully spreading the positive image of Switzerland throughout the world. Those who come to mind include François-Louis Cailler, who learned his craft with Caffarel in Turin

and opened the first Swiss chocolate factory in 1819, or Daniel Peter, his son-in-law, who developed milk chocolate in 1875. However, the most groundbreaking of all innovations was the conching method, which Rodolphe Lindt invented in 1879. Thanks to him, what was then still a crumbly, sandy and somewhat bitter mass was transformed into something that melted in the mouth. This turned the pleasure to perfection. Lindt had set a new benchmark in the chocolate industry. The reputation of Swiss chocolate was so excellent that it soon enjoyed a real boom period in the early years of the 20th century, mostly due to Switzerland's fast-growing export industry. To give a better illustration of this incredibly fast development of the entire Swiss economy, it must be remembered that poverty-related emigration was at its peak only around ten years earlier. With almost three quarters of total





chocolate production being exported, Switzerland gained a reputation as a chocolate world power in the first two decades of the 20th century thanks to superior quality and outstanding expertise. After the First World War, economic depressions, wars, protectionism and rationalization slowed down this flourishing development, which almost came to a standstill for a while.

In 2005, the Swiss chocolate industry, employing over 4300 people, generated sales of around CHF 1.5 billion, with Switzerland itself accounting for CHF 800 million and international sales making up the rest. The key markets are Germany (19%), France (13%) and the UK (10%). The world's biggest chocolate market, the USA, is only just behind the key European markets at 8%.

Cocoa – the Brown Gold from the Tropics

As the most important and valuable raw material, cocoa is naturally a crucial factor in chocolate manufacturing. Swedish naturalist Carl von Linné gave the cocoa tree its scientific name "Theobroma cacao," the Latin for "food of the gods," in 1753. He may have heard of his contemporary Joseph Bachot, a Parisian doctor, who wrote enthusiastically: "More than nectar or ambrosia, chocolate is the true food of the gods." Be that as it may: even then, the sweet-sounding botanical name brought a taste of faraway places and legendary cultures to our



enlightened world. It refers to a highly sensitive exotic plant that thrives in a moist and warm climate.

The cocoa tree, which belongs to the "Sterculiaceae" family, grows best under the shade and protection of the large tropical trees near the Equator, in the so called tropical belt. The evergreen cocoa tree takes three to five years to bear its fruit, which grows directly on the five to ten-meter high trunk or on the thick branches at the same time as the blossom: a rare characteristic for which the technical term is cauliflory. The fruit, which is up to 25 cm long and approx. 10 cm thick, is harvested four to nine months after pollination, usually twice a year. Each cocoa pod contains 25 to 50 seed kernels (cocoa beans) which, like the cocoa tree itself, are extremely sensitive to temperature fluctuations and moisture. It is easy to imagine how great the risk of damage in transit was when crossing the Atlantic was still a voyage of several weeks. Immediately after harvest, the cocoa fruit is split up on site and the cocoa beans, encased in a whitish pulp, are spread out on banana leaves and covered. Then the cocoa beans must ferment for several days. This natural process requires the utmost care and supervision, as this early stage gives rise to many of the 500 or so flavors that later develop in the cocoa and can therefore be tasted in the chocolate.

Once the fermenting process is finished, the beans are sun-dried until they only contain around 5 to 7%

moisture. They are then shipped to the consumer countries, where they are cleaned, roasted, shelled and crushed. With the addition of cocoa butter and other ingredients such as sugar, vanilla, milk and other delicious items, the mass is then rolled to a grain size of a few thousandths of a millimeter and conched for several hours. Each one of these manufacturing steps is crucial to the delicate melting quality of LINDT chocolate. Only after the specific and precise tempering that ensures the attractive sheen of the finished product can the liquid chocolate finally be processed into tablets, praline or traditional hollow figures such as the LINDT GOLD BUNNY.

Variety and Cultivation Area Shape the Characteristic Cocoa Aroma

As with coffee with "Arabica" and "Robusta," there are also two basic varieties of cocoa: "Criollo" and "Forastero," which are also known as fine-flavor and ordinary or bulk cocoa respectively. "Criollo" is the more original of the two varieties. It only thrives in special cultivation areas in Central America and the Caribbean. Its fruit is highly sensitive, but also especially aromatic, and its yields tend to be lower. As "Criollo" makes up only around 5% of the global cocoa harvest volume, this superior variety is much more expensive than bulk cocoa. "Forastero," now the most common basic variety in chocolate production, is mainly grown in West Africa. Finally, there is a third variety, a later

strain, which resulted from crossing the other two. It is called "Trinitario" and also belongs to the fine-flavor variety.

Today, only just under 13% of the total annual harvest comes from Latin America, the original cultivation area of cocoa. Cocoa production is now mainly limited to three countries, which together account for over 70% of the total worldwide harvest of around 3.5 million tons. Over 40% of this comes from the Ivory Coast, which is by far the world's biggest cocoa producer. Ghana is second with a share of 18%, followed by Indonesia with 13%. With the exception of Ghana, all the leading countries have now completed the liberalization of their domestic cocoa markets. Because of its particularly high quality requirements, Lindt & Sprüngli is a major buyer of fine-flavor cocoa beans from Central and South America. Lindt & Sprüngli

sources its bulk beans, mainly used in chocolate fillings, from Ghana, where one of the world's best "Forastero" varieties is cultivated.

Only a tiny percentage, namely 1%, of the global cocoa harvest is processed in Switzerland. Despite this low quantity, the high standing and excellent reputation of Swiss chocolate is a byword for quality throughout the world. No wonder the Swiss have always held the world record for chocolate consumption. And it has regularly increased over the years and decades. Whereas each person got through three kilograms per year in 1900, the figure is now nearly four times higher at a mighty 11.6 kilograms (2005).

A World of Pleasure

Each fine-flavor cocoa variety has its own distinct personality, which is of course primarily shaped by its origin.

Soil conditions, microclimate, cultivation methods and other factors form the basis of its individual character, which is ultimately reflected in the chocolate. The art of the balanced blend and careful processing of different cocoa varieties and other premium-quality ingredients also determines the tastiness of a chocolate type. However, how chocolate should taste depends on cultural factors and varies from country to country. In Switzerland, where it was invented, milk chocolate still accounts for 80% of total chocolate consumption. Even so, the public's taste for premium-quality dark chocolate with a high cocoa content has risen sharply in recent years in Europe as well as the USA. But nowhere does it have so many fans as in France, where black varieties make up almost half of all chocolate consumed. Several years ago, Lindt & Sprüngli recognized that such a trend was becoming apparent,



and established itself once more as a pioneer and trendsetter by launching various products with a very high cocoa content and innovative recipes. When the darkest chocolate available practically everywhere was still the “plain” version with just under 50% cocoa content, Lindt & Sprüngli identified the forthcoming trend towards ever higher quality, more intensive taste experiences and therefore darker chocolate in France through its extremely intensive market and consumer research, and responded rapidly by creating the first EXCELLENCE tablet with 70% cocoa. That was in 1987. So 20 years ago, Lindt & Sprüngli not only started a new trend, but also heralded a new era in the chocolate tablet sector. For the new LINDT specialty not only highlighted the characteristic, strong cocoa aromas in a particularly harmonious way, but it also set new standards for a totally new taste experience with its thin and

correspondingly expansive format. This was quickly followed by new recipes in the EXCELLENCE range with 85 and even 99% cocoa content – a delight for absolute purists, who not only consume high-percentage chocolate but virtually celebrate it.

Since the world’s first tender melting chocolate, “Lindt Surfin” by Rodolphe Lindt dating from 1879, revolutionized the chocolate industry as a plain tablet with 49% cocoa content, Lindt & Sprüngli has been demonstrating its core expertise in chocolate manufacturing in general and the dark chocolate sector in particular. The darker the chocolate, the more complex the manufacturing, meaning that more experience is needed so as to ensure premium quality. Top quality requires processing of the finest cocoa varieties from the best cultivation areas as well as a huge amount of care and expertise in



each individual step of the manufacturing processes. A wide variety of objective evaluation procedures, specific criteria and measuring methods can be used to assess the outstanding quality of a chocolate type, but when all is said and done, it is a highly individual matter of preference whether a particular product tastes good or not.

Raw Material Procurement in the Name of Quality

To ensure the highest quality and unmistakable taste of the premium chocolate products from Lindt & Sprüngli, the most rigorous selection of the finest raw materials from the best cultivation areas is essential. For this reason, Lindt & Sprüngli uses only the finest cocoa varieties, with fine-flavor cocoa being chief among them. Prices for the natural raw materials, namely for co-

coa, are subject to a host of unforeseeable external risk factors.

With cocoa in particular, fluctuating harvest volumes due to climate influences, diseases etc., as well as political and economic instability have a major impact on pricing. Financial speculation on the futures markets or currency fluctuations are also key factors. And, of course, simple market laws such as the ratio of supply and demand also come into play.

For Lindt & Sprüngli, the most important criteria for selection and purchasing are uncompromising quality and the aromatic properties of the cocoa beans. However, these criteria must also be compatible with economic considerations, whilst not neglecting the commitment to sustainable action. To ensure an efficient and successful procurement policy in the extremely

complex and highly sensitive environment of raw material supply, in-depth and extensive knowledge of the general conditions is of crucial importance. Long gone are the days when it was enough to know the qualitative properties of the cocoa and incorporate them in the purchasing policy. Extensive familiarity with market structures and developments is now just as important. To secure this knowledge and constantly keep it up to date, Lindt & Sprüngli uses a differentiated set of instruments throughout the Group. In this way, optimum monitoring of the foreseeable factors is guaranteed whilst also enabling efficient interpretation of the unforeseeable elements that also play a key role. However, as raw material quality is a major priority at Lindt & Sprüngli, under no circumstances will any cost pressure result in concessions or compromises in terms of the quality of raw materials.



Increasingly Discerning Chocolate Lovers

In recent years, consumer habits have changed significantly, particularly in the luxury foodstuffs sector. There are clear signs of an ever-growing shift from quantity to quality. People are also increasingly turning to products that communicate a specific lifestyle, a good attitude to life. In turn, this has led to higher expectations among the well-informed and increasingly demanding consumers. Lindt & Sprüngli is highly familiar with consumer habits and market requirements, and responds early to new trends with innovative recipes and exclusive, premium-quality chocolate products that meet consumers' expectations and fulfill their dreams.

Today, premium chocolate is no longer simply eaten, but properly tasted, even celebrated. Real food-lovers know that enjoying a high-quality chocolate

involves all the senses, as each one of them can expect extraordinary experiences. As has long been the case with wine, chocolate testing and tasting has thus given rise to a rich specialist vocabulary which is on a similar level with that of enology and embraces all the sensory perceptions. The criteria for assessing the quality and grade of a chocolate are multifaceted, and do not just apply to taste. We can also see, hear and smell chocolate. Indeed, the nose perceives the wide variety of aromas that subsequently come alive in the palate. Other important elements are a velvety sheen, a smooth surface and, last but not least, a clean break. This is characterized by a firm noise and is proof of thorough processing as well as the use of premium cocoa butter.

If you let a choice LINDT product melt slowly and luxuriously in your mouth, at first it seems to have little in com-

mon with the sacred cocoa fruit that was gifted to humankind by the gods and ripened thousands of miles away. And yet the sweet temptations that we now enjoy in such a refined form bear traces of ancient legends, tropical sunshine, gentle rain and exotic scents.





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 75 of this report. The market capitalization based on the 2006 year-end prices is CHF 6.8 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 Report on page 46. 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, 2006, 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, 2006, 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	8 166 160
Total ordinary capital	CHF	22 166 160

* 140 000 registered shares par value CHF 100.–

** 816 616 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 593 609 participation certificates with a par value of CHF 10.–. Of this total, 239 159 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:

Year	Ordinary capital		Conditional capital	
	Registered shares (RS)*	Participation certificates (PC)**	Participation certificates (PC) "Capital market"	"Employees"
2004	140 000	783 155	354 450	152 620
2005	140 000	800 558	354 450	135 217
2006	140 000	816 616	354 450	239 159

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	19 090	847.00	2009
2003	24 750	648.00	2010
2004	28 738	1 095.00	2011
2005	28 450	1 607.00	2012
2006	23 250	2 251.00	2013
Total	176 326		

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

In 2006, a total of 16 058 of the above employee options were exercised (total previous years: 24 783). Therefore, the “ordinary” participation capital was increased in 2006 by the corresponding reduction in the “conditional” participation capital reserved for the employee stock option programs. The 135 485 options outstanding as of December 31, 2006, and not yet exercised are equivalent to 6,11% of the total capital.

There are no outstanding convertible bonds of Chocolatefabriken 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, 2006, 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	1 st 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	2009
Dr. Peter Baumberger, Member	1992	2009
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 CEO 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 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 has 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 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, 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 is assisted by a committee, the “Committee of the Board” which also takes on the responsibilities of the compensation, nomination and risk management committees. The Committee of the Board is responsible for setting the total compensation and the nomination of the members of Group Management and of the executive board members of the subsidiaries. The Committee of the Board oversees the risk management of the Group, above all in the areas of 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 2006, the Committee convened four times, for two 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. In addition, the Board is provided yearly with the mid-term forecast for the Group relating to profit & loss, balance sheet and investments.

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. Additionally, the full Board is provided with Group-wide baseline risk management analysis and recommendation for steps to take.

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. In the past and within the framework of the yearly audit, the external auditors used to be charged with special assignments, which went over and beyond the legal and statutory requirements.

Group Management

As of December 31, 2006, 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 35 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 Group companies, and supervises adherence to the parameters it set out. Within the scope of these principles, the Committee of the Board 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 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 2006 (CHF 7.5 million in 2005). Total compensation and fees paid in 2006 to the four non-executive members of the Board and the Honorary Chairman amounted to CHF 0.6 million (CHF 0.6 million in 2005).

In 2006, 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 3235 registered shares on December 31, 2006.

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 2673 registered shares on December 31, 2006.

Together, the executive members of the Board and Group Management granted the following options (holding period three to five years):

Year of allocation	Number	Exercise price (CHF)*	Maturity
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
2006	12 500	2 251.00	2013

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

As of December 31, 2006, 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, 2006, there were no loans, except for a receivable of CHF 22 000, 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 2005). In addition, 100 registered shares, blocked for one year 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. 2006 is the first year of service for the audit partner, Mr. M. Von Moos. In 2006, PricewaterhouseCoopers AG charged audit fees in the amount of TCHF 1133. Additional fee payments for audit related services and other services totalled TCHF 11.

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
Mid-March	Full-year results
End of April	Annual Shareholders' Meeting
End of August	Half-year report

For details refer to "Information" on the cover.

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.





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Consolidated Balance Sheet

		December 31, 2006		December 31, 2005	
	Note	CHF million	%	CHF million	%
ASSETS					
Property, plant and equipment	5	671.5		615.4	
Intangible assets	6	11.4		8.6	
Financial assets	7	21.5		21.4	
Deferred tax assets	8	7.1		7.5	
Total Non-current Assets		711.5	33.4	652.9	34.2
Inventories	9	358.5		314.8	
Accounts receivable	10	742.4		688.0	
Other receivables		48.0		41.7	
Accrued income		7.3		6.2	
Derivative assets	11	6.1		1.3	
Marketable securities	12	34.3		35.5	
Cash and cash equivalents	13	223.0		167.7	
Total Current Assets		1 419.6	66.6	1 255.2	65.8
Total Assets		2 131.1	100.0	1 908.1	100.0
LIABILITIES					
Share and participation capital	14	22.2		22.0	
Treasury stock		-8.3		-6.4	
Retained earnings and other reserves		1 141.9		955.5	
Total Shareholders' Equity		1 155.8	54.2	971.1	50.9
Bond	15	99.6		99.3	
Loans	15	0.9		1.3	
Deferred tax liabilities	8	31.4		31.2	
Pension liabilities	16	143.4		136.0	
Other non-current liabilities		10.1		8.6	
Provisions	17	33.4		36.3	
Total Non-current Liabilities		318.8	15.0	312.7	16.4
Accounts payable to suppliers		209.4		185.1	
Other accounts payable		33.0		35.9	
Current tax liabilities		34.6		20.3	
Accrued liabilities	18	330.1		292.7	
Derivative liabilities	11	2.6		7.7	
Bank and other borrowings	15	46.8		82.6	
Total Current Liabilities		656.5	30.8	624.3	32.7
Total Liabilities		975.3	45.8	937.0	49.1
Total Liabilities and Shareholders' Equity		2 131.1	100.0	1 908.1	100.0

Consolidated Income Statement

		2006		2005	
	Note	CHF million	%	CHF million	%
INCOME					
Sales		2 585.6	100.0	2 246.9	100.0
Other income	19	9.7		9.0	
Total Income		2 595.3	100.3	2 255.9	100.4
EXPENSES					
Material costs		-772.1	-29.9	-686.5	-30.6
Changes in inventories		9.3	0.4	17.8	0.8
Personnel expenses	20	-546.7	-21.1	-493.1	-21.9
Operating expenses		-904.9	-35.0	-769.0	-34.2
Depreciation and amortisation		-84.0	-3.2	-76.5	-3.4
Total Expenses		-2 298.4	-88.8	-2 007.3	-89.3
Operating profit		296.9	11.5	248.6	11.1
Net financial result	21	-2.5		-2.9	
Operating profit before taxes		294.4	11.4	245.7	10.9
Taxes	22	-85.4		-73.0	
NET INCOME		209.0	8.1	172.7	7.7
Attributable to shareholders		209.0		172.7	
Non-diluted earnings per share/10 PC (CHF)	23	947.4		788.2	
Diluted earnings per share/10 PC (CHF)	23	921.2		768.2	

Consolidated Statement of Changes in Equity

CHF million	Share-/ PC-capital	Treasury stock	Consolidated reserves	Hedge Accounting	Retained earnings	Currency translation	Share- holders equity
Balance as at January 1, 2005	21.8	-2.1	238.2	-	557.2	-21.4	793.7
Introduction IAS 32/39 ¹⁾				1.3	0.1		1.4
Net income					172.7		172.7
Capital increase ²⁾	0.174		13.2				13.4
Purchase of own Shares ³⁾		-6.4					-6.4
Sale of own PCs ⁴⁾		2.1			0.9		3.0
Share based payment ⁵⁾					6.4		6.4
Distribution of profits					-39.9		-39.9
Gains and losses recognized directly in equity:							
Hedge Accounting				-5.7			-5.7
Currency translation						32.5	32.5
Balance as at December 31, 2005	22.0	-6.4	251.4	-4.4	697.4	11.1	971.1
Net income					209.0		209.0
Capital increase ²⁾	0.161		11.9				12.1
Purchase of own Shares ⁶⁾		-3.5					-3.5
Share based payment ⁵⁾		1.6			7.7		9.3
Dividends					-50.1		-50.1
Gains and losses recognized directly in equity:							
Hedge Accounting				6.9			6.9
Unrealized losses on available-for-sale financial assets					-0.1		-0.1
Currency translation						1.1	1.1
Balance as at December 31, 2006	22.2	-8.3	263.3	2.5	863.9	12.2	1 155.8

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). As well 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⁾ All directly attributable transaction costs are netted against the premium realized on exercise of options (2006: CHF 206k, 2005: CHF 178k).

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 shares. The Group has the right to reissue these shares at a later date.

⁴⁾ The Group sold all 1611 own PCs 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.

⁵⁾ For options granted after November 7, 2002, the expenses are charged to the income statement proportionally according to the option's expected period of expiration. The recorded expenses amount to CHF 6.7 million (CHF 6.4 million in 2005). The assumptions to calculate the expenses are disclosed in note 25 of the financial statements. In 2006 the position, share-based payments, also includes the distribution of 100 own registered shares to group management and executive members of the board with a total value of CHF 2.6 million.

⁶⁾ The Group acquired 119 of its own registered shares on November 20, 2006. The total amount paid to acquire the shares was CHF 3.5 million, and has been deducted from shareholders' equity as treasury shares. The Group has the right to reissue these shares at a later date.

Consolidated Cash Flow Statement

	2006		2005	
	CHF million	CHF million	CHF million	CHF million
Net income	209.0		172.7	
Depreciation and amortisation	84.0		76.5	
Changes in provisions and value adjustments	8.4		-0.5	
Non-cash effective items	11.2		8.5	
Cash Flow from Operations before Changes in Net-current Assets	312.6		257.2	
Decrease (+) / Increase (-) of accounts receivable	-44.0		-86.6	
Decrease (+) / Increase (-) of inventories	-48.7		-36.6	
Decrease (+) / Increase (-) of prepayments and other receivables	-7.4		-4.9	
Decrease (+) / Increase (-) of accrued income	-2.0		6.1	
Decrease (-) / Increase (+) of accounts payable	21.5		18.9	
Decrease (-) / Increase (+) of other payables and accrued liabilities	44.6	-36.0	35.1	-68.0
Cash Flow from Operating Activities	276.6		189.2	
Investments in property, plant and equipment	-140.9		-126.1	
Disposals of property, plant and equipment	1.1		0.8	
Investments in intangible assets	-5.5		-2.8	
Disposal financial assets	0.6		0.5	
Investments (-) / disposals (+) in marketable securities	4.3		-5.5	
Cash Flow from Investment Activities	-140.4		-133.1	
Proceeds from borrowings	-		31.2	
Repayments of borrowings	-36.8		-	
Proceeds from loans	-		1.3	
Repayments of loans	-2.1		-	
Repayment of bond	-		-96.7	
Capital increase (including premium)	12.1		13.4	
Purchase of treasury stock (shares/PC)	-3.5		-6.4	
Sale of treasury PCs	-		3.0	
Dividends paid to shareholders	-50.1		-39.9	
Cash Flow from Financing Activities	-80.4		-94.1	
Net Increase (+) / Decrease (-) in cash and cash equivalents	55.8		-38.0	
Cash and cash equivalents as at January 1	167.7		213.2	
Exchange gains/losses on cash and cash equivalents	-0.5	167.2	-7.5	205.7
Cash and cash equivalents as at December 31	223.0		167.7	
Interest received from 3 rd parties*		8.7		6.4
Interest paid to 3 rd parties*		10.9		12.9
Income tax paid*		69.9		66.5

*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 Europe and the NAFTA countries.

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 15, 2007.

The subsidiaries of Chocoladefabriken Lindt & Sprüngli AG as at December 31, 2006, 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	1.0
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 y Sprüngli (España) 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
Australia	Sydney	Lindt & Sprüngli (Australia) Pty. Ltd.	D	100%	AUD	1.0
Mexico	Mexico City	Lindt & Sprüngli de 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).

With the exception of the marketable securities 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 impact of the new and revised standards. 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.” The Group is also in the process of evaluating IFRS 8 “Operating Segments,” which will be effective from January 1, 2009.

Consolidation method

The consolidated financial statements include the accounts of the parent company and all the entities it controls (subsidiaries) up to December 31 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.

Foreign exchange rates

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

		Balance sheet year-end rates		Income statement average rates	
		2006	2005	2006	2005
Euro-zone	1 EUR	1.61	1.56	1.58	1.55
USA	1 USD	1.22	1.32	1.25	1.26
Great Britain	1 GBP	2.40	2.27	2.32	2.26
Canada	1 CAD	1.05	1.13	1.10	1.06
Australia	1 AUD	0.97	0.97	0.95	0.95
Poland	100 PLN	42.00	40.37	41.00	38.76
Mexico	100 MXN	11.25	12.34	11.52	12.10
Sweden	100 SEK	17.78	16.52	17.08	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 condition. 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 on hand, cash in bank, other short-term highly liquid investments with maturity periods of up to 90 days.

Financial assets

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 be sold 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.

“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.

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 initially 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). Profits or losses are recognised in the income statement as a 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.

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 is 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 June 16, 2006, 5000 of the 23250 outstanding options have been modified, as the vesting conditions were modified. All the other parameters, especially the blocking periods of 3, 4 and 5 years as well as the exercise price of CHF 2251 remained unchanged. 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 2006 by CHF 2.3 million and will relieve the expenses for the following years.

Accounting for derivative financial instruments and hedging activities

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.

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 intranctions 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, is 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 Schokoladefabriken 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, 2006, the calculated benefit amounted to CHF 17.0 million (CHF 17.0 million in 2005) and is disclosed in the item “Financial Assets” (see note 7)

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. 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 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

CHF million	Europe and Middle East		North and Latin America		Rest of the world		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Sales	1 919.1	1 697.7	637.9	526.1	174.3	148.7	2 731.3	2 372.5
./ Sales between segments	143.6	124.8	2.1	0.7	–	0.1	145.7	125.6
Third parties sales	1 775.5	1 572.9	635.8	525.4	174.3	148.6	2 585.6	2 246.9
Operating profit	224.1	192.9	43.2	30.9	29.6	24.8	296.9	248.6
Net financial result							–2.5	–2.9
Income before taxes							294.4	245.7
Taxes							–85.4	–73.0
Net income							209.0	172.7

Balance sheet and other information

CHF million	Europe and Middle East		North and Latin America		Rest of the world		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Assets ¹⁾	1 662.5	1 457.0	383.7	372.3	84.9	78.8	2 131.1	1 908.1
Liabilities ¹⁾	828.5	773.3	87.3	95.7	59.5	68.0	975.3	937.0
Investments	106.5	89.2	38.6	39.2	1.3	0.5	146.4	128.9
Depreciation and amortisation	59.5	57.0	21.4	18.8	0.6	0.7	81.5	76.5
Impairment of value	1.4	–	0.1	–	1.0	–	2.5	–

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

5. Property, plant and equipment

CHF million	Land/ Buildings	Machinery	Other fixed assets	Construction in progress	2006 Total
Acquisition costs as at January 1, 2006	564.8	699.4	140.1	35.3	1 439.6
Additions	25.6	62.0	16.2	37.1	140.9
Retirements	–4.0	–6.7	–3.8	–	–14.5
Transfers	13.7	9.9	1.4	–26.5	–1.5
Currency translation	–0.9	5.9	1.0	–0.4	5.6
Acquisition costs as at December 31, 2006	599.2	770.5	154.9	45.5	1 570.1
Accumulated depreciation as at January 1, 2006	248.2	463.9	112.1	–	824.2
Income statement charge	24.8	39.9	12.3	–	77.1
Impairments	1.5	0.8	0.2	–	2.5
Retirements	–3.7	–5.2	–3.6	–	–12.5
Currency translation	0.2	6.0	1.1	–	7.4
Accumulated depreciation as at December 31, 2006	271.0	505.5	122.1	–	898.6
Net fixed assets as at December 31, 2006	328.2	265.0	32.8	45.5	671.5

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

Advance payments of CHF 13.3 million (CHF 10.3 million in 2005) are included in the position construction in progress. The insurance value of the property, plant and equipment amounts to CHF 1938.2 million (CHF 1780.0 million). No mortgages exist on land and buildings.

The impairment charge of CHF 2.5 million (0 in 2005) consists mainly of writedowns of fixed assets in own stores (CHF 1.1 million) and production equipment (CHF 0.8 million).

The net book value (NBV) of capitalised assets, under financial lease, amounted to CHF 1.4 million (CHF 2.0 million in 2005). Operating lease commitments are expensed immediately.

6. Intangible Assets

CHF million	EDP software	Other intangible assets	2006 Total	2005 Total
Acquisition costs as at January 1	37.3	–	37.3	37.0
Introduction IAS 32/39	–	–	–	-4.0
Additions	5.5	–	5.5	2.8
Retirements	-0.9	–	-0.9	-0.3
Transfers	1.5	–	1.5	0.3
Currency translation	0.2	–	0.2	1.5
Acquisition costs as at December 31	43.6	–	43.6	37.3
Accumulated Amortisation as at January 1	28.7	–	28.7	26.9
Introduction IAS 32/39	–	–	–	-3.1
Income statement charge	4.4	–	4.4	4.2
Retirements	-0.9	–	-0.9	-0.3
Currency translation	–	–	–	1.0
Accumulated Amortisation as at December 31	32.2	–	32.2	28.7
Net intangible assets as at December 31	11.4	–	11.4	8.6

Research and development expenditures amounted to CHF 6.9 million (CHF 6.1 million in 2005) and are expensed immediately.

7. Financial Assets

CHF million	2006	2005
Prepaid pension funds ¹⁾	19.9	19.2
Loans to 3 rd party	0.9	1.5
Investments 3 rd party	0.7	0.7
Total	21.5	21.4

¹⁾ See note 16

8. 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, 2005	22.2
Currency translation	-0.9
Income statement charge	2.4
December 31, 2005	23.7
Currency translation	1.9
Income statement charge	-1.8
Deferred tax on changes in equity	0.5
December 31, 2006	24.3

Deferred tax assets and liabilities have been generated from the following balance sheet positions:

CHF million

	2006	2005
Deferred tax assets		
Fixed and intangible assets	3.5	3.0
Pension liabilities	17.6	16.3
Receivables	5.5	4.9
Inventories	5.9	4.3
Liabilities and provisions	11.5	11.4
Other	0.6	0.5
Deferred tax assets gross	44.6	40.4
Netting	-37.5	-32.9
Total	7.1	7.5
Deferred tax liabilities		
Fixed and intangible assets	50.4	48.6
Pension assets	6.0	5.1
Receivables	1.3	1.1
Inventories	4.0	3.5
Liabilities and provisions	6.2	5.8
Other	1.0	-
Deferred tax liabilities gross	68.9	64.1
Netting	-37.5	-32.9
Total	31.4	31.2
Net Deferred Tax	24.3	23.7

Tax Loss Carry-forwards

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

	2006	2005
Between 1 and 5 years	3.0	4.4
Between 5 and 10 years	40.8	14.3
Over 10 years	26.7	57.1

Tax loss carry-forwards utilized in 2006 amounted to CHF 9.6 million (CHF 10.6 million in 2005).

9. Inventories

CHF million	2006	2005
Raw material	44.7	37.6
Packaging material	70.9	59.4
Semi-finished and finished products	268.3	237.7
Value adjustment	-25.4	-19.9
Total	358.5	314.8

10. Accounts receivable

CHF million	2006	2005
Accounts receivable	759.1	703.5
Value adjustment	-16.7	-15.5
Total	742.4	688.0

11. Derivative financial instruments and hedging reserves

At balance sheet date, the fair value of derivative financial instruments was as follows:

CHF million	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts (cash flow hedges)	6.1	2.2	1.2	6.5
Other	–	0.4	0.1	1.2
Total	6.1	2.6	1.3	7.7

The carrying amount (contract value) of the outstanding forward foreign exchange contracts as at December 31, 2006, is CHF 262.4 million (CHF 299.0 million in 2005). 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 6.9 million in net gains (CHF 5.7 million in net losses), on forward foreign exchange contracts as of December 31, 2006, will be released to the income statement at various dates within the next 12 months. 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.

12. Marketable Securities

Available-for-sale financial assets

CHF million	2006	2005
At January 1	–	–
Additions	21.1	–
Disposals	-7.1	–
Net gains/(losses) transfer to equity	-0.1	–
Currency translation	0.1	–
At December 31	14.0	–
whereof current	14.0	–
whereof non-current	–	–

There were no impairment provisions on available-for-sale financial assets in 2006. They are composed of the following two categories at the balance sheet date:

CHF million	2006	2005
CHF – equity securities	4.4	–
EUR – bonds	9.6	–
Total	14.0	–

Fair-value-through-profit-or-loss financial assets

CHF million	2006	2005
CHF – equity securities	0.2	7.8
EUR – bonds	16.1	27.4
EUR – equity securities	1.1	–
EUR – other	2.0	–
USD – equity securities	0.9	0.3
Total	20.3	35.5

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

13. Cash and Cash Equivalents

CHF million	2006	2005
Cash at bank and on hand	83.3	96.1
Short-term bank deposits	139.7	71.6
Total	223.0	167.7

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.

14. Share and participation capital

CHF million	Number of registered shares (RS)*	Number of participation certificates (PC)**	Registered shares	Participation certificates	Total
At January 1, 2005	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
Capital increase		16 058		0.161	0.2
At December 31, 2006	140 000	816 616	14.0	8.2	22.2

* At par value of CHF 100.–

**At par value of CHF 10.–

The conditional capital has a total of 593 609 participation certificates with a par value of CHF 10.00. Of this total, 239 159 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 2006, a total of 16 058 (17 403 in 2005) of the employee options were exercised. The participation certificate has no voting right, but otherwise has the same ownership rights as the registered share.

15. Borrowings

CHF million	2006	2005
Non-Current		
3 5/8 %-Bond, 1998–2008	99.6	99.3
Bank borrowings	0.9	1.3
	100.5	100.6
Current		
Bank borrowings	46.8	82.6
	46.8	82.6
Total Borrowings	147.3	183.2

The maturity of non-current borrowings is as follows:

CHF million	2006	2005
Between 1 and 2 years	100.1	0.7
Between 2 and 5 years	0.4	99.9
Total	100.5	100.6

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

	2006	2005
Bank Borrowings		
EUR	3.61%	2.45%
AUD	6.20%	5.50%
MXN	6.84%	8.50%
PLN	4.00%	4.50%
SEK	3.10%	–
3 ⁵ / ₈ %-Bond, 1998–2008	3.90%	3.90%

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

CHF million	2006	2005
CHF	99.6	99.3
EUR	37.8	63.4
AUD	2.4	6.9
MXN	3.9	6.9
PLN	3.3	4.5
Other currencies	0.3	2.2
Total	147.3	183.2

16. 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 anniversary 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

CHF million	Pension plans		Other long-term employee benefits	
	2006	2005	2006	2005
Current service cost	11.8	10.8	1.2	0.8
Interest on obligation	12.8	14.1	0.2	0.2
Expected return on plan assets	–40.5	–33.3	–	–
Changes in unrecognized assets (IAS 19.58)	272.3	167.8	–	–
Net actuarial losses (gains) recognised	–242.8	–146.6	–0.1	0.4
Others	0.7	–0.2	–	–
Total, included in “employee benefits expense”	14.3	12.6	1.3	1.4

Actual return on plan assets 290.1 186.9

– Changes in the present value of the defined benefit obligation

CHF million	Pension plans		Other long-term employee benefits	
	2006	2005	2006	2005
Defined benefit obligation as at January 1	389.9	375.9	5.6	4.6
Current service cost	11.8	10.8	1.2	0.8
Plan participants' contributions	3.3	3.0	–	–
Interest on obligation	12.8	14.1	0.2	0.2
Benefit payments and net transferrals	–19.9	–23.5	–0.5	–0.4
Actuarial (gains) or losses	1.2	8.4	–0.1	0.4
Others	0.7	–	–	–
Currency translation	3.7	1.2	0.1	–
Defined benefit obligation as at December 31	403.5	389.9	6.5	5.6

– Changes in the fair value of plan assets

CHF million	Pension plans	
	2006	2005
Fair value of plan assets as at January 1	846.5	668.1
Plan participants' contributions	3.3	3.0
Contributions by employer	11.4	11.5
Benefit payments and net transferrals	–19.9	–23.5
Expected return on plan assets	40.5	33.3
Actuarial gains or (losses)	249.6	153.6
Others	–	0.3
Currency translation	0.7	0.2
Fair value of plan assets as at December 31	1 132.1	846.5

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

– Asset classes

Valuation date December 31	Pension plans	
	2006 in %	2005 in %
Equities	83	79
Bonds	7	10
Real estate	7	9
Others including cash	3	2
Total	100	100

The pension assets as at December 31, 2006, include shares of the Lindt & Sprüngli Group with a market value of CHF 960.7 million (CHF 687.4 million in 2005). The market value of real estate rented by the Group is CHF 11.1 million (CHF 10.1 million in 2005).

Expected employer contributions for 2007 amount to CHF 6.1 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 Valuation date December 31	Pension plans		Other long-term employee benefits	
	2006	2005	2006	2005
Present value of funded obligation	369.9	359.3	–	–
Fair value of plan assets	–1 132.1	–846.6	–	–
Under-/ (Over-)funding	–762.2	–487.3	–	–
Present value of unfunded obligations	33.6	30.6	6.5	5.6
Unrecognised actuarial gains or (losses)	–0.4	–5.8	–	–
Unrecognised prepaid pension cost	846.0	573.7	–	–
Net liability	117.0	111.2	6.5	5.6

– Amounts in the balance sheet

Liabilities	136.9	130.4	6.5	5.6
Assets (prepaid pension funds) ¹⁾	–19.9	–19.2	–	–
Net liability	117.0	111.2	6.5	5.6

¹⁾ See note 7

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

– Calculation of defined benefit obligations

Valuation date December 31	Pension plans		Other long-term employee benefits	
	2006	2005	2006	2005
Discount rate	3.30%	3.40%	4.30%	4.00%
Future salary increases	2.30%	2.30%		
Future pension increases	1.10%	1.10%		

– Calculation of expense

Discount rate	3.40%	3.80%	4.00%	5.00%
Expected return on plan assets	4.80%	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				
Valuation date December 31			2006	2005
Defined benefit obligation			403.5	389.9
Fair value of assets			–1 132.1	–846.5
Under-/ (Over-)funding			–728.6	–456.6
Experience adjustments on plan liabilities			–1.2	7.8
Experience adjustments on plan assets			249.6	153.6
Net liability			117.0	111.2

Defined contributions plans

In the 2006 financial year, contributions to defined contribution plans came to CHF 2.2 million (CHF 2.4 million in 2005).

17. Provisions

CHF million	Business risks	Other	Total
Provisions as at January 1, 2006	32.9	3.4	36.3
Addition	4.0	1.2	5.2
Utilisation	-0.9	-0.2	-1.1
Release	-5.4	-0.7	-6.1
Regroupment	0.1	-	0.1
Currency translation	-1.0	-	-1.0
Provisions as at December 31, 2006	29.7	3.7	33.4

CHF million	2006	2005
Current	4.9	2.0
Non-current	28.5	34.3
Total	33.4	36.3

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, 2006.

18. Accrued liabilities

CHF million	2006	2005
Trade-related costs	180.8	149.9
Salaries/wages and social costs	72.3	59.7
Other	77.0	83.1
Total	330.1	292.7

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.

19. Other income

CHF million	2006	2005
Fees from 3rd parties	2.7	3.9
Insurance reimbursements	1.7	0.5
Other	5.3	4.6
Total	9.7	9.0

The position, "Fees from 3rd parties," comprises mainly the reimbursement of freight charges. The position, Other, includes mainly license fee and rental income.

20. Personnel expenses/Headcount

CHF million	2006	2005
Wages and salaries	383.4	359.2
Social benefits	113.7	99.8
Other	49.6	34.1
Total	546.7	493.1

For the year 2006, the Group employed an average of 7044 people (6652 in 2005).

21. Net financial result

CHF million	2006	2005
Interest income	8.7	7.0
Interest expense		
3 ⁵ / ₈ % Bond	-3.9	-3.9
3% Bond (repaid March 31, 2005)	-	-0.8
Other	-8.5	-6.8
Portfolio gains/losses on securities		
Realized	1.3	1.0
Unrealized	-0.2	0.1
Net gains/losses on foreign currencies		
Realized	0.2	1.2
Unrealized	-0.1	-0.7
Total	-2.5	-2.9

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

22. Taxes

CHF million	2006	2005
Current taxes	84.6	71.0
Deferred taxes	-1.8	2.4
Other taxes	2.6	-0.4
Total	85.4	73.0

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	2006	2005
Profit before tax	294.4	245.7
Expected tax ¹⁾ calculated on profits in the respective countries	85.8	76.1
Change in applicable tax rates on temporary differences	-	-0.8
Utilization of unrecognized tax loss carry forwards from prior years	-3.1	-3.6
Other	2.7	1.3
Total	85.4	73.0

¹⁾ Based on the weighted average applicable tax rate (2006: 29.1%, 2005: 31.0%).

23. Earnings per share

	2006	2005
Non-diluted earnings per share/10 PC (CHF)	947.4	788.2
Net income (CHF million)	209.0	172.7
Weighted average number of registered shares/10 participation certificates	220 593	219 103
Diluted earnings per share/10 PC (CHF)	921.2	768.2
Net income (CHF million)	209.0	172.7
Weighted average number of registered shares/10 participation certificates/ outstanding options on 10 PC	226 870	224 806

24. Dividend per share

CHF	2006	2005
Dividend per share/10 PC	275.00¹⁾	225.00

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.

25. 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

	2006		2005	
	Number of options	Weighted average exercise price (CHF/PC)	Number of options	Weighted average exercise price (CHF/PC)
Outstanding options as at January 1	129 315	1 022.84	118 620	844.24
New option rights	23 250	2 251.00	28 850	1 607.00
Exercised rights	–16 058	763.42	–17 403	779.35
Cancelled rights	–1 022	1 230.73	–752	895.41
Outstanding options as at December 31	135 485	1 262.78*	129 315	1 022.84
of which exercisable at December 31	33 370	791.26	28 578	798.05
Average remaining time to expiration	571 days		661 days	

*The exercise price varies between CHF 648.00 and CHF 2 251.00

For options granted after November 7, 2002, the expenses are charged to the income statement proportionally according to the option's expected period of expiration. The recorded expenses amount to CHF 6.7 million (CHF 6.4 million in 2005). The assumptions used to calculate the expenses are listed in the following table:

Date of issue	June 16, 2006	March 3, 2005	March 22, 2004	March 11, 2003
Number of issued options	23 250	28 850	29 500	25 400
of which in Bracket A (blocking period 3 years)	8 127	10 107	10 338	8 879
of which in Bracket B (blocking period 4 years)	8 148	10 088	10 312	8 899
of which in Bracket C (blocking period 5 years)	6 975	8 655	8 850	7 622
Issuing price in CHF	2 251	1 607	1 095	648
Price of participation certificates on date of issue in CHF	2 344	1 629	1 082	658
Value of options on issuing date				
Bracket A (blocking period 3 years) in CHF	467.02	283.28	168.02	104.60
Bracket B (blocking period 4 years) in CHF	492.73	300.78	180.77	110.43
Bracket C (blocking period 5 years) in CHF	503.86	317.01	192.07	115.24
Maximum life span (in years)	7.00	7.08	7.03	7.06
Form of compensation	PC from conditional capital			
Maximum life span (in years)	4–6	4–6	4–6	4–6
Expected rate of retirement per year	3.5%	4.1%	4.6%	4.4%
Expected volatility	17.9%	19.4%	19.3%	18.8%
Expected dividend yield	1.17%	1.20%	1.23%	1.28%
Risk-free interest rate	2.63%–2.73%	1.95–2.14%	1.71–1.97%	1.40–1.64%
Model	Binomial model			

26. 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 1.8 million (CHF 0.6 million in 2005) to third parties.

27. Commitments

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

CHF million	2006	2005
Property, plant and equipment	62.7	31.1

The future lease payments under operating lease commitments are:

CHF million	2006	2005
Up to 1 year	21.2	18.0
Between 1 and 5 years	66.3	58.2
Over 5 years	31.3	35.7
Total	118.8	111.9

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

28. 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 10.7 million (CHF 3.9 million in 2005), and against whom receivables were outstanding at the balance sheet date of CHF 5.7 million (CHF 1.8 million in 2005).

At the balance sheet date a receivable from a member of the Board of Directors of CHF 22k exists (CHF 62k liability in 2005).

100 registered shares were bought in 2005 from the "Pensionskasse Lindt & Sprüngli AG" at a value of CHF 1.7 million, which corresponds to the market value at transaction date.

– Remuneration of Group Management and Board of Directors

CHF million	2006	2005
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 25):

	2006	2005
Group Management and executive members of the Board of Directors	12 500	12 500

Number of shares:

	2006	2005
Group Management and executive members of the Board of Directors	100	100

29. Events after the balance sheet date

The consolidated financial statements were approved for publication by the Board of Directors on March 15, 2007. No events have occurred up to March 15, 2007, 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



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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, statement of cash flows and notes / pages 42 - 66) of Chocoladefabriken Lindt & Sprüngli AG for the year ended 31 December 2006.

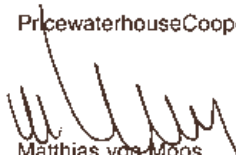
These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

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


 Matthias von Moos
 Auditor in charge


 Roger Kunz

Zurich, 15 March 2007

Balance Sheet before Profit Distribution

		December 31, 2006	December 31, 2005
	Note	CHF 1000	CHF 1000
ASSETS			
Intangible assets		41 748	41 975
Investments		340 941	325 740
Loans to subsidiaries		17 630	17 630
Total Fixed Assets		400 319	385 345
Receivables from subsidiaries		198 378	205 523
Other receivables		2 508	3 272
Financial investments		11 008	10 980
Treasury stock		8 281	6 440
Cash and cash equivalents		133 349	64 861
Accrued income		20	25
Total Current Assets		353 544	291 101
Total Assets		753 863	676 446
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		14 000	14 000
Participation capital	11	8 166	8 006
Legal reserves		106 602	94 724
Special reserves		214 236	208 010
Reserves for treasury stock		8 281	6 440
Net earnings		155 888	73 901
Total Shareholders' Equity		507 173	405 081
Bond (expiring on June 30, 2008)	6	100 000	100 000
Accounts payable to subsidiaries		130 257	163 485
Tax liabilities		12 733	4 300
Accrued liabilities		3 145	3 050
Other liabilities		555	530
Total Liabilities		246 690	271 365
Total Liabilities and Shareholders' Equity		753 863	676 446

Income Statement

	2006	2005
	CHF 1000	CHF 1000
INCOME		
Dividends and other income from subsidiaries	159 095	69 266
Income from financial assets	12 185	6 305
Interest received from subsidiaries	3 984	6 316
Other income	90	32
Total Income	175 354	81 919
EXPENSES		
Administrative and miscellaneous overhead costs	10 088	10 424
Interest	12 268	10 211
Taxes	12 866	3 323
Total Expenses	35 222	23 958
NET INCOME	140 132	57 961

Notes to the Financial Statements

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

Contingent liabilities as at December 31, 2006, amounted to CHF 137.5 million (CHF 144.8 million in 2005). 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, 2006.

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. Bond

CHF million

3 ⁵ / ₈ % Bond 1998–2008	100.0
Total	100.0

7. Investments

The investments in subsidiaries are listed in the notes on page 46.

8. Dissolution of net reserves

Net reserves of CHF 22.6 million were dissolved during 2006.

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, 2006	400	–
Additions	119	–
Retirements	100	–
Inventory as at December 31, 2006	419	–
Average cost of additions	CHF 29 000	–
Average sales price of retirements	CHF 25 750	–

11. Conditional and approved capital

As of December 31, 2006, the conditional capital had a total of 593 609 participation certificates with a par value of CHF 10.00. Of this total, 239 159 are reserved for employee stock option programs and the remaining 354 450 for capital market transactions. In the year under review, a total of 16 058 employee stock options were exercised at an average price of CHF 763.42.

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

As of December 31, 2006, 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 2005)

Proposal for the Distribution of Net Earnings

	December 31, 2006 CHF	December 31, 2005 CHF
Balances brought forward	15 756 435	15 939 979
Net income	140 131 568	57 961 360
NET EARNINGS	155 888 003	73 901 339
Dividend-bearing shares and participation certificates of CHF 22 005 580 (CHF 22 962 520 in 2005)		
5% statutory dividend	-1 108 308 ¹⁾	-1 100 279
270% (220% in 2005) additional dividend	-59 848 632 ¹⁾	-48 412 277
Options exercised from January 1 to April 25, 2006		
5% statutory & 220% additional dividends	-	-152 348
Emoluments to directors	-480 000	-480 000
Allocations to special reserves	-77 000 000	-8 000 000
BALANCE CARRIED FORWARD	17 451 063	15 756 435

¹⁾ Number of registered shares and participation certificates, status as at December 31, 2006: during the period, January 1 to May 2, 2007 (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



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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 68 - 71) of Chocoladefabriken Lindt & Sprüngli AG for the year ended 31 December 2006.

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

Matthias von Moos
 Auditor in charge

Roger Kunz

Zurich, 15 March 2007

Group Financial Data – 5-Year Review

2006 IFRS	2005 IFRS	2004 IFRS	2003 Swiss GAAP FER	2002 Swiss GAAP FER
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Income Statement

Consolidated sales	CHF million	2 585.6	2 246.9	1 994.6	1 800.5	1 680.5
EBITDA	CHF million	380.9	325.1	295.1	265.2	242.4
in % of consolidated sales	%	14.7	14.5	14.8	14.7	14.4
EBIT	CHF million	296.9	248.6	215.8	188.7	170.8
in % of consolidated sales	%	11.5	11.1	10.8	10.5	10.2
Net income	CHF million	209.0	172.7	149.0	122.4	101.9
in % of consolidated sales	%	8.1	7.7	7.5	6.8	6.1
in % of average shareholders' equity	%	19.7	19.6	19.6	18.3	17.8
Cash flow	CHF million	312.6	257.2	231.2	206.2	178.3
in % of consolidated sales	%	12.1	11.4	11.6	11.5	10.6
Depreciation and amortisation	CHF million	84.0	76.5	79.3	76.5	71.6

Balance Sheet

Total assets	CHF million	2 131.1	1 908.1	1 714.6	1 592.3	1 492.1
Current assets	CHF million	1 419.6	1 255.2	1 136.6	1 042.2	940.0
Net current assets	CHF million	763.1	630.9	529.6	561.2	436.6
PPE/intangible assets	CHF million	711.5	652.9	578.0	550.1	552.1
in % of total assets	%	33.4	34.2	33.7	34.5	37.0
Long-term liabilities	CHF million	318.8	312.7	313.9	382.6	379.8
in % of total assets	%	15.0	16.4	18.3	24.0	25.5
Shareholders' equity	CHF million	1 155.8	971.1	793.7	728.7	608.9
in % of total assets	%	54.2	50.9	46.3	45.8	40.8
Investments in PPE/intangible assets	CHF million	146.4	128.9	99.2	75.1	77.6
in % of cash flow	%	46.8	50.1	42.9	36.4	43.5

Employees

Average number of employees		7 044	6 652	6 293	6 011	6 029
Sales per employee	CHF 1000	367.1	337.8	317.0	299.5	278.7

Data per Share – 5-Year Review

		2006 IFRS	2005 IFRS	2004 IFRS	2003 Swiss GAAP FER	2002 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⁾		816 616	800 558	783 155	778 439	775 775
Earnings per share/10 PC ³⁾	CHF	947	788	684	562	468
Cash flow per share/10 PC	CHF	1 413	1 169	1 059	947	819
Shareholders' equity per share/10 PC ⁴⁾	CHF	5 214	4 413	3 636	3 345	2 799
Payout Ratio	%	29.2	28.7	26.5	24.9	23.5
Registered share						
Year-end price	CHF	30 700	21 950	16 650	11 050	8 600
High of the year	CHF	31 800	22 990	16 650	11 475	10 000
Low of the year	CHF	22 005	15 720	10 975	6 800	7 800
Dividend	CHF	275.00 ⁵⁾	225.00	180.00	140.00	110.00
P/E Ratio ⁶⁾	Factor	32.42	27.86	24.34	19.66	18.38
Participation certificate						
Year-end price	CHF	3 008	2 237	1 618	1 030	800
High of the year	CHF	3 050	2 350	1 630	1 065	960
Low of the year	CHF	2 118	1 526	990	631	730
Dividend	CHF	27.50 ⁵⁾	22.50	18.00	14.00	11.00
P/E Ratio ⁶⁾	Factor	31.76	28.39	23.65	18.33	17.09
Market capitalization ⁶⁾	CHF million	6 754.4	4 863.8	3 598.1	2 348.8	1 824.6
in % of shareholders' equity ⁴⁾	%	584.4	500.9	453.3	322.3	299.7

¹⁾ Valor 1 057 075

²⁾ Valor 1 057 076

³⁾ For 2004, 2005 and 2006 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
Chairman and CEO 2008

Dr. Kurt Widmer 2007

Dr. Rudolf K. Sprüngli 2007

Dr. Franz Peter Oesch 2009

Dr. Peter F. Baumberger 2009

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

Information

Agenda

April 26, 2007	109 th Annual Shareholders' Meeting
May 2, 2007	Payment of Dividend
August 21, 2007	Half-year report 2007
January 22, 2008	Net sales 2007
March 18, 2008	Full-year results 2007
April 25, 2008	110 th Annual Shareholders' Meeting

Investor Relations

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