Financial Report

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Consolidated Balance Sheet

CHF million	Note	December 31, 2018		December 31, 2017	
Assets					
Property, plant and equipment	7	1,344.8		1,289.3	
Intangible assets	8	1,378.3		1,378.7	
Financial assets	9	1,534.0		1,483.5	
Deferred tax assets	10	59.7		43.0	
Total non-current assets		**4,316.8**	**59.5%**	**4,194.5**	**60.1%**
Inventories	11	752.2		731.4	
Accounts receivable	12	1,023.2		1,047.5	
Other receivables		118.8		130.9	
Accrued income		2.5		4.0	
Derivative assets	13	38.6		14.1	
Marketable securities and short-term financial assets		1.6		0.2	
Cash and cash equivalents	14	996.1		853.0	
Total current assets		**2,933.0**	**40.5%**	**2,781.1**	**39.9%**
Total assets		**7,249.8**	**100.0%**	**6,975.6**	**100.0%**
Liabilities					
Share and participation capital	15	24.3		24.1	
Treasury stock	15	–202.4		–84.0	
Retained earnings and other reserves		4,655.4		4,246.2	
Equity attributable to shareholders		**4,477.3**		**4,186.3**	
Non-controlling interests		9.1		8.7	
Total equity		**4,486.4**	**61.9%**	**4,195.0**	**60.1%**
Bonds	16	997.9		997.5	
Loans	16	0.8		0.7	
Deferred tax liabilities	10	467.0		444.2	
Pension liabilities	17	174.9		174.8	
Other non-current liabilities		6.6		7.7	
Provisions	18	88.1		105.9	
Total non-current liabilities		**1,735.3**	**23.9%**	**1,730.8**	**24.8%**
Accounts payable to suppliers	19	214.2		217.3	
Other accounts payable		56.2		53.2	
Current tax liabilities		52.5		55.0	
Accrued liabilities	20	666.4		677.6	
Derivative liabilities	13	12.1		37.5	
Provisions	18	14.4		–	
Bank and other borrowings	16	12.3		9.2	
Total current liabilities		**1,028.1**	**14.2%**	**1,049.8**	**15.1%**
Total liabilities		**2,763.4**	**38.1%**	**2,780.6**	**39.9%**
Total liabilities and shareholders' equity		**7,249.8**	**100.0%**	**6,975.6**	**100.0%**

The accompanying notes form an integral part of the consolidated statements.

Consolidated Income Statement

CHF million	Note	2018		2017	
Income					
Sales		4,313.2	100.0%	4,088.4	100.0%
Other income		19.3		17.7	
Total income		**4,332.5**	**100.4%**	**4,106.1**	**100.4%**
Expenses					
Material expenses		–1,463.2	–33.9%	–1,488.3	–36.4%
Changes in inventories		29.2	0.8%	63.0	1.6%
Personnel expenses	21	–938.4	–21.8%	–886.4	–21.7%
Operating expenses		–1,143.9	–26.5%	–1,030.0	–25.2%
Depreciation, amortization, and impairment	7, 8	–179.5	–4.2%	–169.0	–4.1%
Total expenses		**–3,695.8**	**–85.6%**	**–3,510.7**	**–85.8%**
Operating profit (EBIT)		**636.7**	**14.8%**	**595.4**	**14.6%**
Financial income	22	3.8		3.0	
Financial expense	22	–19.9		–15.6	
Income before taxes		**620.6**	**14.4%**	**582.8**	**14.3%**
Taxes	10	–133.5		–130.3	
Net income		**487.1**	**11.3%**	**452.5**	**11.1%**
of which attributable to non-controlling interests		2.0		1.8	
of which attributable to shareholders of the parent		485.1		450.7	
Non-diluted earnings per share/10 PC (CHF)	23	2,021.4		1,892.5	
Diluted earnings per share/10 PC (CHF)	23	2,008.1		1,880.6	

The accompanying notes form an integral part of the consolidated statements.

Statement of Comprehensive Income

CHF million	**2018**	2017
Net income	487.1	452.5
Other comprehensive income after taxes		
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans	27.5	143.1
Items that may be reclassified subsequently to profit or loss		
Hedge accounting	52.5	15.9
Currency translation	–34.7	–14.1
Total comprehensive income	**532.4**	**597.4**
of which attributable to non-controlling interests	0.8	1.7
of which attributable to shareholders of the parent	531.6	595.7

The accompanying notes form an integral part of the consolidated statements.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

Consolidated Statement of Changes in Equity

CHF million	Note	Share-/ PC-capital	Treasury stock	Share premium	Hedge accounting	Retained earnings	Currency translation	**Equity attributable to share-holders**	Non-con-trolling interest	**Total equity**
Balance as at January 1, 2017		**23.7**	**–100.3**	**317.6**	**–43.5**	**3,665.2**	**–195.4**	**3,667.2**	**6.8**	**3,674.0**
Total comprehensive income		–	–	–	15.9	593.5	–13.7	595.7	1.7	597.4
Capital increase	15	0.4	–	100.6	–	–	–	101.0	0.2	101.2
Sale of own shares	15	–	14.5	–	–	7.7	–	22.2	–	22.2
Share-based payment	25	–	1.8	–	–	7.2	–	9.1	–	9.1
Reclass into retained earnings		–	–	–71.2	–	71.2	–	–	–	–
Distribution of profits		–	–	–	–	–208.9	–	–208.9	–	–208.9
Balance as at December 31, 2017		**24.1**	**–84.0**	**347.0**	**–27.6**	**4,135.9**	**–209.1**	**4,186.3**	**8.7**	**4,195.0**
Total comprehensive income		–	–	–	52.5	512.6	–33.5	531.6	0.8	532.4
Capital increase	15	0.2	–	87.1	–	–	–	87.3	–	87.3
Purchase of own shares and participation certificates	15	–	–119.6	–	–	–	–	–119.6	–	–119.6
Sale of own shares	15	–	0.6	–	–	0.3	–	0.9	–	0.9
Share-based payment	25	–	0.6	–	–	13.6	–	14.2	–	14.2
Reclass into retained earnings		–	–	–100.9	–	100.9	–	–	–	–
Distribution of profits		–	–	–	–	–223.4	–	–223.4	–0.4	–223.8
Balance as at December 31, 2018		**24.3**	**–202.4**	**333.2**	**24.9**	**4,539.9**	**–242.6**	**4,477.3**	**9.1**	**4,486.4**

The accompanying notes form an integral part of the consolidated statements.

Consolidated Cash Flow Statement

CHF million	Note		2018		2017
Net income		487.1		452.5	
Depreciation, amortization, and impairment	7, 8	179.5		169.0	
Changes in provisions, fair value adjustments and pension assets		–14.0		–13.7	
Decrease (+)/increase (–) of accounts receivable		–6.0		–31.3	
Decrease (+)/increase (–) of inventories		–44.0		–58.7	
Decrease (+)/increase (–) of other receivables		9.7		–19.1	
Decrease (+)/increase (–) of accrued income and derivative assets and liabilities		3.9		–1.2	
Decrease (–)/increase (+) of accounts payable		3.0		28.4	
Decrease (–)/increase (+) of other payables and accrued liabilities		11.2		57.7	
Non-cash effective items[1]		21.2		7.4	
Cash flow from operating activities (operating cash flow)			**651.6**		**591.0**
Investments in property, plant and equipment	7	–244.9		–173.2	
Disposals of property, plant and equipment	7	9.8		1.1	
Investments in intangible assets	8	–12.4		–12.0	
Disposals (+)/investments (–) in financial assets (excluding pension assets)		0.3		–	
Investments in marketable securities and short-term financial assets		–1.5		–	
Cash flow from investment activities			**–248.7**		**–184.1**
Proceeds from borrowings		3.5		–	
Repayments of borrowings		–		–60.4	
Proceeds from loans		0.1		–	
Proceeds from the issuance of bond	16	–		249.4	
Repayment of bond		–		–250.6	
Capital increase (including premium)		87.3		100.9	
Purchase of treasury stock		–119.6		–	
Sale of treasury stock		–		21.2	
Distribution of profits		–223.4		–208.9	
Cash flow with non-controlling interests		–0.4		0.2	
Cash flow from financing activities			**–252.5**		**–148.2**
Net increase (+)/decrease (–) in cash and cash equivalents			**150.4**		**258.7**
Cash and cash equivalents as at January 1		853.0		592.2	
Exchange gains(+)/losses (–) on cash and cash equivalents		**–7.3**	**845.7**	**2.1**	**594.3**
Cash and cash equivalents as at December 31	**14**		**996.1**		**853.0**
Interest received from third parties[2]			1.4		0.7
Interest paid to third parties[2]			18.4		15.2
Income tax paid[2]			138.2		95.3

1 As at December 31, 2018, movements of CHF 11.0 million result from the translation of foreign exchange balances (CHF –3.4 million in 2017).
2 Included in cash flow from operating activities.

The accompanying notes form an integral part of the consolidated statements.

Notes to the Consolidated Financial Statements

1. Organization, Business Activities, and Lindt & Sprüngli Group Companies

Chocoladefabriken Lindt & Sprüngli AG and its subsidiaries manufacture and sell premium chocolate products. The products are sold under the brand names Lindt, Ghirardelli, Russell Stover, Whitman's, Caffarel, Hofbauer, Küfferle, and Pangburn's. The Lindt & Sprüngli Group has twelve manufacturing plants worldwide (six in Europe and six in the United States) and mainly sells in countries within Europe and North America.

Chocoladefabriken Lindt & Sprüngli AG is incorporated and domiciled in Kilchberg ZH, Switzerland.

The Company has been listed since 1986 on the SIX Swiss Exchange (ISIN number: registered shares CH0010570759, participation certificates CH0010570767).

These consolidated financial statements were approved for publication by the Board of Directors on March 4, 2019.

The subsidiaries of Chocoladefabriken Lindt & Sprüngli AG as at December 31, 2018 are:

Country	Domicile	Subsidiary	Business activity	Ownership (%)	Currency	Capital in million
Switzerland	Kilchberg	Chocoladefabriken Lindt & Sprüngli (Schweiz) AG	P&D	100	CHF	10.0
		Indestro AG[1]	M	100	CHF	0.1
		Lindt & Sprüngli (International) AG[1]	M	100	CHF	0.2
		Lindt & Sprüngli Financière AG[1]	M	100	CHF	5.0
Germany	Aachen	Chocoladefabriken Lindt & Sprüngli GmbH[1]	P&D	100	EUR	1.0
France	Paris	Lindt & Sprüngli SAS	P&D	100	EUR	13.0
Italy	Induno	Lindt & Sprüngli SpA[1]	P&D	100	EUR	5.2
	Luserna	Caffarel SpA	P&D	100	EUR	2.2
Great Britain	London	Lindt & Sprüngli (UK) Ltd.[1]	D	100	GBP	1.5
USA	Kansas City, MO	Lindt & Sprüngli (North America) Inc.[1]	M	100	USD	0.1
	Stratham, NH	Lindt & Sprüngli (USA) Inc.	P&D	100	USD	1.0
	San Leandro, CA	Ghirardelli Chocolate Company	P&D	100	USD	0.1
	Kansas City, MO	Russell Stover Chocolates, LLC	P&D	100	USD	0.1
Spain	Barcelona	Lindt & Sprüngli (España) SA	D	100	EUR	3.0
Netherlands	Rotterdam	Lindt & Sprüngli (Netherlands) B.V.	D	100	EUR	0.1
Austria	Vienna	Lindt & Sprüngli (Austria) Ges.m.b.H.[1]	P&D	100	EUR	4.5
Poland	Warsaw	Lindt & Sprüngli (Poland) Sp. z o.o.[1]	D	100	PLN	17.0
Canada	Toronto	Lindt & Sprüngli (Canada) Inc.[1]	D	100	CAD	2.8
Australia	Sydney	Lindt & Sprüngli (Australia) Pty. Ltd.[1]	D	100	AUD	1.0
Mexico	Mexico City	Lindt & Sprüngli de México SA de CV[1]	D	100	MXN	285.1
Sweden	Stockholm	Lindt & Sprüngli (Nordic) AB[1]	D	100	SEK	0.5
Czech Republic	Prague	Lindt & Sprüngli (CEE) s.r.o.[1]	D	100	CZK	0.2
Japan	Tokyo	Lindt & Sprüngli Japan Co., Ltd.	D	100	JPY	1,227.0
South Africa	Capetown	Lindt & Sprüngli (South Africa) (Pty) Ltd.[1]	D	100	ZAR	100.0
Hong Kong	Hong Kong	Lindt & Sprüngli (Asia-Pacific) Ltd.[1]	D	100	HKD	248.3
China	Shanghai	Lindt & Sprüngli (China) Ltd.	D	100	CNY	199.5
Russia	Moscow	Lindt & Sprüngli (Russia) LLC[1]	D	100	RUB	16.0
Brazil	São Paulo	Lindt & Sprüngli (Brazil) Holding Ltda.	D	100	BRL	49.1
		Lindt & Sprüngli (Brazil) Comércio de Alimentos S.A.[2]	D	51	BRL	40.2

D – Distribution, P – Production, M – Management

1 Subsidiaries held directly by Chocoladefabriken Lindt & Sprüngli AG.

2 The Joint Venture with the CRMPAR Holding S.A. is a subsidiary with substantial non-controlling interests and is therefore fully consolidated according to IFRS 10 "Consolidated Financial Statements". The non-controlling interests are CHF 9.1 million at December 31, 2018 (CHF 8.7 million at December 31, 2017). These are not material to the Group.

2. Accounting Principles

Basis of preparation

The consolidated financial statements of Chocoladefabriken Lindt & Sprüngli AG ("Lindt & Sprüngli Group") were prepared in accordance with International Financial Reporting Standards (IFRS).

With the exception of the marketable securities, financial assets and the derivative financial instruments, which are recognized at fair value, 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 assets and liabilities presented in the annual report, the disclosure of contingent assets and liabilities and the disclosure of income and expenses in the reporting period. The actual results may differ from these estimates.

New IFRS and Interpretations

New and amended IFRS and interpretations (effective as of January 1, 2018 and thereafter)

The Lindt & Sprüngli Group has implemented all new or amended accounting standards and interpretations to the IFRS, which must be applied for the reporting period beginning January 1, 2018, including IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from contracts with customers".

These new or amended accounting standards and clarifications did not result in any significant changes to the accounting policies of the Lindt & Sprüngli Group. Neither did these have a significant impact on the recognition or measurement in the consolidated financial statements.

Impact of first time adoption of IFRS 9 – "Financial Instruments"

IFRS 9 – "Financial Instruments" replaces IAS 39. Except for equity instruments reclassified from "available-for-sale financial assets" to the respective "fair value through profit or loss" category totaling CHF 1.4 million as of January 1, 2018, the implementation of IFRS 9 has not affected the recognition, measurement and classification of the Group's financial instruments. As a consequence, no first adoption adjustment in equity as at January 1, 2018 and no restatement of comparative information for prior years is required when applying the modified retrospective approach. However, the consequential amendments to IFRS 7 resulted in additional disclosures.

The effect of applying the "Expected Credit Loss" model according to IFRS 9 to the valuation of accounts receivable as of December 31, 2018 is considered immaterial.

The majority of foreign currency forwards and raw material futures in place as at December 31, 2017 qualified as "cash flow hedges" under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9. Therefore, these relationships are treated as continuing hedges on January 1, 2018.

Impact of first time adoption of IFRS 15 – "Revenue from Contracts with Customers"

On January 1, 2018 the Lindt & Sprüngli Group has adopted IFRS 15 – "Revenue from Contracts with Customers", which resulted in changes in accounting policies. The new standard combines, enhances and replaces specific guidance on recognising revenue with a single standard. It defines a five-step model to recognize revenue from customer contracts. In accordance with the transition provisions in IFRS 15, the Lindt & Sprüngli Group has adopted the new rules retrospectively. A restatement of the comparative financial information for 2017 is not required. The Lindt & Sprüngli Group has undertaken a review of the main types of commercial arrangements used with customers under this model and has concluded that the application of IFRS 15 does not materially impact the consolidated revenue and results or the financial position. The application of the modified retrospective method as of January 1, 2018 did not result in any recognition in retained earnings or changes in other balance sheet items. It was not necessary to adjust comparative figures for 2017, as the underlying customer contracts of the business model do not contain any items that have to be accounted for differently compared to previous standards.

New and amended IFRS and interpretations that are required in future periods
Except for IFRS 16 – “Leases”, the Lindt & Sprüngli Group does not expect any material impact on recognition and measurement of the new standards that have already been published and will only be applicable in future periods.

IFRS 16 – “Leases” sets out principles on the recognition, measurement, presentation and disclosure of leases. It will replace IAS 17 and becomes effective on January 1, 2019. Except for short-term and low-value leases, almost all leases will be on balance sheet. Therefore, the right-of-use asset and the corresponding lease liability are recognized in the balance sheet. The Lindt & Sprüngli Group will implement the standard as of January 1, 2019 applying the modified retrospective approach with no retrospective restatement of comparative financial information. The leases affected by the new standard mainly relate to the network of own retail stores, rental of offices or lease of external warehouses and vehicles. As of January 1, 2019 the expected right-of-use asset as well as the lease liability amount to approximately CHF 500 million. As a consequence of the modified recognition of expenses, the first time adoption of IFRS 16 will marginally improve operating profit and slightly deteriorate the net income margin.

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. The Lindt & Sprüngli Group controls an entity when it is exposed to, or has the rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its influence over the entity.

Non-controlling interests are shown as a component of equity on the balance sheet and the share of the profit attributable to non-controlling interests is shown as a component of profit for the year in the income statement.

Newly acquired companies are consolidated from the effective date of control using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are recognized in the balance sheet at fair value. Acquisition costs exceeding the Lindt & Sprüngli Group’s share of the fair value of the identifiable net assets are allocated to goodwill. Transaction costs are shown as an expense in the period in which they are incurred.

Foreign currency translation
The consolidated financial statements are presented in Swiss francs, which is the parent company’s functional and reporting currency. In order to hedge against currency risks, the Lindt & Sprüngli Group engages in currency forwards and options trading. The methods of recognizing and measuring these derivative financial instruments in the balance sheet are explained in the paragraph “Accounting for derivative financial instruments and hedging activities”.

Foreign exchange differences arising from the translation of loans that are held as net investments in a foreign operation are recognized separately in other comprehensive income. The repayment of these loans is not considered as a divestment (partial or full). As a consequence, the respective accumulated currency translation differences are not recycled from other comprehensive income to the income statement.

Foreign exchange rates
The Lindt & Sprüngli Group applied the following exchange rates:

		Balance sheet year-end rates		Income statement average rates	
CHF		**2018**	2017	**2018**	2017
Euro zone	1 EUR	1.13	1.17	1.15	1.12
USA	1 USD	0.99	0.98	0.98	0.99
Great Britain	1 GBP	1.26	1.32	1.30	1.27
Canada	1 CAD	0.72	0.78	0.75	0.77
Australia	1 AUD	0.70	0.76	0.73	0.76
Poland	100 PLN	26.19	28.01	26.99	26.28
Mexico	100 MXN	5.02	4.95	5.09	5.21
Sweden	100 SEK	11.01	11.89	11.15	11.63
Czech Republic	100 CZK	4.38	4.57	4.46	4.28
Japan	100 JPY	0.89	0.87	0.88	0.88
South Africa	100 ZAR	6.85	7.90	7.36	7.39
Hong Kong	100 HKD	12.58	12.48	12.48	12.64
China	100 CNY	14.32	14.99	14.51	14.75
Russia	100 RUB	1.42	1.69	1.54	1.69
Brazil	100 BRL	25.38	29.45	26.89	30.81

Property, plant and equipment

Property, plant and equipment are valued at historical cost, less accumulated depreciation. The assets are depreciated using the straight-line method over the period of their expected useful economic life. Depreciation on assets is calculated using the straight-line method to reduce the carrying amount to the expected residual value. The following useful lives have been applied:

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

Land is not depreciated. Profits and losses from disposals are recorded in the income statement.

Intangible assets

Goodwill
Goodwill is the excess of the costs of acquisition over the Lindt & Sprüngli Group's interest in the fair value of the net assets acquired. Goodwill is not amortized, but is tested for impairment in the fourth quarter of each reporting period.

Other intangible assets
"EDP Software" and "customer relationships" are recognized at cost and amortized on a straight line basis over their economic life. "EDP Software" is amortized over a period of three to five years, "customer relationships" over a period of 10 to 20 years. The economic life of the intangible asset is regularly reviewed. "Brands and intellectual property rights" are not amortized but tested for impairment at each balance sheet date. All identifiable intangible assets (such as "brands and intellectual property rights" and "customer relationships") acquired in the course of a business combination are initially recognized at fair value.

Impairment

The Lindt & Sprüngli Group records the difference between the realizable value and the book value of fixed assets, goodwill or intangible assets as impairment. The valuation is made for an individual asset or, if this is not possible, on a group of assets to which separate sources of cash flows can be allocated. In order to establish the future benefits, the expected future cash flows are discounted. Assets with indefinite useful life as for example goodwill or intangible assets, which are not in use yet, are not depreciated and are subject to a yearly impairment test. Depreciable assets are tested for their recoverability, if there are signs, that the book value is no longer realizable.

Leasing

The Lindt & Sprüngli Group distinguishes between lease liabilities resulting from finance and operating leases.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs include all direct material and production costs, as well as overhead, which incurred in order to bring inventories to their current location and condition. Costs are calculated using the FIFO method. Net realizable value equals the estimated selling price in the ordinary course of business less cost of completion of the goods produced and applicable variable selling and distribution expenses.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash in bank, and other short-term investments with an original maturity period less than 90 days.

Financial assets

The Lindt & Sprüngli Group recognizes, measures, impairs (if required), presents and discloses financial assets as required by IFRS 9 – "Financial Instruments", IAS 32 – "Financial Instruments: Presentation" and IFRS 7 – "Financial Instruments: Disclosures". According to IFRS 9, financial assets are divided into three categories: financial assets at "fair value through profit and loss (FVTPL)", "fair value through other comprehensive income (FVOCI)" and subsequent measurement at "amortized cost". The category of a certain financial asset is defined by the contractual cash flow characteristics as well as the Group`s business model for managing them. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets are initially measured at its fair value. In case financial assets are not measured at FVTPL, transaction costs have to be added at initial recognition.

All financial assets not designated as amortized cost or FVOCI are measured at FVTPL. On initial recognition, Lindt may designate a financial asset that otherwise meets the criteria to be measured at amortized cost or FVOCI as measured at FVTPL if doing so eliminates the or significantly reduces an accounting mismatch that would otherwise arise. An equity instrument not held for trading may be classified as FVOCI with subsequent changes in fair value in OCI. The classification is irrevocable.

The fair value of listed investments is defined by using the current paid or, if not available, bid price. If the market for a financial asset is not active and/or the security is unlisted, the Lindt & Sprüngli 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 recognized when the Lindt & Sprüngli 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.

Allowance for accounts receivable
The allowance for accounts receivable is based on the "Expected Credit Loss" model required by IFRS 9. According to IFRS 9, it is no longer necessary for a loss event to occur before an impairment loss is recognized. For the recognition of the allowance for accounts receivable, the Lindt & Sprüngli Group considers historical default rates as well as forward looking information by grouping receivables by customer sector and credit rating, if available. For trade receivables, Lindt applies the simplified approach and recognizes lifetime expected credit losses.

Dividends
In accordance with Swiss law and the Articles of Association, dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual Shareholders' Meeting and subsequently paid.

Financial liabilities
Financial liabilities are recognized initially when the Lindt & Sprüngli Group commits to a contract and records the amount of the proceeds (net of transaction costs) received. Borrowings are then valued at amortized cost using the effective interest method. The amortized cost consists of a financial obligation at its initial recording, minus repayment, plus or minus accumulated amortization (the potential difference between the original amount and the amount due at maturity). Gains or losses are recognized in the income statement as a result of amortization or when a borrowing is derecognized. A borrowing is derecognized when it is repaid, offset or when it expires.

Employee benefits
The expense and defined benefit obligations for the significant defined benefit plans and other long-term employee benefits in accordance with IAS 19 (revised) are determined using the Projected Unit Credit Method, with independent actuarial valuations being carried out at the end of each reporting period. This method takes into account years of service up to the reporting period and requires the Lindt & Sprüngli Group to make estimates about demographic variables (such as mortality or turnover) and financial variables (such as future salary increase and the long-term interest rate on pension assets) that will affect the final cost of the benefits. The valuation of the pension asset is carried out yearly and recognized at its fair market value.

The cost of defined benefit plans has three components:
- service cost recognized in profit and loss;
- net interest expense or income recognized in profit and loss; and
- remeasurement recognized in other comprehensive income.

Service cost includes current service cost, past service cost and gains or losses on settlements. Past service cost is recognized in the period the plan amendment occurs.

Curtailment gains and losses are accounted for as past service cost. Contributions from plan participants' or a third party reduce the service cost and are therefore deducted if they are based on the formal terms of the plan or arise from a constructive obligation.

Net interest cost is equal to the discount rate multiplied by the net defined benefit liability or asset. Cash flows and changes during the year are taken into account on a weighted basis.

Remeasurements of the net defined benefit liability (asset) include actuarial gains and losses on the defined benefit obligation from:
- changes in assumptions and experience adjustments;
- return on plan assets excluding the interest income on the plan assets that is included in the net interest; and
- changes in the effect of the asset ceiling (if applicable) excluding amounts included in the net interest.

Remeasurements recorded in other comprehensive income are not recycled.

The Lindt & Sprüngli Group presents both components of the defined benefit costs in the line item “Employee benefits expense” in its consolidated income statement. Remeasurements are recognized in other comprehensive income.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Lindt & Sprüngli Group’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. Payments to defined contribution plans are reported in personnel expenses when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

For the other long-term employee benefits the present value of the defined benefit obligation is recognized at the balance sheet date. Changes of the present value are recorded as personnel expenses in the income statement.

Revenue recognition

Revenue is recognized in accordance with the requirements of IIFRS 15 – “Revenue from Contracts with Customers” and the five-step model described therein. Revenues are recognized at the time when goods are transferred to customers in the amount of the consideration that the Lindt & Sprüngli Group can expect in return for the transfer of these goods. In addition to sales or value-added tax, contractually agreed obligations with the trade, such as price or promotional discounts, end-of-year discounts or returns of goods, are deducted from revenues, unless the consideration for distinctly and clearly identifiable services, rendered by trade partners, which could also be rendered by third parties at comparable costs. Adequate trade accruals are recognized for contractually agreed performance obligations.

“Other income” mainly includes license fees, reimbursement of freight charges and the gain on sale of assets. All income are recognized after the fulfillment of the obligation.

Interest income is recognized 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 approval of the dividend distribution.

Operating expenses

Operating expenses include marketing, distribution and administrative expenses.

Borrowing costs

Interest expenses incurred from borrowings used to finance the construction of fixed assets are capitalized 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, interests, and license fees. These taxes are levied according to a country's directives.

Deferred income taxes are accounted for according to the "balance-sheet-liability method", and arise on temporary differences between the tax and IFRS bases of assets and liabilities. In order to calculate the deferred income taxes, the legal tax rate in use at the time or the future tax rate announced is applied.

Deferred tax assets 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.

Deferred taxes also arise due to temporary differences from investments in subsidiaries and associated companies. Deferred taxes are not recognized if the following two conditions are met: the parent company is able to manage the timing of the release of temporary differences and, it is probable that the temporary differences are not going to be reversed in the near future. Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

Deferred 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.

Research and development costs

Development costs for new products are capitalized if the relevant criteria for capitalization are met. There are no capitalized development costs in these consolidated financial statements.

Share-based payments

The Lindt & Sprüngli Group grants several employees options on officially listed participation certificates. These options have a blocking period of three to five years and a maximum maturity of seven 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 vesting period. This is based on the estimated number of participation certificates, which entitles 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.

Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are recorded when the contract is entered into and valued at fair value. The treatment of recognizing 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 Lindt & Sprüngli Group designates certain derivative financial instruments as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (securing the cash flow).

At the beginning of the business transaction, the Lindt & Sprüngli 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 Lindt & Sprüngli Group also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items, and how the hedge ratio is determined.

The effective portion of changes in fair value of derivatives which are designated and qualify as cash flow hedges is accounted for in other comprehensive income. Profit and loss from the ineffective portion of the value adjustment are recognized immediately in the income statement.

Amounts accumulated in equity for financial instruments are recognized in the income statement in the same reporting period when the hedged item affects profit and loss. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount is removed from the cash flow hedge reserve and included in the initial cost of non-financial asset or liability.

Critical accounting estimates and judgments

When preparing the consolidated financial statements in accordance with IFRS, management is required to make estimates and assumptions. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the given circumstances. Actual values may differ from these estimates. Estimates and assumptions significantly affect the following areas:

- Pension plans: the calculation of the recognized assets and liabilities from defined benefit plans is based on statistical and actuarial calculations performed by actuaries. The present value of defined benefit liabilities in particular is heavily dependent on assumptions such as the discount rate used to calculate the present value of future pension liabilities, future salary increases and changes in employee benefits. In addition, the Lindt & Sprüngli Group's independent actuaries use statistical data such as probability of withdrawals of members from the plan and life expectancy in their assumptions.
- When testing goodwill and other intangible assets with indefinite useful life, parameters such as future discounted cash flows, underlying discount and growth rates, as well as the EBIT-margin development are based on estimates and assumptions.
- The Lindt & Sprüngli Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining deferred tax assets and deferred tax liabilities or current income tax accruals. There are many transactions and calculations for which the determination of the applicable tax rate and the expected current income tax position.

In the course of restructuring the pension fund schemes within the Lindt & Sprüngli Group in 2013, two non-profit funds were founded. According to IFRS 10 – "Consolidated financial statements" it is not required to consolidate these two funds because amongst other things, the Lindt & Sprüngli Group is not exposed to variable returns.

3. Risk Management

Due to its global activity, the Lindt & Sprüngli 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 three categories, where they are assessed, limited, and responsibilities assigned.

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

The Lindt & Sprüngli Group is exposed to financial risks. The financial instruments are divided, in accordance with IFRS 7, into the following categories: market risks (commodities, exchange rates, interest rates) 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 Lindt & Sprüngli Group companies. The decentralized Lindt & Sprüngli Group structure gives strong autonomy to the individual operational Lindt & Sprüngli Group companies, particularly with regard to the management of exchange rate and commodity risks. The risk policies issued by the Audit Committee serve as guidelines for the entire risk management.

Centralized systems and processes, specifically for the ongoing recognition and consolidation of the group wide foreign exchange and commodity positions, as well as regular internal reporting, ensure that the risk positions are consolidated and managed in a timely manner. The Lindt & Sprüngli Group only engages in derivative financial instruments in order to hedge against market risks.

Market risks

Commodity price risks
The Lindt & Sprüngli Group's products are manufactured with raw materials (commodities) that are subject to strong price fluctuations due to climatic conditions, seasonal conditions, seasonal demand, and market speculation. In order to mitigate the price and quality risks of the expected future net demand, the manufacturing Lindt & Sprüngli Group companies enter into contracts with suppliers for the future physical delivery of the raw materials. Commodity futures are also used, but only processed centrally by Corporate Treasury. The commodity futures for cocoa beans of a required quality are always traded for physical-delivery agreements. The number of outstanding commodity futures is dependent on the expected production volumes and price development and may therefore vary significantly throughout the year. Based on the existing contract volume as of December 31, 2018 and 2017, no material sensitivities exist on these positions. The changes in commodity prices include the fair value of the futures since entering into the agreement and are recognized in accordance with IFRS 9.

Exchange rate risks
The Lindt & Sprüngli Group's reporting is in Swiss francs, and is exposed to fluctuations in foreign exchange rates, primarily with respect to the euro, the various dollar currencies, and the pound sterling. Foreign exchange rate risk is not generated from sales, since the operational Group companies invoice predominantly in their local functional currencies. On the other hand, the Lindt & Sprüngli Group is exposed to exchange rate risk on trade payables for goods and services that arise from the trade within the Lindt & Sprüngli Group and outside partners. These transactions are hedged using forward currency contracts. The operational Lindt & Sprüngli Group companies transact all currency instruments with Corporate Treasury, which hedges these positions by means of financial instruments with credit-worthy financial institutions (short-term rating A1/P1).

Since the operational Lindt & Sprüngli Group companies transact the majority of their transactions in their own functional currencies and any remaining non-functional currency-based transactions are hedged with currency forward contracts, the exchange rate risk at balance sheet date is not material. The changes, in exchange rates, include the fair value of the currency forward contracts since entering into the contract and are recognized in accordance with IFRS 9.

Interest rate risks
Corporate Treasury monitors and minimizes interest rate risks from a mismatch of quality, maturity period, and currency of the financial position on a continuous basis. Corporate Treasury may use derivative financial instruments in order to manage the interest rate risk of balance sheet assets and liabilities, and future cash flows. As of December 31, 2018 and 2017, there were no such transactions.

As of December 31, 2018 the position financial assets made up of two equal parts of interest-bearing and non interest-bearing financial assets. Interest-bearing financial assets predominantly include cash and cash equivalents in Swiss francs. In 2017 most material financial assets were not interest-bearing.

The acquisition of Russell Stover Chocolates, LLC in 2014 caused a reduction of liquid funds and the issuance of long-term bonds with a fixed interest rate by the Lindt & Sprüngli Group. The Lindt & Sprüngli Group faces a risk of a rise in the interest rate at maturity of these bonds.

Credit risks

Credit risks occur when a counterparty, such as a financial institute, supplier or a client is unable to fulfil its contractual duties. Financial credit risks are mitigated by investing (liquid funds and/or derivative financial instruments) with various lending institutions holding a short-term A1/P1-rating only. The maximum default risk of balance sheet assets is limited to the carrying values of those assets in the balance sheet as reflected in the notes to the financial statements (including derivative financial instruments). The operating companies of the Lindt & Sprüngli Group have implemented processes for defining credit 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 Lindt & Sprüngli Group's concentration of risk is limited.

Liquidity risks

Liquidity risks exist when the Lindt & Sprüngli Group or a subsidiary does not settle or meet its financial obligations (untimely repayment of financial debt, payment of interest). The Lindt & Sprüngli Group's liquidity is ensured by means of regular group wide monitoring and planning of liquidity as well as an investment policy coordinated on a timely basis by Corporate Treasury. The net financial position (defined as cash and cash equivalents plus marketable securities less financial debt), is monitored on a company-by-company basis by Corporate Treasury. As of December 31, 2018, the net financial position amounted to CHF –13.3 million (CHF –154.2 million in 2017). For extraordinary financing needs, adequate credit lines with financial institutes have been arranged.

The tables below present relevant maturity groupings as at December 31, 2018 and 2017, of the contractual maturity date:

CHF million	< 3 months	Between 3 and 12 months	Between 1 and 3 years	Over 3 years	**2018 Total**
Bonds (including interests)	–	5.8	509.0	512.0	1,026.8
Loans	–	–	0.7	0.1	0.8
Accounts payable	217.2	–3.0	–	–	214.2
Other accounts payable	51.6	2.1	–	–	53.7
Derivative assets	–5.6	–25.8	–7.2	–	–38.6
Derivative liabilities	3.4	6.9	1.8	–	12.1
Bank and other borrowings	12.2	0.1	–	–	12.3
Total contractually fixed payments	**278.8**	**–13.9**	**504.3**	**512.1**	**1,281.3**

CHF million	< 3 months	Between 3 and 12 months	Between 1 and 3 years	Over 3 years	**2017 Total**
Bonds (including interests)	–	5.8	511.5	515.3	1,032.6
Loans	–	–	0.7	–	0.7
Accounts payable	215.9	1.4	–	–	217.3
Other accounts payable	51.7	1.5	–	–	53.2
Derivative assets	–7.7	–6.2	–0.3	–	–14.2
Derivative liabilities	7.0	24.9	5.7	–	37.6
Bank and other borrowings	8.9	0.3	–	–	9.2
Total contractually fixed payments	**275.8**	**27.7**	**517.6**	**515.3**	**1,336.4**

4. Capital Management

The goal of the Lindt & Sprüngli Group with regards to capital management is to support the business with a sustainable and risk adjusted capital basis and to achieve an accurate return on the invested capital. The Lindt & Sprüngli Group assesses the capital structure on an ongoing basis and makes adjustments in view of the business activities and the changing economical environment. As an example the Lindt & Sprüngli Group started with a share buypack program of CHF 500.00 million in 2018.

The Lindt & Sprüngli Group monitors its capital based on the ratio of shareholders' equity in percentage to total assets, which was 61.9% as of December 31, 2018 (60.1% in 2017).

The objectives, policies, and procedures as of December 31, 2018, related to capital management have not been changed compared to the previous year.

5. Segment Information: According to Geographic Segments

The Lindt & Sprüngli Group is organized and managed by means of individual countries. For the definition of business segments to be disclosed, the Lindt & Sprüngli Group has aggregated companies of individual countries on the basis of similar economic structures (foreign exchange risks, growth perspectives, element of an economic area), similar products and trade landscapes, and economic attributes (gross profit margins). The three business segments to be disclosed are:

– "Europe", consisting of the European companies and business units including Russia;
– "North America", consisting of the companies in the USA, Canada, and Mexico; and
– "Rest of the World", consisting of the companies in Australia, Japan, South Africa, Hong Kong, China, and Brazil as well as the business units Distributors and Duty Free.

Due to the increasing integration of the four companies in the USA with regards to sales, logistics and administration, these now form one operating segment. As a consequence, they are reported to the Chief Operating Decision Maker only on a consolidated level. This has no impact on the business segments reported, as all four companies have already been part of the business segment "North America".

The Lindt & Sprüngli 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

	Segment Europe		Segment North America		Rest of the World		Total	
CHF million	2018	2017	2018	2017	2018	2017	**2018**	2017
Sales	2,393.2	2,231.0	1,664.2	1,640.5	577.0	524.6	4,634.4	4,396.1
Whereof sales between segments	314.8	299.0	6.4	8.7	–	–	321.2	307.7
Third party sales	**2,078.4**	**1,932.0**	**1,657.8**	**1,631.8**	**577.0**	**524.6**	**4,313.2**	**4,088.4**
Operating profit	401.1	345.1	129.3	166.5	106.3	83.8	636.7	595.4
Net financial result							–16.1	–12.6
Income before taxes							**620.6**	**582.8**
Taxes							–133.5	–130.3
Net income							**487.1**	**452.5**

The following countries achieved the highest sales in 2018:

– USA CHF 1,389.2 million (CHF 1,399.7 million in 2017)
– Germany CHF 660.2 million (CHF 611.3 million in 2017)

For better understanding, the revenues of the Lindt & Sprüngli Group are further disaggregated based on the two most significant sales channels "Trade Partners" and "Global Retail" (consisting of store network and e-commerce). The disaggregation by sales channel does not reflect a view by management responsibility as disclosed by operating segment. In 2018 revenues of "Global Retail" amounted to CHF 552.3 Mio.

Balance sheet and other information

	Segment Europe		Segment North America		Rest of the World		Total	
CHF million	2018	2017	2018	2017	2018	2017	**2018**	2017
Assets[1]	4,719.2	4,522.0	2,230.9	2,192.0	299.7	261.6	7,249.8	6,975.6
Liabilities[1]	2,261.9	2,245.5	349.9	343.6	151.6	191.5	2,763.4	2,780.6
Investments	171.9	117.7	70.3	56.9	15.1	10.6	257.3	185.2
Depreciation and amortization	105.9	97.9	63.7	61.6	8.6	7.5	178.2	167.0
Impairment	0.1	0.3	0.9	0.8	0.3	0.9	1.3	2.0

1 Assets of CHF 11.2 million (CHF –15.5 million in 2017) and liabilities of CHF 83.2 million (CHF 118.1 million in 2017) which cannot be clearly allocated to a particular segment are disclosed in the category "Rest of the World".

The following countries held the greatest portion of fixed and intangible assets in 2018:
- USA CHF 1,345.8 million (CHF 1,337.3 million in 2017)
- Switzerland CHF 644.4 million (CHF 632.7 million in 2017)
- Germany CHF 294.5 million (CHF 283.9 million in 2017)

6. Financial Instruments, Fair Value, and Hierarchie Levels

The following table shows the carrying amounts and fair values (FV) of financial instruments recognized in the consolidated balance sheet, categorized according to IFRS 9 and analyzed by types and hierarchy levels at year-end:

		December 31, 2018		December 31, 2017	
CHF million	Level[1]	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets					
Fair value through profit or loss					
Derivative assets	1	27.1	27.1	–	–
Derivative assets	2	11.5	11.5	14.1	14.1
Marketable securities and short-term financial assets	1/2	1.6	1.6	0.2	0.2
Investments third parties	3	1.1	1.1	1.4	1.4
Total		**41.3**	**41.3**	**15.7**	**15.7**
Other financial assets at amortized cost[2]					
Total		**2,097.6**	**2,097.6**	**1,992.5**	**1,992.5**
Total financial assets		**2,138.9**	**2,138.9**	**2,008.2**	**2,008.2**
Financial liabilities					
Fair value through profit or loss					
Derivative liabilities	1	–	–	23.8	23.8
Derivative liabilities	2	12.1	12.1	13.7	13.7
Total		**12.1**	**12.1**	**37.5**	**37.5**
Other financial liabilities at amortized costs					
Bonds	1	997.9	1,018.5	997.5	1,025.1
Loans		0.8	0.8	0.7	0.7
Other non-current liabilities		6.6	6.6	7.7	7.7
Accounts payable		214.2	214.2	217.3	217.3
Other accounts payable		56.2	56.2	53.2	53.2
Bank and other borrowings		12.3	12.3	9.2	9.2
Total		**1,288.0**	**1,308.6**	**1,285.6**	**1,313.2**
Total financial liabilities		**1,300.1**	**1,320.7**	**1,323.1**	**1,350.7**

1 Level 1 – The fair value measurement of same financial instruments is based on quoted prices in active markets.
Level 2 – The fair value measurement of same financial instruments is based on observable market data, other than quoted prices in Level 1.
Level 3 – Valuation technique using non-observable data.
For financial instruments with a short term maturity date it is expected that the carrying amounts are a reasonable approximation of the respective fair values.
2 Contains cash and cash equivalents, accounts receivable, other receivables (excluding prepayments and current tax assets), and loans to third parties.

7. Property, Plant and Equipment

CHF million	Land/ buildings	Machinery	Other fixed assets	Construction in progress	2018 Total
Acquisition costs as at January 1, 2018	**1,086.3**	**1,389.1**	**256.4**	**109.6**	**2,841.4**
Additions	51.5	42.1	30.4	125.7	249.7
Retirements	–15.9	–7.1	–5.5	–	–28.5
Transfers	28.6	56.0	3.4	–88.2	–0.2
Currency translation	–19.8	–26.2	–6.3	–1.7	–54.0
Acquisition costs as at December 31, 2018	**1,130.7**	**1,453.9**	**278.4**	**145.4**	**3,008.4**
Accumulated depreciation as at January 1, 2018	**507.4**	**845.5**	**199.2**	**–**	**1,552.1**
Additions	52.8	84.4	21.9	–	159.1
Impairments	1.0	–	0.3	–	1.3
Retirements	–8.4	–6.5	–4.7	–	–19.6
Transfers	0.7	–	–0.7	–	–
Currency translation	–8.2	–16.2	–4.9	–	–29.3
Accumulated depreciation as at December 31, 2018	**545.3**	**907.2**	**211.1**	**–**	**1,663.6**
Net fixed assets as at December 31, 2018	**585.4**	**546.7**	**67.3**	**145.4**	**1,344.8**

CHF million	Land/ buildings	Machinery	Other fixed assets	Construction in progress	2017 Total
Acquisition costs as at January 1, 2017	**1,009.5**	**1,200.9**	**231.1**	**172.1**	**2,613.6**
Additions	32.2	41.7	20.5	78.8	173.2
Retirements	–4.2	–8.3	–8.1	–	–20.6
Transfers	26.9	109.2	2.9	–139.3	–0.2
Currency translation	21.9	45.6	10.0	–2.0	75.5
Acquisition costs as at December 31, 2017	**1,086.3**	**1,389.1**	**256.4**	**109.6**	**2,841.4**
Accumulated depreciation as at January 1, 2017	**449.5**	**746.2**	**177.5**	**–**	**1,373.2**
Additions	48.9	78.9	20.8	–	148.6
Impairments	1.8	–	0.1	–	1.9
Retirements	–4.1	–7.8	–7.2	–	–19.1
Currency translation	11.3	28.2	8.0	–	47.5
Accumulated depreciation as at December 31, 2017	**507.4**	**845.5**	**199.2**	**–**	**1,552.1**
Net fixed assets as at December 31, 2017	**578.9**	**543.6**	**57.2**	**109.6**	**1,289.3**

Advance payments of CHF 38.0 million (CHF 49.8 million in 2017) are included in the position construction in progress. No mortgages exist on land and buildings.

The impairment charge totals CHF 1.3 million (CHF 1.9 million in 2017) and consists of write-downs of land and buildings of CHF 1.0 million (CHF 1.8 million in 2017) and of machinery and other fixed assets of CHF 0.3 million (CHF 0.1 million in 2017).

The net book value of capitalized assets, under financial lease, amounted to CHF 0.5 million (CHF 0.7 million in 2017). Operating lease commitments are not capitalized.

8. Intangible Assets

CHF million	EDP software & consultancy	Customer relationships	Brands & IP	Goodwill	Other intangible assets	2018 Total
Acquisition costs as at January 1, 2018	**95.4**	**130.5**	**459.8**	**768.7**	**21.0**	**1,475.4**
Additions	12.0	–	–	–	0.4	12.4
Retirements	–0.8	–	–	–	–	–0.8
Transfers	0.2	–	–	–	–	0.2
Currency translation	–2.3	1.2	–	7.5	–1.7	4.7
Acquisition costs as at December 31, 2018	**104.5**	**131.7**	**459.8**	**776.2**	**19.7**	**1,491.9**
Accumulated depreciation as at January 1, 2018	**66.4**	**29.0**	**–**	**–**	**1.3**	**96.7**
Additions	9.6	8.6	–	–	0.9	19.1
Retirements	–0.8	–	–	–	–	–0.8
Currency translation	–1.6	0.3	–	–	–0.1	–1.4
Accumulated depreciation as at December 31, 2018	**73.6**	**37.9**	**–**	**–**	**2.1**	**113.6**
Net intangible assets as at December 31, 2018	**30.9**	**93.8**	**459.8**	**776.2**	**17.6**	**1,378.3**

CHF million	EDP software & consultancy	Customer relationships	Brands & IP	Goodwill	Other intangible assets	2017 Total
Acquisition costs as at January 1, 2017	**85.3**	**136.4**	**459.8**	**803.6**	**20.8**	**1,505.9**
Additions	11.9	–	–	–	0.1	12.0
Retirements	–4.6	–	–	–	–	–4.6
Transfers	0.2	–	–	–	–	0.2
Currency translation	2.6	–5.9	–	–34.9	0.1	–38.1
Acquisition costs as at December 31, 2017	**95.4**	**130.5**	**459.8**	**768.7**	**21.0**	**1,475.4**
Accumulated depreciation as at January 1, 2017	**59.8**	**21.2**	**–**	**–**	**0.5**	**81.5**
Additions	8.8	8.8	–	–	0.8	18.4
Impairments	0.1	–	–	–	–	0.1
Retirements	–4.1	–	–	–	–	–4.1
Currency translation	1.8	–1.0	–	–	–	0.8
Accumulated depreciation as at December 31, 2017	**66.4**	**29.0**	**–**	**–**	**1.3**	**96.7**
Net intangible assets as at December 31, 2017	**29.0**	**101.5**	**459.8**	**768.7**	**19.7**	**1,378.7**

Research and development expenditures amounted to CHF 13.8 million (CHF 12.7 million in 2017) and are expensed as incurred.

Impairment test of goodwill and other intangible assets with infinite life

The impairment test of goodwill and other intangible assets with infinite life (i.e. "brands and intellectual property") relates to the acquisition of Russell Stover Chocolates, LLC in 2014. Due to the changes in the operating segment "USA" described in Note 5, the impairment test is performed on this segment.The recoverable amount equals to the net present value of discounted future cash flows. It was determined based on planning assumptions over the next years plus a residual value.

The EBIT-margin is based on historical data and industry specific benchmarks of the Lindt & Sprüngli Group. The main planning assumptions are summarized as follows:

	2018	2017
Period of cash flow projections	5 years	5 years
Annual sales growth	5.0%	2,0%
Annual EBIT-margin evolution	Improvement	Improvement
Terminal growth	2,2%	2,2%
Discount rate post tax	6,0%	6,0%

9. Financial Assets

CHF million	**2018**	2017
Pension assets[1]	1,532.8	1,482.1
Investments third parties	1.2	1.4
Total	**1,534.0**	**1,483.5**

1 See note 17.

10. Taxes

10.1 Deferred tax assets and liabilities

The net value of deferred tax liabilities is as follows:

CHF million	**2018**	2017
As at January 1	**401.2**	**346.2**
Deferred income tax expense (+)/income (-)	–9.4	6.8
Tax charged to comprehensive income	12.4	53.7
Tax charged to other components of equity	2.1	–4.6
Currency translation	1.0	–0.9
As at December 31	**407.3**	**401.2**

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

CHF million	**2018**	2017
Deferred tax assets		
Property, plant and equipment	9.1	8.0
Intangible assets	0.2	0.3
Pension assets and liabilities	39.7	33.4
Receivables	7.7	8.4
Inventories	26.0	26.2
Payables and accruals	41.6	43.7
Other	52.6	35.8
Deferred tax assets gross	**176.9**	**155.8**
Netting	–117.2	–112.8
Total	**59.7**	**43.0**
Deferred tax liabilities		
Property, plant and equipment	40.8	40.7
Intangible assets	60.8	51.7
Pension assets and liabilities	460.2	444.3
Receivables	2.7	2.9
Inventories	4.0	4.3
Payables and accruals	12.8	12.7
Derivative assets and liabilities	0.6	0.3
Other	2.3	0.1
Deferred tax liabilities gross	**584.2**	**557.0**
Netting	–117.2	–112.8
Total	**467.0**	**444.2**
Net deferred tax	**407.3**	**401.2**

The tax loss carry-forwards of which no deferred tax assets are recognized expire as follows:

CHF million	**2018**	2017
Between 1 and 5 years	17.7	10.5
Between 6 and 10 years	0.6	2.6
Over 10 years	1.9	4.4
Total	**20.2**	**17.5**

Tax loss carry-forwards utilized in 2018 amounted to CHF 7.2 million (CHF 5.1 million in 2017).

10.2 Tax expense

CHF million	2018	2017
Current tax expense	136.1	117.3
Deferred income tax expense (+)/income (-)	–9.4	6.8
Other taxes	6.8	6.2
Total	**133.5**	**130.3**

The tax on the Lindt & Sprüngli Group's income before taxes 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	2018	2017
Income before taxes	**620.6**	**582.8**
Expected tax[1]	**125.2**	**122.0**
Change in applicable tax rates on temporary differences	–0.4	–3.6
Utilization of unrecognized tax loss carry-forwards from prior years	–2.9	–1.9
Adjustments related to prior years	–3.1	1.2
Non-taxable items	6.5	–3.0
Withholding tax levied and other taxes	6.9	6.3
Income components with lower tax rates	0.4	–3.3
Other	0.9	12.6
Total	**133.5**	**130.3**

1 Based on the expected weighted average tax rate of 20.2% in 2018 (20.9% in 2017).

The tax for each component of other comprehensive income is:

			2018			2017
CHF million	Before tax	Tax	After tax	Before tax	Tax	After tax
Hedge accounting	52.5	–	52.5	15.9	–	15.9
Defined benefit plan	40.1	–12.6	27.5	196.8	–53.7	143.1
Currency translation	–34.9	0.2	–34.7	–14.1	–	–14.1
Total	**57.7**	**–12.4**	**45.3**	**198.6**	**–53.7**	**144.9**

11. Inventories

CHF million	2018	2017
Raw material	103.0	109.6
Packaging material	103.4	102.1
Semi-finished and finished products	593.6	563.3
Value adjustment	–47.8	–43.6
Total	**752.2**	**731.4**

In 2018, CHF 5.9 million (CHF 5.7 million in 2017) of the value adjustment as at the end of 2017 have been released to the income statement.

12. Accounts Receivable

CHF million	2018	2017
Accounts receivable gross	1,053.8	1,078.8
Value adjustment	–30.6	–31.3
Total	**1,023.2**	**1,047.5**
Value adjustment as at January 1	**–31.3**	**–29.7**
Addition	–9.3	–6.8
Utilization	6.0	4.3
Release	3.6	1.6
Currency translation	0.4	–0.7
Value adjustment as at December 31	**–30.6**	**–31.3**

The following table presents the aging of accounts receivable:

CHF million	2018	2017
Not yet past due	862.9	865.5
Past due 1–30 days	126.5	152.0
Past due 31–90 days	44.2	41.2
Past due over 91 days	20.2	20.1
Accounts receivable gross	**1,053.8**	**1,078.8**

The carrying amounts of accounts receivable are denominated in the following currencies:

CHF million	2018	2017
CHF	63.2	54.6
EUR	356.7	362.5
USD	337.5	368.3
GBP	73.8	63.1
Other currencies	192.0	199.0
Accounts receivable net	**1,023.2**	**1,047.5**

13. Derivative Financial Instruments and Hedging Reserves

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

	2018		2017	
CHF million	Assets	Liabilities	Assets	Liabilities
Derivatives for hedging (currencies and raw material)	37.1	12.1	11.8	37.5
Other derivatives	1.5	–	2.3	–
Total	**38.6**	**12.1**	**14.1**	**37.5**

The carrying amount (contract value) of the outstanding forward-currency and raw material contracts as at December 31, 2018, is CHF 1,539.8 million (CHF 1,535.0 million in 2017). The majority of gains and losses recognized in the hedging reserve, as shown in the Consolidated Statement of Changes in Equity, amount to a net gain of CHF 24.9 million as of December 31, 2018 (net loss of CHF 27.6 million in 2017), and will be released to material expenses in the income statement at various dates within the next 24 months. Other derivative instruments which have been executed in accordance with the risk policy do not qualify for hedge accounting under the criteria of IFRS 9.

14. Cash and Cash Equivalents

CHF million	2018	2017
Cash at bank and in hand	555.7	412.5
Short-term bank deposits	440.4	440.5
Total	**996.1**	**853.0**

The effective interest rate on short-term bank deposits reflects the average interest rate of the money market as well as the development of the currencies invested with an original maturity period of up to three months.

15. Share and Participation Capital

	Number of registered shares[1]	Number of participation certificates[2]	Registered shares (CHF million)	Participation certificates (CHF million)	Total (CHF million)
As at January 1, 2017	**136,088**	**1,013,136**	**13.6**	**10.1**	**23.7**
Capital increase	–	35,017	–	0.4	0.4
As at December 31, 2017	**136,088**	**1,048,153**	**13.6**	**10.5**	**24.1**
Capital increase	–	24,382	–	0.2	0.2
As at December 31, 2018	**136,088**	**1,072,535**	**13.6**	**10.7**	**24.3**

1 At par value of CHF 100.–
2 At par value of CHF 10.–

The conditional capital has a total of 399,707 participation certificates (424,089 in 2017) with a par value of CHF 10.–. Of this total, 145,257 (169,639 in 2017) are reserved for employee stock option programs; the remaining 254,450 participation certificates (254,450 in 2016) are reserved for capital market transactions. There is no other authorized capital. In 2018, a total of 24,382 (35,017 in 2017) of the employee options were exercised at an average price of CHF 3,624 (CHF 2,918 in 2017). The participation certificate has no voting right, but otherwise has the same ownership rights as the registered share.

The number of own registered shares and participation certificates (treasury stock) is as follows:

	2018		2017	
	Registered shares	Participation certificates	Registered shares	Participation certificates
Inventory as at January 1	**1,524**	**–**	**1,909**	**–**
Retirements	–27	–	–385	–
Share buy-back program	100	18,156	–	–
Inventory as at December 31	**1,597**	**18,156**	**1,524**	**–**
Average sales price of retirements (CHF)	71,325	–	65,734	–
Average cost of share buy-back program (CHF)	74,922	6,176	–	–

16. Financial Liabilities

CHF million	2018	2017
Non-current		
CHF 500 million 0.5% bond, 2014–2020	499.7	499.5
CHF 250 million 1.0% bond, 2014–2024	248.8	248.6
CHF 250 million 0.3% bond, 2017–2027	249.4	249.4
Loans	0.8	0.7
Current		
Bank and other borrowings	12.3	9.2
Total borrowings	**1,011.0**	**1,007.4**

The carrying amounts of the Lindt & Sprüngli Group's financial liabilities are denominated in the following currencies:

CHF million	2018	2017
CHF	997.9	997.5
EUR	10.1	9.1
USD	0.4	0.5
Other currencies	2.6	0.3
Total	**1,011.0**	**1,007.4**

17. Pension Plans and Other Long-term Employee Benefits

The Lindt & Sprüngli Group operates in and outside of Switzerland different pension plans for employees that satisfy the participation criteria. Among these plans are defined contribution and defined benefit plans that cover most of the employees against retirement, disability, and death.

17.1 Defined contribution plans

The Lindt & Sprüngli Group offers to employees that satisfy the eligibility criteria defined contribution plans. The Lindt & Sprüngli Group is obliged to pay a fixed percentage of the annual pay to these pension schemes. To some of these plans, the employees also have to make contributions. These are typically deducted by the employer from the monthly salary and paid to the pension fund. Apart from the payment of the contributions, the employer has no further obligation to these pension funds or to the employees.

In 2018 the employer contributions to defined contribution plans amounted to CHF 12.9 million (CHF 12.4 million in 2017).

17.2 Defined benefit plans and other long-term employee benefits

The Lindt & Sprüngli Group finances defined benefit plans for the employees that satisfy the criteria to join such plans. The most significant defined benefit plans are located in Switzerland, Germany, USA, France, Italy, and Austria.

In addition to these plans, the Lindt & Sprüngli Group operates jubilee benefit plans and other plans with benefits depending on the past years of service. These plans qualify as other long-term employee benefits.

17.2.1 Employee benefit plans in Switzerland

The Lindt & Sprüngli Group operates different pension schemes in Switzerland. They are either organized through a separate foundation or through an affiliation to a collective foundation of an insurance company. The foundations are governed by foundation boards. The foundation boards are made up by an equal number of employee and employer representatives. The members of the foundation board are obliged by the law and the plan rules to act in the interest of the member (active employees and pensioners) only. Since the decisions are taken by the foundation boards, the only influence of the Lindt & Sprüngli Group is through its representatives.

The main duties of the foundation boards include the decision about the plan rules including the level of the contributions, the organization and the investment strategy.

The benefits are mainly depending on the insured salary and the years of service. For some of the plans the benefits are depending on retirement savings account. At retirement age, the insured members can choose whether to take a pension for life, which includes a spouse's pension, or a lump sum. In addition to retirement benefits, the plan benefits also include disability and death benefits. Insured members may also buy into the scheme to improve their pension provision up to the maximum amount permitted under the rules or may withdraw funds early for the purchase of a residential property for their own use. On leaving the company, the retirement savings will be transferred to the pension institution of the new employer or to a vested benefits institution. This type of benefit may result in pension payments varying considerably between individual years.

In defining the benefits, the minimum requirements of the Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and its implementing provisions must be observed. The BVG defines the minimum pensionable salary and the minimum retirement credits. The interest rate applicable to these minimum retirement savings is set by the Swiss Federal Council at least once every two years. In 2018, the rate was 1.00% (1.00% in 2017). The structure of the plan and the legal provisions of the BVG mean that the employer is exposed to actuarial risks. The main risks are investment risk, the inflation risk if it results in a salary increase, the interest risk, the disability risk and the risk of life expectancy.

The employee and employer's contributions are set by the foundation board. The employer has to finance at least 50% of the total contributions. Contributions can also be financed through an employer welfare fund or finance foundations of the employer. In the event of a shortfall, recapitalization contributions to eliminate the gap in coverage may be levied from both the employer and the employee.

Beside the pension schemes, there are employer foundations that have as a main task to finance the pension schemes. The Board members of these foundations are appointed exclusively by the employer.

17.2.2 Employee benefit plans in Germany

In Germany the Lindt & Sprüngli Group operates different company pension plans. These plans are based on different rules and agreements between the employer and employees. For certain management employees individual agreements are applied. The plan provides benefits in the event of retirement, disability and death. Depending on the plan rules, the benefits are either paid as pensions for life or as lump sums. The most significant plans are financed directly by the employer. Upon termination of the employment prior to retirement, the vested benefits remain preserved as required by the German pension law (Betriebsrentengesetz).

The plans are regulated by the German pension law. The most significant risks related to actuarial gains or losses within these plans are borne by the employer. The risk of life expectancy, the salary increase risk and the inflation risk might result in pension adjustments.

17.2.3 Employee benefit plans in the USA

In the USA, several defined benefit plans exist. In 2018, an agreement was made with the employees to exit the multi-employer plan, which represents the largest plan. Since December 1, 2018, the ensured employees of this plan do not acquire any new benefits. The plan has been replaced with a defined contribution plan. At year-end closing there was not enough information available to calculate the costs of the plan settlement. For this reason the plan is still accounted for as a defined benefit plan as of December 31, 2018.

The other larger plans include a closed defined benefit plan and another defined benefit plan, where the employee receives a lump sum equal to the savings account at retirement. In addition to the savings account, the return on the investments chosen by the employee are reimbursed. The underlying assets are separated in a trust but do not qualify as defined benefit assets under IAS 19, as the assets are available to the creditors. Nevertheless, the trust reimburses the Company for the payments of the benefits. For this plan there is no actuarial risk, as long as the investments of the trust cover the investments chosen by the employees.

17.2.4 Other employee benefit plans

Other post-retirement plans exist in France, Italy, Austria, and Poland and plans for other long-term employee benefits in Australia, France, UK, Ireland, Austria, and Spain. All plans are compliant with local laws.

The actuarial valuation was prepared by independent actuaries at December 31, 2018. The market value of assets at December 31, 2018 was estimated based on the information available at the moment of preparing the results.

17.2.5 Actuarial calculations

The main assumptions on which the actuarial calculations are based can be summarized as follows:

	Pension plans		Other long-term employee benefits	
	2018	2017	**2018**	2017
Discount rate	1.7%	1.6%	1.5%	1.4%
Future salary increases	0.9%	0.9%		
Future pension adjustments	0.2%	0.2%		

For the countries with material pension obligations the following assumptions about the life expectancy at age 65 were taken into account:

			2018			2017
	Switzerland	Germany	USA	Switzerland	Germany	USA
Retirement in 20 years (age of 45 at balance sheet date)						
Men	24.33	22.83	21.30	24.26	21.90	19.88
Women	26.37	25.83	23.70	26.29	25.82	22.12
Retirement at balance sheet date (age of 65)						
Men	22.50	20.04	19.60	22.38	19.26	18.34
Women	24.54	23.57	22.10	22.43	23.32	20.60

In all relevant countries an increase in the life expectancy can be observed.

The amounts recognized in the income statement and in the other comprehensive income (OCI) can be summarized as follows:

	Pension plans		Other long-term employee benefits	
CHF million	**2018**	2017	**2018**	2017
Employee benefits expense				
Total service cost				
Current service cost	16.8	17.7	0.8	0.7
Past service cost and curtailments	0.1	–9.8	–	0.8
Plan settlements	0.1	–	–	–
Net interest cost	–12.8	–9.5	0.1	0.1
Liability management cost	0.7	0.6	–	–
Actuarial gains (–)/losses (+)	–	–	–0.2	0.9
Total defined benefit cost (+)/gain (–) of the period	**4.9**	**–1.0**	**0.7**	**2.5**
Valuation components accounted for in OCI				
Actuarial gains (–)/losses (+)				
Arising from changes in demographic assumptions	5.8	–0.4	–	–
Arising from changes in financial assumptions	–12.8	–16.7	–	–
Arising from experiences	10.2	–3.2	–	–
Return on plan assets (excluding interest income)	–37.1	–198.3	–	–
Return on reimbursement (excluding amounts in net interest)	0.6	–0.8	–	–
Changes in asset ceiling	–6.8	22.6	–	–
Total defined benefit cost (+)/gain (–) recognized in OCI	**–40.1**	**–196.8**	**–**	**–**
Total defined benefit cost (+)/gain (–)	**–35.2**	**–197.8**	**0.7**	**2.5**

The changes in pension obligations, pension assets, and the asset ceiling can be summarized as follows:

Changes in the present value of the defined benefit obligation

	Pension plans		Other long-term employee benefits	
CHF million	**2018**	2017	**2018**	2017
Defined benefit obligation as at January 1	**591.2**	**611.9**	**10.2**	**7.8**
Current service cost	16.8	17.7	0.8	0.7
Plan participants' contributions	5.6	5.5	–	–
Interest expense on the net present value of the obligation	9.0	9.4	0.1	0.1
Actuarial gains (–)/losses (+)	3.2	–20.3	–0.3	0.9
Past service gains (–)/losses (+)	0.1	–9.8	–	0.8
Gains (–)/losses (+) on settlements	–1.9	–	–	–
Benefits paid through pension assets	–15.1	–23.3	–	–
Benefits paid by employer	–6.0	–5.3	–0.6	–0.7
Currency exchange differences	–3.2	5.4	–0.3	0.6
Defined benefit obligation as at December 31	**599.7**	**591.2**	**9.9**	**10.2**

Changes in the fair value of plan assets

CHF million	Pension plans 2018	Pension plans 2017
Fair value of plan assets as at January 1	**1,931.2**	**1,728.9**
Plan participants' contributions	5.6	5.5
Contributions by employer	5.2	5.0
Interest income	21.8	18.5
Return on plan assets (excluding interest income)	37.1	198.3
Gains (–)/losses (+) on settlements	–2.0	–
Benefits paid through pension assets	–15.1	–23.3
Liability management cost	–0.7	–0.6
Currency translations	0.4	–1.1
Fair value of plan assets as at December 31	**1,983.5**	**1,931.2**

Development of reimbursement rights[1]

CHF million	2018	2017
Reimbursement rights as at January 1	**11.0**	**11.8**
Employee contributions	0.3	0.6
Employer contributions	0.1	0.1
Interest income on reimbursements	0.4	0.5
Return on reimbursement (excluding interest income)	–0.7	0.8
Reimbursements to employer	–3.0	–2.2
Currency translation	0.1	–0.6
Reimbursement rights as at December 31	**8.2**	**11.0**

1 Relates exclusively to reimbursement rights of the company Russell Stover Chocolates, LLC.

Development of not recorded plan assets

CHF million	Pension plans 2018	Pension plans 2017
Asset ceiling as at January 1	**22.6**	**–**
Interest income recognized in OCI	0.3	–
Change in asset ceiling recognized in OCI	–6.8	22.6
Asset ceiling as at December 31	**16.1**	**22.6**

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

Amount recognized in the balance sheet

	Pension plans		Other long-term employee benefits	
CHF million	2018	2017	2018	2017
Present value of funded obligation	575.8	563.1	–	–
Fair value of plan assets	–1,983.5	–1,931.2	–	–
Underfunding (+)/overfunding (–)	**–1,407.7**	**–1,368.1**	**–**	**–**
Unrecognized prepaid pension costs	16.1	22.6	–	–
Present value of unfunded obligations	23.8	28.1	9.9	10.1
Net pension liability (+)/asset (–)	**–1,367.8**	**–1,317.4**	**9.9**	**10.1**
of which pension liabilities	165.0	164.7	9.9	10.1
of which pension assets[1]	–1,532.8	–1,482.1	–	–

1 See note 9.

The plan assets are mainly managed by the Swiss pension plans and employer funds. The foundation boards issue investment guidelines for the plan assets which include the tactical asset allocation and the benchmarks for comparing the results with a general investment universe. The pension plans are also subject to the legal requirements on diversification and safety required by the BVG. Investment in bonds have in general at least an A rating, investments in real estate are typically held directly by the plans.

The foundation boards of the pension funds regularly review whether the chosen investment strategy is appropriate in view of the pension benefits to be provided and whether the risk capability is in line with the demographic structure. Compliance with the investment guidelines and the investment results of the investment advisors are reviewed by the foundation boards of the pension funds on a quarterly basis.

The investments in the employer foundation and primarily in the finance foundation are mainly invested in shares of the Lindt & Sprüngli Group.

The pension assets mainly consist of the following asset categories:

			2018			2017
CHF million	Listed	Not listed	Total	Listed	Not listed	Total
Equities	1,645.1	–	1,645.1	1,602.4	–	1,602.4
Bonds	146.2	–	146.2	145.4	–	145.4
Alternative investments	18.8	–	18.8	15.1	–	15.1
Real estate	17.2	114.0	131.2	18.3	112.1	130.4
Qualified insurance policies	–	18.1	18.1	–	17.8	17.8
Liquidity and other	–	24.1	24.1	–	20.1	20.1
Total	**1,827.3**	**156.2**	**1,983.5**	**1,781.2**	**150.0**	**1,931.2**

The plan assets include investments in the Lindt & Sprüngli Group with a market value of CHF 1,500.1 million at December 31, 2018 (CHF 1,442.5 in 2017). Moreover, the Lindt & Sprüngli Group has occupied property from the pension funds with a market value of CHF 16.6 million at December 31, 2018 (CHF 16.5 million in 2017).

The revaluation of assets resulted in a gain of CHF 58.9 million in 2018 and a gain of CHF 216.8 million in 2017. In 2019, the expected employer contributions amount to CHF 5.7 million and the expected payments for pensions by the employer to CHF 5.8 million.

The following table provides a breakdown of the defined benefit obligations among active insured members, former members with vested benefits, and members receiving pensions:

		Pension plans
CHF million	**2018**	2017
Active employees	317.0	313.6
Vested terminations	24.2	24.6
Pensioners	258.5	253.0
Total	**599.7**	**591.2**

The average duration of the liabilities at December 31, 2018 is 15.9 years (15.9 years in 2017).

The following table shows the impact of the change of the discount rate, salary increase, and pension indexation on the present value of the defined benefit obligation:

CHF million	2018		2017	
Increase (+)/decrease (–) of assumptions by	+0,25%	-0,25%	+0,25%	-0,25%
Technical interest rate	19.0	20.7	–21.3	23.1
Salary increase	6.8	–5.7	6.9	–5.9
Pension indexation	12.1	–2.5	11.9	–2.5

18. Provisions

CHF million	Business risks	Other	Total
Provisions as at January 1, 2017	**79.0**	**35.2**	**114.2**
Addition	17.4	1.2	18.6
Utilization	–7.7	–2.8	–10.5
Release	–9.0	–8.1	–17.1
Currency translation	0.5	0.2	0.7
Provisions as at December 31, 2017	**80.2**	**25.7**	**105.9**
Addition	14.6	6.7	21.3
Utilization	–3.5	–2.2	–5.7
Release	–6.8	–11.8	–18.6
Currency translation	–0.4	–	–0.4
Provisions as at December 31, 2018	**84.1**	**18.4**	**102.5**

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 recognized 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. The timing of outflows is uncertain as it depends upon the outcome of the proceedings. However, the balance as at December 31, 2018 includes CHF 14.4 million expected to be current, of which CHF 4.0 million is related to business risks.

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, 2018.

19. Accounts Payable

Accounts payable to suppliers are denominated in the following currencies:

CHF million	2018	2017
CHF	14.2	13.6
EUR	123.3	119.3
USD	47.3	54.0
GBP	10.5	10.5
Other currencies	18.9	19.9
Total	**214.2**	**217.3**

20. Accrued Liabilities

CHF million	2018	2017
Trade related accrued liabilities	359.2	377.9
Salaries/wages and social costs	104.1	100.2
Other	203.1	199.5
Total	**666.4**	**677.6**

"Trade related accrued liabilities" comprise year-end rebates, returns, markdowns on seasonal products, price and promotional discounts and other services provided by trade partners.

"Salaries/wages and social costs" are related to bonuses, overtime, and outstanding vacation days, whereas the position "Other" comprises accruals for third-party services rendered as well as commissions.

21. Personnel Expenses

CHF million	2018	2017
Wages and salaries	691.7	656.9
Social benefits	147.4	136.8
Other	99.3	92.7
Total	**938.4**	**886.4**

For the year 2018, the Lindt & Sprüngli Group employed an average of 14,570 people (13,949 in 2017).

22. Net Financial Result

CHF million	2018	2017
Interest income	1.5	0.7
Other	2.3	2.3
Total financial income	**3.8**	**3.0**
Interest expense	–18.8	–15.6
Other	–1.1	–
Total financial expense	**–19.9**	**–15.6**

23. Earnings per Share/Participation Certificate (PC)

	2018	2017
Non-diluted earnings per share/10 PC (CHF)	**2,021.4**	**1,892.5**
Net income (CHF million)	485.1	450.7
Weighted average number of registered shares/10 PC	239,978	238,145
Diluted earnings per share/10 PC (CHF)	**2,008.1**	**1,880.6**
Net income (CHF million)	485.1	450.7
Weighted average number of registered shares/10 PC and outstanding options on 10 PC	241,575	239,662

24. Dividend per Share/Participation Certificate (PC)

CHF	2018	2017
Dividend per share/10 PC	1,000[1]	930

1 Proposal of the Board of Directors.

During the period January 1, 2019 to record date May 8, 2019, the dividend-bearing capital (the number of registered shares and participation certificates) can change as a result of additions and retirements within either class of treasury stock (registered shares and participation certificates) as well as the exercise of options, granted through the employee stock option plan.

25. Share-based Payments

Options on participation certificates of Chocoladefabriken Lindt & Sprüngli AG are only outstanding within the scope of the existing employee stock option program. 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 during the vesting period of three to five years and if not exercised, they expire after seven years. Changes in outstanding options can be viewed in the table below:

	2018		2017	
	Number of options	Weighted average exercise price (CHF/PC)	Number of options	Weighted average exercise price (CHF/PC)
Outstanding options as at January 1	**102,799**	**4,658**	**118,232**	**4,005**
New option rights	26,070	5,791	24,205	5,360
Exercised rights	–24,382	3,624	–35,017	2,918
Cancelled rights	–3,271	5,243	–4,621	4,815
Outstanding options as at December 31[1]	**101,216**	**5,180**	**102,799**	**4,658**
of which exercisable at December 31	10,469	3,804	12,449	3,174
Average remaining time to expiration (in days)	654		677	

1 The exercise price varies between CHF 2,679 to CHF 5,794 as of December 31, 2018.

Options expenses are charged to the income statement proportionally according to the vesting period. The recorded expenses amount to CHF 15.2 million (CHF 14.0 million in 2017). The assumptions used to calculate the expenses for the grants 2015 to 2018 are listed in the following table:

Date of issue	**30.1.2018**	16.1.2017	21.1.2016	28.1.2015
Number of issued options	26,070	24,205	26,830	25,465
of which in bracket A (blocking period 3 years)	9,111	8,405	9,353	8,847
of which in bracket B (blocking period 4 years)	9,146	8,525	9,444	8,962
of which in bracket C (blocking period 5 years)	7,813	7,275	8,033	7,656
Issuing price (CHF)	5,794	5,360	5,401	4,811
Price of participation certificates on date of issue (CHF)	5,755	5,260	5,285	4,730
Value of options on issuing date (CHF)				
Bracket A (blocking period 3 years)	719	631	637	607
Bracket B (blocking period 4 years)	780	690	697	654
Bracket C (blocking period 5 years)	831	737	747	688
Maximum life span (in years)	7	7	7	7
Form of compensation	PC from conditional capital			
Expected life span (in years)	5–6	5–6	5–6	5–6
Expected rate of retirement per year	2.1%	2.1%	2,1%	2,2%
Expected volatility	20.5%	21.2%	21,4%	21,3%
Expected dividend yield	1.66%	1.63%	1.57%	1.53%
Risk-free interest rate	0.03 – 0.17%	(0,38) – (0,25)%	(0,51) – (0,36)%	(0,53) – (0,38)%
Model	Binomial model			

26. Contingencies

As last year, the Lindt & Sprüngli Group has no contingent liabilities that would require disclosure as of December 31, 2018. With respect to the Lindt Chocolate Competence Foundation's construction project, refer to note 28.

27. Commitments

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

CHF million	**2018**	2017
Property, plant and equipment	62.8	78.1

The future lease payments under operating lease commitments are:

CHF million	**2018**	2017
Up to 1 year	89.4	81.1
Between 1 and 5 years	254.7	238.0
Over 5 years	153.1	140.5
Total	**497.2**	**459.6**

Leasing commitments are related to the rental of retail stores, warehouse and office space, vehicles and EDP hardware.

28. Transactions with Related Parties

A family member of a Director of the Board has a majority share in a company, to which products were sold at arm's length for the value of CHF 20.2 million (CHF 18.6 million in 2017) and license fee income of CHF 0.7 million (CHF 0.6 million in 2017) was generated. Receivables outstanding against this company were CHF 13.8 million (CHF 13.7 million in 2017) at the balance sheet date.

In 2018 the Lindt & Sprüngli Group provided various administration services to the "Lindt Chocolate Competence Foundation", the "Lindt Cocoa Foundation", the "Finanzierungsstiftung für die Vorsorgeeinrichtungen der Chocoladefabriken Lindt & Sprüngli AG" and the "Fonds für Pensionsergänzungen der Chocoladefabriken Lindt & Sprüngli AG". The services were invoiced at arm's length.

The Lindt & Sprüngli Group has provided the "Lindt Chocolate Competence Foundation" with the building right for the Chocolate Competence Centre in 2016. The conditions of this contract are agreed at arm's length. In addition, the Lindt & Sprüngli Group has provided the funding bank with a security of up to CHF 130.0 million in relation to the construction project, which is unlikely to be used.

Remuneration of the Board of Directors and Group Management

As at December, 31 2018 the Lindt & Sprüngli Group consisted of 6 non-executive and executive Directors (6 in 2017). The number of executive Officers as at December, 31 2018 is 6 (8 in 2017). The compensation paid to non-executive Directors and executive Officers is shown below:

CHF thousand	**2018**	2017
Fixed cash compensation[1]	9,905	11,152
Variable bonus component[2]	3,259	3,483
Other compensation[3]	110	296
Options[4]	5,727	5,092
Registered shares	977	3,161
Total	**19,978**	**23,184**

1 Total gross cash compensation and allowances for Officers and Directors including pension benefits paid by employer (excluding social charges paid by employer) for the Officers.
2 As per the Compensation Repoprt it is the expected pay-out (accrual basis) in April of following year according to the application of the CNC and BoD (excluding social charges paid by employer. The effective pay-out for the other members of Group Management for the financial year 2017 was CHF 2,546,000.
3 Employees part of social charges (AHV) related to exercising of options and grant of registered shares, paid by employer.
4 The valuation of option grants on Lindt & Sprüngli participation certificates is based on the market value at grant date.

Apart from the payments mentioned above, no payments were made on a private basis or via consulting companies to either an executive or a non-executive member of the Board or a member of Group Management. As of December 31, 2018, there were no loans, advances or credits due to the Lindt & Sprüngli Group or any of its subsidiaries by any of the members of the Board or the Group Management.

29. Events after the Balance Sheet Date

The consolidated financial statements were approved for publication by the Board of Directors on March 4, 2019 The approval of the consolidated financial statements by the shareholders will take place at the Annual Shareholders' Meeting. No events have occurred up to March 4, 2019, which would necessitate adjustments to the carrying values of the Lindt & Sprüngli Group's assets or liabilities, or which require additional disclosure.

Report of the Statutory Auditor on the Consolidated Financial Statements

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Report of the statutory auditor

to the Board of Directors of Chocoladefabriken Lindt & Sprüngli AG

Kilchberg

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Chocoladefabriken Lindt & Sprüngli AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2018, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 88 to 123) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Our audit approach

Overview 	Overall Group materiality CHF 43,000,000 We concluded full scope audit work at 28 Group companies in 19 countries. These Group companies represented 100% of the sales and the assets of the Group. As key audit matters, the following areas of focus were identified: Impairment testing of goodwill Valuation of pension fund assets

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 43,000,000
How we determined it	7% of earnings before taxes
Rationale for the materiality benchmark applied	We chose earnings before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, earnings before taxes is a generally accepted benchmark for materiality considerations. We chose 7% in light of the high equity level and the Group's past performance.

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Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 30 units, each of which is considered a component. In collaboration with Management, we identified 28 Group companies at which an audit of the financial information was performed. The 2 Group companies not in scope are not material to the Group.

The audit strategy for the audit of the consolidated financial statements was determined taking into account the work performed by the Group auditor and the component auditors in the PwC network. Where audits were performed by component auditors, we ensured that, as Group auditor, we were sufficiently involved in the audit to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. The involvement of the Group auditor was based on audit instructions and standardised reporting. It included regular written and oral communications with selected component audit teams.

The Group audit team itself performed specific audit procedures with regard to the Group's consolidation and areas involving significant scope for judgement (including taxes, goodwill, intangible assets, treasury, pension benefits, litigation and the elimination of unrealised intercompany profits on inventories).

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment testing of goodwill

Key audit matter	*How our audit addressed the key audit matter*
Intangible assets are recognised in the amount of CHF 1,378 million, of which CHF 776 million is goodwill. We focussed on this area due to the size of the goodwill balance and because the valuation of this balance by management involves significant scope for judgement concerning the future results of the business in the USA that underlies the goodwill. Management compares the book value of goodwill to the value in use of the underlying business in the USA. Value in use is calculated by estimating the future cash flows that the business is expected to generate. If the value in use is lower than the book value of goodwill, an impairment charge is recognised. The most significant elements of the value in use calculation are the assessment of the discounted cash flow model used and the assessment of the underlying assumptions. The underlying assumptions that offer the greatest scope for judgement are the long-term sales growth rates, EBIT margin growth rates and the discount rate used to calculate present values. Please refer to note 8 for details of the impairment test and management's assumptions.	We assessed the determination of the cash-generating units used in the calculation of the cash flow forecasts. We evaluated the components used in management's forecasts of future cash flows. We also assessed the process adopted to calculate the forecasts. Lindt & Sprüngli Group prepares three-year budgets, which are approved by the Board of Directors. These budgets form the basis for management's cash flow forecasts used in the impairment assessment. We compared the 2018 actual results with the 2018 budget figures fixed in the previous year to assess the accuracy of the budget figures. In addition, with the support of a PwC valuation specialist, we assessed the following assumptions: • the long-term growth rates, by comparing them with economic and industry forecasts; • EBIT margin growth rates, by comparing them with other mature Lindt & Sprüngli production entities; and • the discount rate, by assessing the costs of capital for the company and comparable organisations, taking into consideration country-specific factors. We checked management's valuations for correctness. Additionally, we assessed management's sensitivity analyses of the key assumptions to ascertain the extent of change in those assumptions that would be required, either individually or collectively, for the goodwill to be impaired. We discussed the outcomes of the sensitivity analyses with management. We concluded the models and assumptions used are appropriate to test for the impairment of intangible assets.

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Valuation of pension fund assets

Key audit matter	*How our audit addressed the key audit matter*
Financial assets are recognised in the amount of CHF 1,534 million, of which CHF 1,533 million are assets relating to pension funds. We focussed on this area due to the size of the pension fund assets and because management's assessment of the valuation of this balance involves significant scope for judgement concerning the valuation parameters used and the estimates of future benefits from the pension fund assets. Management engages an external actuary to perform the calculation of the net present value of the pension benefit obligations, which are then compared with the pension fund assets in order to determine the net pension fund liabilities and assets to be recognised in the Group balance sheet. The most judgemental assumptions underlying this calculation were the salary growth rates, the pension increase rates, the mortality rate and the inflation rate. For further information, please refer to notes 9 and 17.	We compared on a sample basis the personnel data used in the calculation of the pension benefit obligations with the data made available to us by the pension institution. We did not identify any differences. We assessed the engagement and the professional competency and independence of the actuary engaged by management. We concluded that we could place reliance on the calculation performed by the actuary. Additionally, we evaluated the following assumptions used by management: • the salary growth rates and the pension increase rates, by comparing them with economic and industry forecasts; • the mortality rate, by ensuring that the appropriate generation table was used; • the inflation rate, by comparing it with relevant market data. We tested on a sample basis whether the pension fund assets existed and that they were measured correctly. On the basis of the audit procedures performed, we found that the assumptions used by management in the valuation of the net assets of the pension funds were within a range considered to be reasonable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the compensation report of Chocoladefabriken Lindt & Sprüngli AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Bruno Häfliger	Josef Stadelmann
Audit expert Auditor in charge	Audit expert

Zurich, 4 March 2019

Balance Sheet

CHF thousand	Note	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents		294,774	179,749
Marketable securities and short-term financial assets		440,015	440,000
Accounts receivable			
from third parties		11,894	10,316
from subsidiaries		4,477	5,045
Other receivables			
from subsidiaries		–	2,437
Loans to subsidiaries		170,000	–
Accrued income			
from subsidiaries		32,170	29,974
Total current assets		**953,330**	**667,521**
Loans to subsidiaries		260,000	430,000
Investments	4	876,081	870,415
Intangible assets		451,089	476,149
Total non-current assets		**1,587,170**	**1,776,564**
Total assets		**2,540,500**	**2,444,085**
Liabilities and Shareholders' Equity			
Accounts payable to subsidiaries		1,821	1,809
Short-term interest-bearing liabilities			
to subsidiaries		134,988	59,181
Other accounts payable			
to third parties		4,143	584
Tax liabilities		22,031	23,914
Accrued liabilities			
to third parties		5,164	5,232
to subsidiaries		–	2
Total current liabilities		**168,147**	**90,722**
Bonds	5	1,000,000	1,000,000
Total non current liabilities		**1,000,000**	**1,000,000**
Share capital		13,609	13,609
Participation capital		10,725	10,481
Reserve from capital contribution	7	103,677	116,477
General legal reserve		76,040	76,040
Special reserve	7	1,060,755	931,815
Retained earnings			
Balance brought forward from previous year		36,443	35,604
Net income for the year		273,525	253,346
Treasury stock	6	–82,790	–84,009
Treasury stock (share buy-back program)	6	–119,631	–
Total shareholders' equity		**1,372,353**	**1,353,363**
Total liabilities and shareholders' equity		**2,540,500**	**2,444,085**

Income Statement

CHF thousand	2018	2017
Dividends and other income from subsidiaries	350,523	315,908
Other income	422	382
Other expenses	–25,950	–21,735
Value adjustments on investments and intangible assets	–21,325	–23,571
Operating profit	**303,670**	**270,984**
Financial income	11,515	23,972
Financial expenses	–10,714	–14,660
Income before taxes	**304,471**	**280,296**
Taxes	–30,946	–26,950
Net income	**273,525**	**253,346**

Notes to the Financial Statements

1. Introduction

The financial statements of Chocoladefabriken Lindt & Sprüngli AG, with registered office in Kilchberg, were prepared in accordance with the Swiss accounting legislation of the Swiss Code of Obligations (CO).

Chocoladefabriken Lindt & Sprüngli AG is presenting consolidated financial statements according to an internationally accepted reporting standard. Therefore, these financial statements and notes do not include additional disclosures, cash flow statement, and management report, according to Art. 961d, paragraph 1 CO.

2. Accounting Policies

Non-current assets

Non-current assets are valued at historical cost less impairment. Intangible assets mainly consist of the intellectual property rights of Russell Stover Chocolates, LLC, acquired in 2014 and amortized over a period of 20 years starting in 2017.

Treasury shares

Treasury shares are recognized at acquisition cost and are presented as a deduction from shareholder's equity. Upon sale of treasury shares, the realized gain or loss is recognized through the income statement as income or expense from financial assets.

Financial liabilities

Financial liabilities are recognized at nominal value. Agios and disagios as well as bond issuance costs are recognized in the income statement.

Dividends and other income from subsidiaries

Dividend income resulting from financial investments is recorded upon approval of the dividend distribution.
"Other income from subsidiaries" mainly consist of license fees, which are recognized in the period they fall due.

Foreign currency translation

The foreign exchange rates are listed on page 96 of the notes to the consolidation financial statements. In deviation to the table, transactions in the income statement are booked at the respective month-end rate.

3. Liabilities arising from Guarantees and Pledges in favor of Third Parties

Contingent liabilities as at December 31, 2018, amounted to CHF 281.9 million (CHF 247.0 million in 2017). This figure comprises guarantees given to counterparties providing credit lines for borrowings to subsidiaries.

The companies, Chocoladefabriken Lindt & Sprüngli AG, Chocoladefabriken Lindt & Sprüngli (Schweiz) AG, Lindt & Sprüngli Financière AG, Lindt & Sprüngli (International) AG, and Indestro AG together form a Swiss-VAT group. According to Art. 15, paragraph 1, item c of the Swiss Value Added Tax Law and Art. 22, paragraphs 1 and 2 of the Swiss Value Added Tax Ordinance, all members participating in VAT-group taxation are jointly liable for all taxes owed by the VAT group (including interest), which arose during their period of membership.

4. Investments

The investments in subsidiaries are listed on page 93 of the notes to the consolidated financial statements.

5. Bonds

In September 2014 Chocoladefabriken Lindt & Sprüngli AG placed bonds of CHF 1 billion in order to finance the acquisition of Russell Stover Chocolates, LLC. A first tranche, which expired in October 2017 was replaced by a new bond of CHF 250 million. The current bonds consist of the following three tranches

CHF million	Interest rate	Interest maturity	Term	Notional amount
Straight bond	0.5%	October 8	2014–2020	500.0
Straight bond	1.0%	October 8	2014–2024	250.0
Straight bond	0.3%	October 6	2017–2027	250.0
Total				**1,000.0**

6. Acquisition and Sale of Registered Shares and Participation Certificates

	2018		2017	
	Registered shares	Participation certificates	Registered shares	Participation certificates
Inventory as at January 1	**1,524**	**–**	**1,909**	**–**
Retirements	–27	–	–385	–
Share buy-back program	100	18,156	–	–
Inventory as at December 31	**1,597**	**18,156**	**1,524**	**–**
Average sales price of retirements (CHF)	71,325	–	65,734	–
Average cost of share buy-back program (CHF)	74,922	6,176	–	–

7. Reserves

	Reserves from capital contribution				Special reserves
CHF thousand	Requested	Approved	Not approved[1]	Total	Total
Balance as at January 1, 2017	**–**	**73,293**	**12,586**	**85,879**	**773,073**
Reserve from retained earnings	–	–	–	–	160,000
Additions during the year	100,565	–	1,258	101,823	–1,258
Approved reserves from capital contribution					
FTA approval February 20, 2018	–100,565	100,565	–	–	–
Proposed dividend distribution	–	–71,220	–	–71,220	–
Undistributed dividends on own registered shares and participation certificates	–	557	–	557	–
Options exercised from January 1 to April 25, 2017	–	–562	–	–562	–
Balance as at December 31, 2017	**–**	**102,633**	**13,844**	**116,477**	**931,815**
Reserve from retained earnings	–	–	–	–	130,000
Additions during the year	87,046	–	1,060	88,106	–1,060
Approved reserves from capital contribution					
FTA approval January 31, 2019	–87,046	87,046	–	–	–
Proposed dividend distribution	–	–101,180	–	–101,180	–
Undistributed dividends on own registered shares and participation certificates	–	934	–	934	–
Options exercised from January 1 to May 7, 2018	–	–660	–	–660	–
Balance as at December 31, 2018	**–**	**88,773**	**14,904**	**103,677**	**1,060,755**

1 The Swiss federal tax administration (FTA) has not yet approved the capital transaction costs of TCHF 14,904 as reserves from capital contribution. This practice may be changed in the future.

8. Mandatory Disclosure of Interest Positions pursuant to Art. 663c CO

As of December 31, 2018, Chocoladefabriken Lindt & Sprüngli AG disclosed the following shareholders known to the Company (in accordance with Art. 663c CO and the articles of association), which own voting shares of more than 4%: "BlackRock Inc." held 4.46% of the Company's shares. "Fonds für Pensionsergänzungen of Chocoladefabriken Lindt & Sprüngli AG", "Finanzierungsstiftung für die Vorsorgeeinrichtungen der Chocoladefabriken Lindt & Sprüngli AG", "Lindt Cocoa Foundation" and "Lindt Chocolate Competence Foundation" held as a group 20.23% of the voting rights of the Company (20.23% in 2017).

The participation of the Board of Directors and Group Management as at December 31, according to Art. 663c CO is as follows:

		Number of registered shares (RS)		Number of participation certificates (PC)		Number of options	
		2018	2017	**2018**	2017	**2018**	2017
E. Tanner	Executive Chairman	3,055	3,172	12,000	12,060	4,725	8,950
A. Bulgheroni	Member of the Board	1,000	1,000	165	–	–	–
Dkfm E. Gürtler	Member of the Board	1	1	50	50	–	–
Dr R. K. Sprüngli	Member of the Board	1,092	1,092	–	–	–	–
Dr T. Rinderknecht	Member of the Board	–	–	–	–	–	–
S. Denz[3]	Member of the Board	11	–	–	–	–	–
P. Schadeberg-Herrmann[4]	Member of the Board	–	127	–	–	–	–
Dr D. Weisskopf	Group Management	7	7	2,400	2,400	6,350	6,850
A. Pfluger[2]	Group Management	5	5	30	30	4,613	4,850
R. Fallegger	Group Management	5	5	100	100	4,548	4,048
A. Germiquet	Group Management	4	4	400	–	2,610	2,525
Dr A. Lechner	Group Management	7	7	56	56	4,195	4,025
M. Hug	Group Management	–	–	–	–	2,075	1,825
G. Steiner	Group Management	2	2	–	–	2,380	1,840
K. Kitzmantel[1]	Group Management	–	2	–	–	–	3,798
Total		**5,189**	**5,424**	**15,201**	**14,696**	**31,496**	**38,711**

1 Mr. K. Kitzmantel stepped down from Group Management on December 31, 2017 on reaching retirement.
2 Mr. A. Pfluger stepped down from Group Management on December 31, 2018 on reaching retirement.
3 Mr. S. Denz was elected at the General Assembly in 2018, therefore no participation reported in 2017.
4 Ms. P. Schadeberg-Herrmann stepped down at the 2018 Annual General Assembly. Therfore not participation reported as at December 31, 2018

All other disclosures relating to the remuneration of the Board of Directors, Group Management, and Extended Group Management are provided in the Compensation Report.

9. Number of Employees

Chocoladefabriken Lindt & Sprüngli AG has no employees.

Proposal for the Distribution of Available Retained Earnings

CHF	**December 31, 2018**	December 31, 2017
Balance brought forward	36,089,743	35,611,547
Net income	273,524,790	253,346,403
Other	353,777[1]	–7,524
Available retained earnings	**309,968,310**	**288,950,426**
Shares and participation certificates as per bylaws of CHF 24,334,150 as at December 31, 2018 (CHF 24,090,330 in 2017)		
640% (510% in 2017) dividend	–155,738,560[2]	–122,860,683
Allocation to special reserves	–120,000,000	–130,000,000
Balance carried forward	**34,229,750**	**36,089,743**
Allocation of approved capital contribution reserve to free reserves	87,602,940[2]	101,179,386
Withholding tax exempt distribution CHF 360.– per registered share/ CHF 36.- per participation certificate (CHF 420.– per RS/CHF 42.– per PC in 2017)	–87,602,940[2]	–101,179,386

1 Includes dividends not distributed on treasury stock held of CHF 1,134,240, dividends distributed on options exercised during the period January 1 to May 7, 2018 of CHF –801,669, and expired dividends of CHF 21,206.

2 Number of registered shares and participation certificates, status as at December 31, 2018. During the period from January 1 until record date of May 8, 2019, the dividend-bearing capital (the number of registered shares and participation certificates) can change as a result of additions and retirements within either class of treasury stock as well as the exercise of options, granted through the employee stock option plan. Consequently the allocation of the approved capital contribution reserve to free reserves will be adjusted accordingly.

For 2018 the Board of Directors proposes a total dividend of CHF 1,000.– per registered share and CHF 100.– per participation certificate.

CHF 360.– per registered share and CHF 36.– per participation certificate are distributed out of the approved capital contribution reserve (agio) and CHF 640.– per registered share and CHF 64.– per participation certificate are distributed out of retained earnings.

Report of the Statuory Auditor on the Financial Statements

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Report of the statutory auditor

to the Board of Directors of Chocoladefabriken Lindt & Sprüngli AG

Kilchberg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Chocoladefabriken Lindt & Sprüngli AG which comprise the balance sheet as at 31 December 2018, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 130 to 135) as at 31 December 2018 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 25,000,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters, the following areas of focus were identified:

Impairment assessment of intangible assets

Valuation of investments in subsidiaries and loans to subsidiaries

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Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 25,000,000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark for determining materiality because it is a generally accepted benchmark for materiality considerations relating to a holding company.

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of intangible assets

Key audit matter	*How our audit addressed the key audit matter*
Intangible assets recognised in the amount of CHF 451 million relate to the Russell Stover (CHF 414 million), Ghirardelli (CHF 31 million) and Caffarel (CHF 6 million) brands. We focussed on this area due to the size of the assets and because the valuation of the above-mentioned brands depends significantly on their future results. The intangible assets are stated individually at acquisition cost less regular depreciation and occasional impairments in accordance with the requirements of commercial accounting and financial reporting. The impairment assessment of the brands is based on a comparison of their carrying value with the capitalised licensing income. If the book value of the brands exceeds the capitalised licensing income, an impairment is recognised. Please refer to note 2 'Accounting principles'.	We tested the correct and consistent calculation of the regular depreciation of the brands. Additionally, we tested management's impairment assessment of the brands for its technical appropriateness and mathematical correctness as follows: • We compared on a sample basis the licensing income used for the valuations with the contractual agreements. • We assessed the capitalisation rate – taking into account the cost of capital – of the company and of comparable organisations, taking into account country-specific factors. • Further, we inspected on a sample basis the three-year budgets approved by the Board of Directors for individual licence holders, in order to assess the financial performance of these individual licence holders. We concluded that the models and assumptions used to test for the impairment of intangible assets are appropriate.

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Valuation of investments in subsidiaries and loans to subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
Investments in subsidiaries are recognised in the amount of CHF 876 million and loans to subsidiaries in the amount of CHF 430 million. We focussed our audit on these assets because of the large size of the amounts and the significant judgement involved in the assessment of the recoverability of these assets and in light of the financial performance of certain subsidiaries. The investments and loans are stated individually at historical cost less impairment in accordance with the requirements of commercial accounting and financial reporting. The impairment assessment of the investments in subsidiaries is based on a comparison of the carrying amount with the intrinsic value of the investment. The intrinsic value of an investment is determined using generally accepted valuation methods that are based on past performance and financial forecasts. If the book value of the investment exceeds the intrinsic value as so determined, an impairment is recorded. The impairment assessment of the loans is determined by assessing the financial strength (equity) of the debtor. Please refer to note 2 'Accounting principles'.	We examined management's impairment assessment of the investments in subsidiaries and loans to subsidiaries as follows: • We assessed the technical appropriateness and mathematical correctness of management's valuations. • We reconciled on a sample basis the input data used for the valuations to audited historical financial information. • We compared the financial forecasts used in the valuation process with the budget figures approved by the Board of Directors. • We tested on a sample basis the financial information used in the valuations of loans. On the basis of our audit procedures, we consider the impairment tests performed by management on investments to subsidiaries and loans to subsidiaries as adequate.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Bruno Häfliger	Josef Stadelmann
Audit expert Auditor in charge	Audit expert

Zurich, 4 March 2019

Five-Year Overview: Lindt & Sprüngli Group Financial Key data

		2018	2017	2016	2015	2014
Income Statement						
Sales	CHFmillion	4,313.2	4,088.4	3,900.9	3,653.3	3,385.4
EBITDA	CHF million	816.2	764.4	714.0	645.8	588.0
in % of sales	%	18.9	18.7	18.3	17.7	17.4
EBIT	CHF million	636.7	595.4	562.5	518.8	474.3
in % of sales	%	14.8	14.6	14.4	14.2	14.0
Net income	CHF million	487.1	452.5	419.8	381.0	342.6
in % of sales	%	11.3	11.1	10.8	10.4	10.1
in % of average shareholders' equity	%	11.2	11.5	11.7	11.7	12.2
Operating cash flow	CHF million	651.6	591.0	515.4	488.9	308.2
in % of sales	%	15.1	14.5	13.2	13.4	9.1
Depreciation, amortization, and impairment	CHF million	179.5	169.0	151.5	127.0	113.7
Balance Sheet						
Total assets	CHF million	7,249.8	6,975.6	6,428.8	6,259.0	5,581.5
Current assets	CHF million	2,933.0	2,781.1	2,374.5	2,111.7	1,822.1
in % of total assets	%	40.5	39.9	36.9	33.7	32.6
Non-current assets	CHF million	4,316.8	4,194.5	4,054.3	4,147.3	3,759.4
in % of total assets	%	59.5	60.1	63.1	66.3	67.4
Non-current liabilities	CHF million	1,735.3	1,730.8	1,495.9	1,782.3	1,638.4
in % of total assets	%	23.9	24.8	23.3	28.5	29.3
Shareholders’ equity	CHF million	4,486.4	4,195.0	3,674.0	3,489.7	3,001.7
in % of total assets	%	61.9	60.1	57.1	55.7	53.8
Investments in PPE/intangible assets	CHF million	257.3	185.2	234.1	252.8	234.6
in % of operating cash flow	%	39.5	31.3	45.4	51.7	76.1
Employees						
Average number of employees		14,570	13,949	13,539	13,180	10,712
Sales per employee	TCHF	296.0	293.1	288.1	277.2	316.0

Five-Year Overview: Data per Share/Participation Certificate

		2018	2017	2016	2015	2014
Share						
Registered shares at CHF 100.– par[1]	Number	136,088	136,088	136,088	136,088	136,111
Participation certificates at CHF 10.– par[2]	Number	1,072,535	1,048,153	1,013,136	988,475	956,066
Non-diluted earnings per share/10 PC[3]	CHF	2,021	1,893	1,791	1,646	1,504
Operating cash flow per share/10 PC[3]	CHF	2,715	2,482	2,200	2,115	1,353
Shareholders' equity per share/10 PC[4]	CHF	18,437	17,414	15,476	14,854	12,954
Payout ratio	%	50.0	49.5	49.8	49.4	49.0
Registered share						
Year-end price	CHF	73,300	70,485	61,900	74,620	57,160
High of the year	CHF	85,400	72,280	74,090	76,000	59,140
Low of the year	CHF	65,600	61,790	57,025	53,740	48,100
Dividend	CHF	1,000.00[5]	930.00	880.00	800.00	725.00
P/E ratio[6]	Factor	36.27	37.23	34.56	45.33	38.01
Participation certificate						
Year-end price	CHF	6,100	5,950	5,275	6,255	4,932
High of the year	CHF	7,270	5,985	6,240	6,300	5,095
Low of the year	CHF	5,270	5,055	4,877	4,570	4,013
Dividend	CHF	100.00[5]	93.00	88.00	80.00	72.50
P/E ratio[6]	Factor	30.18	31.43	29.45	38.00	32.79
Market capitalization[6]	CHF million	16,517.7	15,828.7	13,768.1	16,337.8	12,495.4
in % of shareholders' equity[4]	%	368.2	377.3	374.7	468.2	416.3

1 ISIN number CH0010570759, security number 1057075.
2 ISIN number CH0010570767, security number 1057076.
3 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 year-end prices of registered shares and participation certificates.

Addresses of the Lindt & Sprüngli Group

For almost 175 years, Lindt & Sprüngli confirms its reputation as one of the most innovative and creative companies in the premium chocolate market. Quality chocolate from Lindt & Sprüngli is distributed via own subsidiaries, regional offices, via an extensive global network of distributors as well as in more than 400 own shops. Lindt & Sprüngli's main markets are in Europe and North America. The brands Lindt, Ghirardelli, Russell Stover, Whitman's, Pangburn's, Caffarel, Hofbauer und Küfferle. The company with its extensive and innovative range of finest premium chocolate is present in more than 120 countries worldwide.

Global Presence

We make the world a sweeter place

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Information

Agenda

May 2, 2019	121th Annual Shareholders' Meeting
May 9, 2019	Payment of dividend
July 23, 2019	Half-year report 2019
Mid January, 2020	Net sales 2019
Mid March, 2020	Full-year results 2019
April 24, 2020	122nd Annual Shareholders' Meeting

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Conzept and design image chapter Research and Development: Die GmbH – Visuelle Kommunikation, Zurich
Print: Neidhart + Schön Print AG, Zürich
Paper: Lessebo Smooth Bright (Report), Heaven 42 Softmatt (Global Growth)
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Amy Martin, S. 75/Louise Giaume, S. 76

The expectations expressed in this annual report are based on assumptions. The actual results may vary from these. The annual report is published in German and English whereas the German version is binding.

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