Financial Report

Consolidated Statements of the Lindt & Sprüngli Group

Financial Statements of Chocoladefabriken Lindt & Sprüngli AG

Financial and other Information

Consolidated Balance Sheet

CHF million	Note	December 31, 2019		December 31, 2018	
Assets					
Property, plant and equipment	7	1,323.9		1,344.8	
Right-of-use assets [1]	8	449.7		–	
Intangible assets	9	1,366.8		1,378.3	
Financial assets	10	1,801.7		1,534.0	
Deferred tax assets	11	123.0		59.7	
Total non-current assets		**5,065.1**	**63.0%**	**4,316.8**	**59.5%**
Inventories	12	750.1		752.2	
Accounts receivable	13	973.8		1,023.2	
Other receivables		156.0		118.8	
Accrued income		3.9		2.5	
Derivative assets	14	31.9		38.6	
Marketable securities and short-term financial assets		405.2		1.6	
Cash and cash equivalents	15	654.8		996.1	
Total current assets		**2,975.7**	**37.0%**	**2,933.0**	**40.5%**
Total assets		**8,040.8**	**100.0%**	**7,249.8**	**100.0%**
Liabilities					
Share and participation capital	16	24.3		24.3	
Treasury stock	16	–399.2		–202.4	
Retained earnings and other reserves		5,034.7		4,655.4	
Equity attributable to shareholders		**4,659.8**		**4,477.3**	
Non-controlling interests		10.4		9.1	
Total equity		**4,670.2**	**58.1%**	**4,486.4**	**61.9%**
Bonds	17	498.5		997.9	
Loans	17	–		0.8	
Lease liabilities [1]	8	411.6		–	
Deferred tax liabilities	11	541.5		467.0	
Pension liabilities	18	184.7		174.9	
Other liabilities		5.9		6.6	
Provisions	19	38.7		88.1	
Total non-current liabilities		**1,680.9**	**20.9%**	**1,735.3**	**23.9%**
Accounts payable to suppliers	20	233.9		214.2	
Other accounts payable		58.8		56.2	
Lease liabilities [1]	8	67.5		–	
Current tax liabilities [2]		99.8		52.5	
Accrued liabilities	21	693.0		666.4	
Derivative liabilities	14	10.6		12.1	
Provisions	19	20.6		14.4	
Bonds	17	499.9		–	
Bank and other borrowings	17	5.6		12.3	
Total current liabilities		**1,689.7**	**21.0%**	**1,028.1**	**14.2%**
Total liabilities		**3,370.6**	**41.9%**	**2,763.4**	**38.1%**
Total liabilities and equity		**8,040.8**	**100.0%**	**7,249.8**	**100.0%**

The accompanying notes form an integral part of the consolidated statements.
1 IFRS 16 has been applied for the first time as of January 1, 2019. Therefore no prior year numbers are presented.
2 See section related to IFRIC 23 in note 2.

Consolidated Income Statement

CHF million	Note	2019		2018	
Income					
Sales		4,509.0	100.0%	4,313.2	100.0%
Other income		16.6		19.3	
Total income		**4,525.6**	**100.4%**	**4,332.5**	**100.4%**
Expenses					
Material expenses [1]		–1,505.8	–33.4%	–1,463.2	–33.9%
Changes in inventories		–11.8	–0.2%	29.2	0.8%
Personnel expenses [2]	22	–978.9	–21.7%	–938.4	–21.8%
Operating expenses [3]		–1,113.3	–24.7%	–1,143.9	–26.5%
Depreciation, amortization, and impairment [4]	7, 8, 9	–322.8	–7.2%	–179.5	–4.2%
Total expenses		**–3,932.6**	**–87.2%**	**–3,695.8**	**–85.6%**
Operating profit (EBIT) [5]		**593.0**	**13.2%**	**636.7**	**14.8%**
Financial income	23	3.1		3.8	
Financial expense	23	–35.0		–19.9	
Income before taxes		**561.1**	**12.4%**	**620.6**	**14.4%**
Taxes [6]	11	–49.2		–133.5	
Net income		**511.9**	**11.4%**	**487.1**	**11.3%**
of which attributable to non-controlling interests		2.3		2.0	
of which attributable to shareholders of the parent		509.6		485.1	
Non-diluted earnings per share/10 PC (CHF)	24	2,141.5		2,021.4	
Diluted earnings per share/10 PC (CHF)	24	2,123.7		2,008.1	

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

1 Includes CHF –3.1 million one-off effects in the USA (increase in inventory reserve for packaging material) in 2019. More information about these one-off effects is disclosed within note 12.

2 Includes CHF –10.0 million one-off effects in the USA (severance payments to employees) in 2019. More information about these one-off effects is disclosed within note 19.

3 Includes CHF –16.1 million one-off effects in the USA (other one time expenses) in 2019. More information about these one-off effects is disclosed within note 19.

4 Includes CHF –52.4 million one-off effects in the USA (impairment of right-of-use assets, manufacturing buildings and equipment) in 2019. More information about these one-off effects is disclosed within notes 7 and 8.

5 Includes CHF –81.6 million one-off effects in the USA, which are the sum of above mentioned components. This had a corresponding impact on the operating profit of the segment North America. Refer to note 5 for further information.

6 Includes CHF +22.3 million impact of above mentioned one-off effects in the USA and CHF +59.0 million one-off impact from the new tax law in Switzerland and other tax credits in 2019. More information about these one-off effects is disclosed within note 11.2. The reconciliation from the above disclosed non recurring operating result to the recurring operating result is presented in the alternative performance measures.

Statement of Comprehensive Income

CHF million	2019	2018
Net income	511.9	487.1
Other comprehensive income after taxes		
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans	169.1	27.5
Items that may be reclassified subsequently to profit or loss		
Hedge accounting	–3.7	52.5
Currency translation	–51.9	–34.7
Total comprehensive income	**625.4**	**532.4**
of which attributable to non-controlling interests	1.9	0.8
of which attributable to shareholders of the parent	623.5	531.6

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 11.

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, 2018		**24.1**	**–84.0**	**347.0**	**–27.6**	**4,135.9**	**–209.1**	**4,186.3**	**8.7**	**4,195.0**
Net Income [1]		–	–	–	–	485.1	–	485.1	2.0	487.1
Other comprehensive income [1]		–	–	–	52.5	27.5	–33.5	46.5	–1.2	45.3
Capital increase	16	0.2	–	87.1	–	–	–	87.3	–	87.3
Purchase of own shares and participation certificates	16	–	–119.6	–	–	–	–	–119.6	–	–119.6
Sale of own shares	16	–	0.6	–	–	0.3	–	0.9	–	0.9
Share-based payment	26	–	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**
Net Income [1]		–	–	–	–	509.6	–	509.6	2.3	511.9
Other comprehensive income [1]		–	–	–	–3.7	169.1	–51.5	113.9	–0.4	113.5
Capital increase	16	0.2	–	77.5	–	–	–	77.7	–	77.7
Purchase of own shares and participation certificates	16	–	–337.1	–	–	–	–	–337.1	–	–337.1
Sale of own shares	16	–	20.1	–	–	15.9	–	36.0	–	36.0
Cancellation of shares (destruction)		–0.2	119.6	–	–	–119.4	–	–	–	–
Share-based payment	26	–	0.6	–	–	18.6	–	19.2	–	19.2
Reclass into retained earnings		–	–	–85.3	–	85.3	–	–	–	–
Distribution of profits		–	–	–	–	–236.8	–	–236.8	–0.6	–237.4
Balance as at December 31, 2019		**24.3**	**–399.2**	**325.4**	**21.2**	**4,982.2**	**–294.1**	**4,659.8**	**10.4**	**4,670.2**

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

1 To increase transparency total comprehensive income of CHF 625.4 million (CHF 532.4 million in 2018) is now split in its components: net income and other comprehensive income, which are disclosed separately. Net income amounts to CHF 511.9 million (CHF 487.1 million in 2018) and other comprehensive income to CHF 113.5 million (CHF 45.3 million in 2018).

Consolidated Cash Flow Statement

CHF million	Note		2019		2018
Net income		511.9		487.1	
Depreciation, amortization, and impairment	7, 8, 9	322.8		179.5	
Decrease (–)/Increase (+) of provisions [1]		31.9		–3.1	
Decrease (–)/Increase (+) of allowances [1]		–1.1		3.1	
Decrease (+)/Increase (–) of pension assets [1]		–70.6		–14.0	
Decrease (+)/Increase (–) of accounts receivables		34.9		–6.0	
Decrease (+)/Increase (–) of inventories		–15.3		–44.0	
Decrease (+)/Increase (–) of other receivables		–39.8		9.7	
Decrease (+)/Increase (–) of accrued income and derivative assets and liabilities		0.2		3.9	
Decrease (–)/Increase (+) of accounts payable		15.5		3.0	
Decrease (–)/Increase (+) of other payables and accrued liabilities		15.7		11.2	
Non-cash effective items [2]		24.8		21.2	
Cash flow from operating activities (operating cash flow)			**830.9**		**651.6**
Investments in property, plant and equipment	7	–209.4		–244.9	
Disposals of property, plant and equipment	7	5.5		9.8	
Investments in intangible assets	9	–25.8		–12.4	
Disposals (+)/Investments (–) in financial assets (excluding pension assets)		2.0		0.3	
Investments in marketable securities and short-term financial assets	15	–403.9		–1.5	
Cash flow from investment activities			**–631.6**		**–248.7**
Proceeds from borrowings		–		3.5	
Repayments of borrowings		–6.5		–	
Proceeds from loans		–		0.1	
Repayments of loans		–0.8		–	
Repayments of lease liabilities	8	–66.7		–	
Capital increase (including premium)		77.7		87.3	
Purchase of treasury stock		–337.1		–119.6	
Sale of treasury stock		35.1		–	
Distribution of profits		–236.8		–223.4	
Cash flow with non-controlling interests		–0.5		–0.4	
Cash flow from financing activities			**–535.6**		**–252.5**
Net increase (+)/decrease (–) in cash and cash equivalents			**–336.3**		**150.4**
Cash and cash equivalents as at January 1		996.1		853.0	
Exchange gains(+)/losses (–) on cash and cash equivalents		**–5.0**	**991.1**	**–7.3**	**845.7**
Cash and cash equivalents as at December 31	**15**		**654.8**		**996.1**
Interest received from third parties [3]			1.8		1.4
Interest paid to third parties [3]			34.7		18.4
Income tax paid [3]			142.8		138.2

The accompanying notes form an integral part of the consolidated statements.
1 To comply with the disclosure requirements of IA7 "Statements of Cash Flows", the Lindt & Sprüngli Group shows changes in provisions, allowances and pension assets as a separate row within the cash flow from operating activities.
2 As at December 31, 2019, movements of CHF 7.5 million result from the translation of foreign exchange balances (CHF 11.0 million in 2018).
3 Included in cash flow from operating activities.

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 2, 2020.

The subsidiaries of Chocoladefabriken Lindt & Sprüngli AG as at December 31, 2019 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	50.0
		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 10.4 million at December 31, 2019 (CHF 9.1 million at December 31, 2018). 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, 2019)

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, 2019, including IFRS 16 "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments".

Except for IFRS 16 none of these new or amended accounting standards and clarifications resulted 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 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 and sets out principles for the recognition, measurement, presentation and disclosures of leases. The Lindt & Sprüngli Group implemented the new standard on January 1, 2019, applied the modified retrospective method and did not restate prior years. The right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of the prepaid or accrued lease payments relating to those leases recognized in the balance sheet immediately before the date of initial application. A description about the accounting principles related to IFRS 16 is provided in further sections within this note as well as note 8.

The future operating lease commitment disclosed on December 31, 2018, and the lease liability recorded on January 1, 2019 can be reconciled as follows:

CHF million	
Operating lease commitments reported as at December 31, 2018	**497.2**
Discounting of future lease payments using the incremental borrowing rate	–97.1
Discounted operating lease commitments reported as at December 31, 2018	**400.1**
short-term and low value leases	–2.8
Adjustment of lease extension and notification options	168.6
Re-assessment of leasing contracts [1]	–49.1
Other	–1.1
Lease liabilities reported as at January 1, 2019	**515.7**
whereof current	56.4
whereof non-current	459.3

1 The re-assessment of leasing contracts entails impacts of different interpretations between the old (IAS 17) and new lease standard (IFRS 16). Consequently, not all contractual commitments shown as operating leases are to be disclosed within lease liabilities according to the new standard.

The weighted average of the incremental borrowing rate applied to the lease liabilities as of January 1, 2019 was at 3.3%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review (there were no onerous contacts as at January 1, 2019)
- Accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For contracts that commenced before January 1, 2019, the Lindt & Sprüngli Group decided to not reassess whether a contract contains a lease, but to rely on the assessment made under IAS 17 and IFRIC 4.

The adoption of IFRS 16 – "Leases" has the following impact on the financial statements:

Balance sheet:
- Increases of the balance sheet total due to reporting of right-of-use assets and current and non-current lease liabilities.

Income Statement:
- Increases in depreciation and interest expenses
- Reduction of lease expenses in operating expenses
- Decrease in net income of CHF 9.4 million due to the higher interest expenses at the beginning of a lease ("front-load impact") under IFRS 16

Cash Flow Statement:
- Increases of operating cash flow due to increased depreciation
- Higher cash outflow from financing activities due to repayment of lease liabilities

Impact of first time adoption IFRIC 23 "Uncertainty over Income Tax Treatment"
IFRIC 23 "Uncertainty over Income Tax Treatment" specifies the treatment of uncertainty over income taxes. The Lindt & Sprüngli Group applies the interpretation retrospectively for the reporting period 2019 without restating prior periods. IFRIC 23 resulted in a reclassification of uncertain tax liabilities from provisions to current tax liabilities. The first time application of IFRIC 23 had no impact on the measurement and consequently did not result in a cumulative adjustment.

New and amended IFRS and interpretations that are to be applied in future periods
The Lindt & Sprüngli Group does not expect any material impact on recognition and measurement due to the new standards that have already been published and are to be applied in future periods.

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 investment in the entity, and has the ability to direct these 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		**2019**	2018	**2019**	2018
Euro zone	1 EUR	1.09	1.13	1.11	1.15
USA	1 USD	0.97	0.99	0.99	0.98
Great Britain	1 GBP	1.27	1.26	1.27	1.30
Canada	1 CAD	0.74	0.72	0.75	0.75
Australia	1 AUD	0.68	0.70	0.69	0.73
Poland	100 PLN	25.50	26.19	25.85	26.99
Mexico	100 MXN	5.12	5.02	5.16	5.09
Sweden	100 SEK	10.37	11.01	10.45	11.15
Czech Republic	100 CZK	4.27	4.38	4.32	4.46
Japan	100 JPY	0.89	0.89	0.91	0.88
South Africa	100 ZAR	6.89	6.85	6.86	7.36
Hong Kong	100 HKD	12.43	12.58	12.68	12.48
China	100 CNY	13.91	14.32	14.18	14.51
Russia	100 RUB	1.56	1.42	1.54	1.54
Brazil	100 BRL	24.09	25.38	25.14	26.89

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. Assets are linearly depreciated to reduce the carrying amount to the expected residual value over the following useful lives:

– 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 acquisition costs over the Lindt & Sprüngli Group's interest in the fair value of the net assets acquired. Goodwill is not amortized, but 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 ten to twenty 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 recoverable amount 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, which generate separable cash flows. 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 amortized and are subject to a yearly impairment test. Depreciable assets are tested for their recoverability, if there are indicators, that the book value is no longer realizable.

Leasing

Under IFRS 16, the Lindt & Sprüngli Group assesses whether a contract contains a lease at inception of a contract and recognizes a right-of-use asset and a corresponding lease liability for all arrangements in which it is a lessee, except for short-term leases with terms of 12 months or less and low value leases. For these leases, the Lindt & Sprüngli Group recognizes the lease payments as an operating expense on a straight-line basis over the lease term.

Lease liabilities are initially measured at the present value of the future lease payments from the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses an incremental borrowing rate specific to the term and currency of the contract. Lease payments can include fixed payments, variable payments that depend on an index or rate known at the commencement date as well as extension or purchase options payments, if the Lindt & Sprüngli Group is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method and re-measured (with a corresponding adjustment of the related right-of-use asset), when there is a change in future lease payments in case of renegotiation, changes of an index or rate, or in case the likelihood to execute options changes upon reassessment.

The right-of-use assets are initially recognized on the balance sheet at cost, which comprises the amount of the initial measurement of the corresponding lease liability, adjusted for any lease payments made at or prior to the commencement date of the lease, any lease incentive received by the Lindt & Sprüngli Group, and expected costs for obligations to dismantle and remove right-of-use assets when they are no longer used. Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease over the shorter of the useful life of the right-of-use asset or the end of the lease term. Right-of-use assets are assessed for impairment whenever there is an indication that the balance sheet carrying amount may not be recoverable.

Under IAS 17, the Lindt & Sprüngli Group distinguished 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 costs, 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 include cash on hand, cash in banks, 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, 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 trade receivables, the Lindt & Sprüngli Group applies the simplified approach and recognizes lifetime expected credit losses. For the recognition of the allowance for accounts receivable, the Lindt & Sprüngli Group considers both historical default rates, which are predominantly used to derive the individual allowances, as well as forward looking information, which are mainly used to determine the general allowance for the whole portfolio of accounts receivables. In doing so, receivables are broken down by customer sector, which is consequently connected with the corresponding credit rating, the corresponding risk premium and the corresponding probability of default.

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 approved by 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 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 financial statements 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 services entitling them to the contributions.

Obligations arising from termination of employments are recognized at the earlier of when the entity can no longer withdraw from the termination obligation or when the entity recognizes any related restructuring costs.

For 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 IFRS 15 – "Revenue from Contracts with Customers" and the five-step model described therein. Revenue consists of the expected considerations in exchange for the delivery of Lindt products, which are sold in the normal course of business. 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 revenue, except the considerations for distinct 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. Revenue is recognized at the point in time when goods are transferred to customers in the amount of the consideration that the Lindt & Sprüngli Group can reasonably expect in return for the transfer of these goods. Revenue recognition varies as follows across recipients:

Revenue from trade partners is recognized net of expected deductions, allowances and provisions upon transfer of control over the goods sold. The transfer of control depends on the individual contract terms. Predominantly it will be fulfilled upon arrival of the goods.

Revenue from Global Retail is recognized at POS in the amount of the price paid net expected returns. Customers possess a limited right to return, which depends on local laws and regulations.

The Lindt & Sprüngli Group neither has contracts with material financing components, since the contracts stipulate trade common payment terms, nor contracts resulting in performance obligation which are not satisfied within one year. Unfulfilled performance obligations, which will be satisfied within one year, are not disclosed separately.

"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.

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 needed 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 annual 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 country regulations.

Uncertain tax positions are considered individually or aggregated depending on whether their resolution is interfered or not. Information potentially available to the tax authorities is taken into consideration. To measure the uncertainty either the expected value or the most likely amount is derived. Changes in facts and conditions trigger a re-evaluation of the uncertainty.

Deferred income taxes are accounted for using 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 for such investments 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. Currently there are no capitalized development costs in the consolidated financial statements.

Share-based payments

The Lindt & Sprüngli Group grants options on officially listed participation certificates to several employees. 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 derived by using the binomial model for the determination of option prices. 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 forecasted 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 the derivatives' change in fair value, 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 change in fair value 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. However, if the hedged transaction subsequently results in the recognition of a non-financial item, the amount is released from the cash flow hedge reserve and included in the initial cost of the 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 deemed likely 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 operates in and is subject to income taxes in numerous jurisdictions. Potential changes in local tax laws and their interpretations result in various uncertainties. Thus, significant judgment is required in determining deferred tax assets and deferred tax liabilities or other tax positions. Uncertainties exists in determining the applicable tax rate and the resulting expected tax assets or liabilities.

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 regards 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, 2019 and 2018, 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 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, 2019 and 2018, there were no such transactions.

As of December 31, 2019 and December 31, 2018 the position financial assets is 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.

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 operational 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, 2019, the net financial position amounted to CHF –423.1 million (CHF –13.3 million in 2018). The worsening of the net financial position is caused by the new leasing standard (IFRS 16). As of December 31, 2019 the Lindt & Sprüngli Group has lease liabilities of CHF 479.1 million. Hence, without these the net financial position would amount to CHF 56.0 million. For extraordinary financing needs, adequate credit lines with financial institutes have been arranged.

The tables below present relevant maturity groupings as at December 31, 2019 and 2018, of the contractual maturity date:

CHF million	< 3 months	Between 3 and 12 months	Between 1 and 3 years	Over 3 years	2019 Total
Bonds (including interests)	–	505.8	6.5	508.8	1,021.1
Loans	–	–	–	–	–
Lease liabilities (including interests)	21.6	63.1	149.6	439.8	674.1
Accounts payable	234.9	–1.0	–	–	233.9
Other accounts payable	54.9	2.5	–	–	57.4
Derivative assets	–7.6	–18.4	–5.9	–	–31.9
Derivative liabilities	3.5	6.2	0.9	–	10.6
Bank and other borrowings	4.7	0.9	–	–	5.6
Total contractually fixed payments	**312.0**	**559.1**	**151.1**	**948.6**	**1,970.8**

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
Lease liabilities (including interests) [1]	–	–	–	–	–
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**

1 Since IFRS 16 was applied for the first time on January 1, 2019 there are no comparative prior year numbers. For adjustments recognised on adoption of IFRS 16 on January 1, 2019, please refer to note 2, as well as to note 8 for further information regarding leases.

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 completed a share buyback program of CHF 500.0 million in 2019.

The Lindt & Sprüngli Group monitors its capital based on the ratio of shareholders' equity in percentage to total assets, which was 58.1% as of December 31, 2019 (61.9% in 2018). The comparable equity ratio (considering the impact of the new leasing standard IFRS 16) would have amounted to 57.8% as of December 31, 2018.

The objectives, policies, and procedures as of December 31, 2019, 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.

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	2019	2018	2019	2018	2019	2018	**2019**	2018
Sales	2,451.7	2,393.2	1,769.1	1,664.2	600.4	577.0	4,821.2	4,634.4
Whereof sales between segments	305.4	314.8	6.8	6.4	–	–	312.2	321.2
Third party sales	**2,146.3**	**2,078.4**	**1,762.3**	**1,657.8**	**600.4**	**577.0**	**4,509.0**	**4,313.2**
Operating profit	411.1	401.1	76.4[1]	129.3	105.5	106.3	593.0	636.7
Net financial result							–31.9	–16.1
Income before taxes							**561.1**	**620.6**
Taxes							–49.2	–133.5
Net income							**511.9**	**487.1**

1 Includes CHF –81.6 million one-off effects from the USA that had an impact on material expenses, personnel expenses, operating expenses as well as depreciation, amortization and impairment.

The following countries achieved the highest sales in 2019:

- USA CHF 1,490.7 million (CHF 1,389.2 million in 2018)
- Germany CHF 678.8 million (CHF 660.2 million in 2018)

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 own webshops). The disaggregation by sales channel does not reflect a view by management responsibility as disclosed by operating segment. In 2019 revenues of "Global Retail" amounted to CHF 608.3 million (CHF 552.3 million in 2018). There is no individual customer exceeding 10% of the third party sales recognized in the reporting period.

Balance sheet and other information

	Segment Europe		Segment North America		Rest of the World			**Total**
CHF million	2019	2018	2019	2018	2019	2018	**2019**	2018
Assets[1]	5,229.8	4,719.2	2,446.5	2,230.9	364.5	299.7	8,040.8	7,249.8
Liabilities[1]	2,506.2	2,261.9	667.7	349.9	196.7	151.6	3,370.6	2,763.4
Investments[2]	197.8	171.9	85.0	70.3	25.4	15.1	308.2	257.3
Depreciation and amortization	137.2	105.9	106.7	63.7	21.4	8.6	265.3	178.2
Impairment	0.9	0.1	55.5	0.9	1.1	0.3	57.5	1.3

1 Assets of CHF 3.9 million (CHF 11.2 million in 2018) and liabilities of CHF 58.1 million (CHF 83.2 million in 2018) which cannot be clearly allocated to a particular segment are disclosed in the category "Rest of the World".
2 The position investments consists of investments into property, plant and equipment, right-of-use assets and intangible assets.

The following countries held the greatest portion of right-of-use, fixed and intangible assets in 2019:

- USA CHF 1,501.4 million, respectively CHF 1,286.5 million excluding right-of-use assets (CHF 1,345.8 million in 2018)
- Switzerland CHF 661.1 million, respectively CHF 652.8 million excluding right-of-use assets (CHF 644.4 million in 2018)
- Germany CHF 325.6 million, respectively CHF 296.3 million excluding right-of-use assets (CHF 294.5 million in 2018)

The increase for all these countries is due to the first time application of IFRS 16.

6. Financial Instruments, Fair Value, and Hierarchy Levels

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

		December 31, 2019		December 31, 2018	
CHF million	Level [1]	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets					
Fair value through profit or loss					
Derivative assets	1	15.5	15.5	27.1	27.1
Derivative assets	2	16.4	16.4	11.5	11.5
Marketable securities and short-term financial assets	2	150.0	150.0	1.6	1.6
Investments third parties	3	1.1	1.1	1.1	1.1
Total		**183.0**		**41.3**	
Other financial assets at amortized cost [2]					
Total		**1,995.1**	**–[1]**	**2,097.6**	**–[1]**
Total financial assets		**2,178.1**		**2,138.9**	
Financial liabilities					
Fair value through profit or loss					
Derivative liabilities	1	1.5	1.5	–	–
Derivative liabilities	2	9.1	9.1	12.1	12.1
Total		**10.6**		**12.1**	
Other financial liabilities at amortized costs					
Bonds	1	998.4	1,025.4	997.9	1,018.5
Loans		–	–	0.8	–[1]
Other non-current liabilities		5.9	–[1]	6.6	–[1]
Accounts payable		233.9	–[1]	214.2	–[1]
Other accounts payable		58.8	–[1]	56.2	–[1]
Bank and other borrowings		5.6	–[1]	12.3	–[1]
Total		**1,302.6**		**1,288.0**	
Total financial liabilities		**1,313.2**		**1,300.1**	

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 the category amortized costs it is expected that the carrying amounts are a reasonable approximation of the respective fair values, except for the position bonds.

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	2019 Total
Acquisition costs as at January 1, 2019	**1,130.7**	**1,453.9**	**278.4**	**145.4**	**3,008.4**
Additions	38.5	52.4	15.9	113.9	220.7
Retirements	–14.4	–46.8	–14.4	–2.5	–78.1
Transfers	46.4	58.2	6.5	–111.2	–0.1
Currency translation	–22.6	–35.9	–6.5	–3.2	–68.2
Acquisition costs as at December 31, 2019	**1,178.6**	**1,481.8**	**279.9**	**142.4**	**3,082.7**
Accumulated depreciation as at January 1, 2019	**545.3**	**907.2**	**211.1**	**–**	**1,663.6**
Additions	59.2	85.6	23.4	–	168.2
Impairments	28.1	7.8	0.8	–	36.7
Retirements	–11.8	–45.8	–14.2	–	–71.8
Currency translation	–11.1	–21.8	–5.0	–	–37.9
Accumulated depreciation as at December 31, 2019	**609.7**	**933.0**	**216.1**	**–**	**1,758.8**
Net fixed assets as at December 31, 2019	**568.9**	**548.8**	**63.8**	**142.4**	**1,323.9**

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**

Advance payments of CHF 45.7 million (CHF 38.0 million in 2018) are included in the position construction in progress. No mortgages exist on land and buildings.

The impairment charge of CHF 36.7 million (CHF 1.3 million in 2018) consists of write-downs of land and buildings of CHF 28.1 million (CHF 1.0 million in 2018) and of machinery, production equipment and other fixed assets of CHF 8.6 million (CHF 0.3 million in 2018). The impairment charge is mostly related to the one-off effects in the USA (CHF 34.1 million). Mainly due to planned closures in production and logistics some assets within property, plant and equipment cannot be used anymore, and hence have been impaired.

In the reporting period 2018, the net book value of capitalized assets, under financial lease, amounted to CHF 0.5 million and commitments from operating leases were not capitalized. For the reporting period 2019, IFRS 16 was applied with the corresponding recognition of right-of-use assets.

8. Leases

8.1 Right-of-use assets

The right-of-use assets are split as follows:

CHF million	Buildings	Vehicles	Other fixed assets	2019 Total
Right-of-use assets as at January 1, 2019 [1]	498.9	13.6	3.2	515.7
Additions	55.7	5.1	0.3	61.1
Impairments	–20.7	–	–	–20.7
Retirements	–23.7	–0.8	–	–24.5
Depreciation of the period	–69.1	–5.7	–1.2	–76.0
Transfers	1.0	–0.4	–0.6	–
Currency translation	–5.6	–0.2	–0.1	–5.9
Right-of-use assets as at December 31, 2019	**436.5**	**11.6**	**1.6**	**449.7**
Average useful live (in years)	12.3	4.1	10.4	

1 Due to the first time application of IFRS 16 as of January 1, 2019 comparative prior year numbers do not exist. In the previous year, the group only recognized leases that were classifed as operating lease under IAS 17, for more details see note 28. For adjustments recognised on adoption of IFRS 16 on January 1, 2019, please refer to note 2.

Right-of-use assets in buildings contain in particular leases of external warehouses, retail stores and offices.

The additions in the current period are caused by new openings of retail stores and extensions of already existing leases for external warehouses, retail stores and offices.

Impairments are mostly caused by the one-off effects in the USA (CHF 18.3 million). These impairments and terminations are attributable to the challenging market conditions in retail and herewith related early terminations of leases. This predominantly concerns retail stores and external warehouses.

8.2 Other lease information

CHF million	2019
Interest expense (included in financial expense)	16.9
Expense relating to short-term leases (included in operating expense) [1]	5.8
Expense relating to variable lease payments (included in operating expense) [2]	20.3
Total cash outflow for leases (including interests)	83.6

IFRS 16 has been adopted for the first time on January 1, 2019.
1 Expense related to short-term leases of low value assets, is shown in the position expense relating to short-term leases.
2 This position only includes variable lease payments, which are not yet included in the lease liabilities.

Some store leases contain variable payment terms that are linked to sales. The applied percentage to sales varies case by case and can reach up to 100 percent. Variable lease payments also consist of incidental leasing expenses. Variable lease payments are recognised in operating expenses in the period in which the condition that triggers those payments occurs.

Several leasing contracts across the Lindt & Sprüngli Group include extension and termination options. The majority of these options are exercisable only by the Lindt & Sprüngli Group and not by the respective lessor. These options allow the Lindt & Sprüngli Group both planning certainty as well as flexibility. In case the exercise of such option is reasonably certain, they are considered in the expected lease term.

Additionally, as of December 31, 2019 the Lindt & Sprüngli Group has potential lease commitments of CHF 62.9 million. These commitments represent leases that have not commenced yet, which are highly likely to materialize, mainly for rentals of warehouses, offices and retail stores.

Further information related to the impact of the first time application of IFRS 16 and the corresponding accounting principles are to be found in note 2. The maturity of lease liabilities is shown in note 3.

9. Intangible Assets

CHF million	EDP software & consultancy	Customer relationships	Brands & IP	Goodwill	Other intangible assets	2019 Total
Acquisition costs as at January 1, 2019	**104.5**	**131.7**	**459.8**	**776.2**	**19.7**	**1,491.9**
Additions	24.8	–	–	–	1.2	26.0
Retirements	–6.9	–	–	–	–	–6.9
Transfers	0.1	–	–	–	–	0.1
Currency translation	–2.7	–2.2	–	–13.1	–0.9	–18.9
Acquisition costs as at December 31, 2019	**119.8**	**129.5**	**459.8**	**763.1**	**20.0**	**1,492.2**
Accumulated depreciation as at January 1, 2019	**73.6**	**37.9**	**–**	**–**	**2.1**	**113.6**
Additions	11.3	8.8	–	–	0.9	21.0
Impairments	0.1	–	–	–	–	0.1
Retirements	–6.9	–	–	–	–	–6.9
Currency translation	–1.7	–0.6	–	–	–0.1	–2.4
Accumulated depreciation as at December 31, 2019	**76.4**	**46.1**	**–**	**–**	**2.9**	**125.4**
Net intangible assets as at December 31, 2019	**43.4**	**83.4**	**459.8**	**763.1**	**17.1**	**1,366.8**

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**

Research and development expenditures amounted to CHF 14.7 million (CHF 13.8 million in 2018) 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. The impairment test of goodwill is performed on the operating segment “USA”. The impairment test of the position "brands and intellectual property” is based on license income ("licence income approach").

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:

	2019	2018
Period of cash flow projections	5 years	5 years
Annual sales growth	5.3%	5.0%
Annual EBIT-margin evolution	Improvement	Improvement
Terminal growth	2,3%	2,2%
Discount rate post tax	5,1%	6,0%

10. Pension Assets & Financial Assets

CHF million	**2019**	2018
Pension assets [1]	1,800.6	1,532.8
Investments third parties	1.1	1.2
Total	**1,801.7**	**1,534.0**

1 See note 18 for the detailled disclosure of pension assets.

11. Taxes

11.1 Deferred tax assets and liabilities

The net value of deferred tax liabilities is as follows:

CHF million	**2019**	2018
As at January 1	**407.3**	**401.2**
Deferred income tax expense (+) / income (–)	–57.9	–9.4
Tax charged to comprehensive income	70.8	12.4
Tax charged to other components of equity	–3.8	2.1
Currency translation	2.1	1.0
As at December 31	**418.5**	**407.3**

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

CHF million	2019	2018
Deferred tax assets		
Property, plant and equipment	9.2	9.1
Intangible assets	15.8	0.2
Pension plans	51.1	39.7
Receivables	7.6	7.7
Inventories	27.8	26.0
Leases [1]	7.6	–
Payables and accruals	66.0	41.6
Derivative assets and liabilities	3.4	–
Other	69.6	52.6
Deferred tax assets gross	**258.1**	**176.9**
Netting	–135.1	–117.2
Total	**123.0**	**59.7**
Deferred tax liabilities		
Property, plant and equipment	24.3	40.8
Intangible assets	69.0	60.8
Pension plans	540.2	460.2
Receivables	2.8	2.7
Inventories	4.4	4.0
Payables and accruals	22.8	12.8
Derivative assets and liabilities	3.4	0.6
Other	9.7	2.3
Deferred tax liabilities gross	**676.6**	**584.2**
Netting	–135.1	–117.2
Total	**541.5**	**467.0**
Net deferred tax	**418.5**	**407.3**

1 IFRS 16 was adopted for the first time on January 1, 2019. Note 2 contains more information related to the first time adoption of IFRS 16.

The position other deferred tax assets mainly consist of tax loss carry-forwards. Deferred tax assets from intangible assets and the hereof resulting deferred tax income stemm predominantly from the Swiss tax reform and are measured in accordance with IFRIC 23.

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

CHF million	2019	2018
Between 1 and 5 years	6.9	17.7
Between 6 and 10 years	–	0.6
Over 10 years	0.4	1.9
Total	**7.3**	**20.2**

Tax loss carry-forwards utilized in 2019 amounted to CHF 9.9 million (CHF 7.2 million in 2018).

11.2 Tax expense

CHF million	**2019**	2018
Current tax expense	116.5	136.1
Deferred income tax expense (+) / income (–)	–57.9	–9.4
Other taxes	–9.4	6.8
Total	**49.2**	**133.5**

The decrease in current tax expense is mainly attributable to the re-evaluation of uncertain income tax liabilities.

The effective tax on the Lindt & Sprüngli Group's income before taxes differs from the theoretical amount that would arise using the weighted average tax rate across the Group as follows:

CHF million	**2019**	2018
Income before taxes	**561.1**	**620.6**
Expected tax [1]	**114.1**	**125.2**
Change in applicable tax rates on temporary differences	0.7	–0.4
Utilization of unrecognized tax loss carry-forwards from prior years	–3.8	–2.9
Adjustments related to prior years	–0.9	–3.1
Non-taxable items	–1.8	6.5
Withholding tax levied and other taxes	–54.2	6.9
Income components with lower tax rates	–1.1	0.4
Other	–3.8	0.9
Total	**49.2**	**133.5**

1 Based on the expected weighted average tax rate of 20,3% in 2019 (20,2% in 2018).

The position withholding taxes levied and other taxes includes mainly the impact of the new tax law in Switzerland on income taxes, the refund of the withholding tax credit, which is reported under other receivables, and the effects of uncertainties. The total impact of these factors amounts to CHF 59.0 million for the reporting period 2019.

The tax for each component of other comprehensive income is:

			2019			2018
CHF million	Before tax	Tax	After tax	Before tax	Tax	After tax
Hedge accounting	–3.7	–	–3.7	52.5	–	52.5
Defined benefit plan	239.9	–70.8	169.1	40.1	–12.6	27.5
Currency translation	–53.6	1.7	–51.9	–34.9	0.2	–34.7
Total	**182.6**	**–69.1**	**113.5**	**57.7**	**–12.4**	**45.3**

12. Inventories

CHF million	2019	2018
Raw material	126.8	103.0
Packaging material	103.1	103.4
Semi-finished and finished products	569.9	593.6
Inventory reserves	–49.7	–47.8
Total	**750.1**	**752.2**

In 2019, CHF 8.6 million (CHF 5.9 million in 2018) of the inventory reserve that existed as of year-end 2018 has been released to the benefit of the income statement. At the same time, the inventory reserve as of December 31, 2019 has been increased by CHF 3.1 million due to the one-off effects in the USA. As a consequence of the planned closures in production and logistics in the USA, the inventory reserve for packaging material has been increased.

13. Accounts Receivable

CHF million	2019	2018
Accounts receivable gross	1,001.9	1,053.8
Allowances	–28.1	–30.6
Total	**973.8**	**1,023.2**
Allowance as at January 1	**–30.6**	**–31.3**
Addition	–5.4	–9.3
Utilization	7.1	6.0
Release	0.6	3.6
Currency translation	0.2	0.4
Alowance as at December 31	**–28.1**	**–30.6**

The following table presents the aging of accounts receivable:

CHF million	2019	2018
Not yet past due	836.0	862.9
Past due 1–30 days	112.1	126.5
Past due 31–90 days	30.6	44.2
Past due over 91 days	23.2	20.2
Accounts receivable gross	**1,001.9**	**1,053.8**

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

CHF million	2019	2018
CHF	68.8	63.2
EUR	328.7	356.7
USD	306.3	337.5
GBP	82.7	73.8
Other currencies	187.3	192.0
Accounts receivable net	**973.8**	**1,023.2**

14. Derivative Financial Instruments and Hedging Reserves

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

CHF million	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
Derivatives for hedging (currencies and raw material)	29.7	10.5	37.1	12.1
Other derivatives	2.2	0.1	1.5	–
Total	**31.9**	**10.6**	**38.6**	**12.1**

The carrying amount (contract value) of the outstanding forward-currency and raw material contracts as at December 31, 2019, is CHF 1,472.5 million (CHF 1,539.8 million in 2018). 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 21.2 million as of December 31, 2019 (CHF 24.9 million in 2018), 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.

15. Cash and Cash Equivalents

CHF million	2019	2018
Cash at bank and in hand	614.3	555.7
Short-term bank deposits	40.5	440.4
Total	**654.8**	**996.1**

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.

16. 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, 2018	**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**
Capital increase	–	18,262	–	0.2	0.2
Cancellation of shares	–100	–18,156	–	–0.2	–0.2
As at December 31, 2019	**135,988**	**1,072,641**	**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 381,445 participation certificates (399,707 in 2018) with a par value of CHF 10.–. Of this total, 226,995 (145,257 in 2018) are reserved for employee stock option programs; the remaining 154,450 participation certificates (254,450 in 2018) are reserved for capital market transactions. There is no other authorized capital. In 2019, a total of 18,262 (24,382 in 2018) of the employee options were exercised at an average price of CHF 4,308 (CHF 3,624 in 2018). 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:

	2019		2018	
	Registered shares	Participation certificates	Registered shares	Participation certificates
Inventory as at January 1	**1,597**	**18,156**	**1,524**	**–**
Retirements	–458	–	–27	–
Share buy-back program	436	46,615	100	18,156
Cancellation of shares	–100	–18,156	–	–
Inventory as at December 31	**1,475**	**46,615**	**1,597**	**18,156**
Average sales price of retirements (CHF)	80,740	–	71,325	–
Average cost of share buy-back program (CHF)	76,180	6,520	74,922	6,176
Average cost of cancellation of shares (CHF)	74,922	6,176	–	–

17. Financial Liabilities

CHF million	2019	2018
Non-current		
CHF 500 million 0.5% bond, 2014-2020	–	499.7
CHF 250 million 1.0% bond, 2014-2024	248.9	248.8
CHF 250 million 0.3% bond, 2017-2027	249.6	249.4
Loans	–	0.8
Current		
Bank and other borrowings	5.6	12.3
CHF 500 million 0.5% bond, 2014-2020	499.9	–
Total borrowings	**1,004.0**	**1,011.0**

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

CHF million	2019	2018
CHF	998.4	997.9
EUR	5.5	10.1
USD	–	0.4
Other currencies	0.1	2.6
Total	**1,004.0**	**1,011.0**

18. 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.

18.1 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 towards these pension funds or to the employees. In 2019 the employer contributions to defined contribution plans amounted to CHF 13.4 million (CHF 12.9 million in 2018).

18.2 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.

18.2.1 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 2019, the rate was 1.00% (1.00% in 2018). 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.

18.2.2 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.

18.2.3 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 the withdrawal negotiations were still in process. Therefore the plan is still accounted for as a defined benefit plan as of December 31, 2019.

In 2019 the benefits of a closed defined benefit plan could be definitively settled, resulting in a settlement gain of CHF 1.5 million.

Another large plan includes a 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.

18.2.4 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, 2019. The market value of assets at December 31, 2019 was estimated based on the information available at the moment of preparing the results.

18.2.5 Actuarial calculations

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

	Pension plans		Other long-term employee benefits	
	2019	2018	**2019**	2018
Discount rate	1.1%	1.7%	0.8%	1.5%
Future salary increases	0.9%	0.9%		
Future pension adjustments	0.3%	0.2%		

The values represent a weighted average across the plans in several countries.

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

			2019			2018
	Switzerland	Germany	USA	Switzerland	Germany	USA
Retirement in 20 years (age of 45 at balance sheet date)						
Men	24.40	22.96	21.30	24.33	22.83	21.30
Women	26.44	25.93	23.70	26.37	25.83	23.70
Retirement at balance sheet date (age of 65)						
Men	22.61	20.18	19.60	22.50	20.04	19.60
Women	24.65	23.69	22.10	24.54	23.57	22.10

For all active plans 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	**2019**	2018	**2019**	2018
Employee benefits expense				
Total service cost				
Current service cost	15.7	16.8	0.8	0.8
Past service cost and curtailments	0.5	0.1	–	–
Plan settlements	–1.5	0.1	–	–
Net interest cost	–16.5	–12.8	0.1	0.1
Liability management cost	0.7	0.7	–	–
Actuarial gains (–)/losses (+)	–	–	–0.3	–0.2
Total defined benefit cost (+)/gain (–) of the period	**–1.1**	**4.9**	**0.6**	**0.7**
Valuation components accounted for in OCI				
Actuarial gains (–)/losses (+)				
Arising from changes in demographic assumptions	–15.4	5.8	–	–
Arising from changes in financial assumptions	49.9	–12.8	–	–
Arising from experiences	–1.2	10.2	–	–
Return on plan assets (excluding interest income)	–287.1	–37.1	–	–
Return on reimbursement (excluding amounts in net interest)	–1.0	0.6	–	–
Changes in asset ceiling	15.3	–6.8	–	–
Total defined benefit cost (+)/gain (–) recognized in OCI	**–239.5**	**–40.1**	**–**	**–**
Total defined benefit cost (+) gain (–)	**–240.6**	**–35.2**	**0.6**	**0.7**

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	2019	2018	2019	2018
Defined benefit obligation as at January 1	**599.7**	**591.2**	**9.9**	**10.2**
Current service cost	15.7	16.8	0.8	0.8
Plan participants' contributions	5.9	5.6	–	–
Interest expense on the net present value of the obligation	7.4	9.0	0.1	0.1
Actuarial gains (–)/losses (+)	33.2	3.2	–0.3	–0.3
Past service gains (–)/losses (+)	0.5	0.1	–	–
Gains (–)/losses (+) on settlements	–17.7	–1.9	–	–
Benefits paid through pension assets	–17.6	–15.1	–	–
Benefits paid by employer	–3.8	–6.0	–0.6	–0.6
Currency exchange differences	–5.7	–3.2	–0.2	–0.3
Defined benefit obligation as at December 31	**617.6**	**599.7**	**9.7**	**9.9**

Changes in the fair value of plan assets

	Pension plans	
CHF million	2019	2018
Fair value of plan assets as at January 1	**1,983.5**	**1,931.2**
Plan participants' contributions	5.9	5.6
Contributions by employer	9.7	5.2
Interest income	23.7	21.8
Return on plan assets (excluding interest income)	287.1	37.1
Gains (–)/losses (+) on settlements	–16.2	–2.0
Benefits paid through pension assets	–17.6	–15.1
Liability management cost	–0.7	–0.7
Currency translations	–0.6	0.4
Fair value of plan assets as at December 31	**2,274.8**	**1,983.5**

Development of reimbursement rights[1]

CHF million	2019	2018
Reimbursement rights as at January 1	**8.2**	**11.0**
Employee contributions	0.3	0.3
Employer contributions	0.1	0.1
Interest income on reimbursements	0.3	0.4
Return on reimbursement (excluding interest income)	1.0	–0.7
Reimbursements to employer	–1.0	–3.0
Currency translation	–0.1	0.1
Reimbursement rights as at December 31	**8.8**	**8.2**

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

Development of not recorded plan assets

	Pension plans	
CHF million	2019	2018
Asset ceiling as at January 1	**16.1**	**22.6**
Interest income recognized in OCI	0.2	0.3
Change in asset ceiling recognized in OCI	15.3	–6.8
Asset ceiling as at December 31	**31.6**	**16.1**

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	**2019**	2018	**2019**	2018
Present value of funded obligation	593.3	575.8	–	–
Fair value of plan assets	–2,274.8	–1,983.5	–	–
Underfunding (+) / overfunding (–)	**–1,681.5**	**–1,407.7**	**–**	**–**
Unrecognized prepaid pension costs	31.6	16.1	–	–
Present value of unfunded obligations	24.3	23.8	9.7	9.9
Net pension liability (+) / asset (–)	**–1,625.6**	**–1,367.8**	**9.7**	**9.9**
of which pension liabilities	175.0	165.0	9.7	9.9
of which pension assets [1]	–1,800.6	–1,532.8	–	–

1 See note 10.

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:

			2019			2018
CHF million	Listed	Not listed	Total	Listed	Not listed	Total
Equities	1,940.7	–	1,940.7	1,645.1	–	1,645.1
Bonds	145.9	–	145.9	146.2	–	146.2
Alternative investments	17.4	–	17.4	18.8	–	18.8
Real estate	16.4	117.6	134.0	17.2	114.0	131.2
Qualified insurance policies	–	18.7	18.7	–	18.1	18.1
Liquidity and other	–	18.1	18.1	–	24.1	24.1
Total	**2,120.4**	**154.4**	**2,274.8**	**1,827.3**	**156.2**	**1,983.5**

The plan assets include investments in the Lindt & Sprüngli Group with a market value of CHF 1,754.9 million at December 31, 2019 (CHF 1,500.1 in 2018). Moreover, the Lindt & Sprüngli Group has occupied property from the pension funds with a market value of CHF 16.6 million at December 31, 2019 (CHF 16.6 million in 2018).

The revaluation of assets resulted in a gain of CHF 314.4 million in 2019 and a gain of CHF 58.9 million in 2018. In 2020, the expected employer contributions amount to CHF 7.4 million and the expected payments for pensions by the employer to CHF 3.7 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:

CHF million	Pension plans 2019	2018
Active employees	338.1	317.0
Vested terminations	21.6	24.2
Pensioners	257.9	258.5
Total	**617.6**	**599.7**

The average duration of the liabilities at December 31, 2019 is 14.8 years (15.9 years in 2018). The most important factors impacting the present value of the defined benefit obligation are the discount rate, salary increase, and pension indexation. For the simulation of the impact on the the present value of the defined benefit obligation just the mentioned assumption is changed, the other assumptions remain unchanged.

The following table shows the impact of the change of these factors on the defined benefit obligation:

CHF million		**2019**		2018
Increase (+) / decrease (–) of assumptions by	+0,25%	-0,25%	+0,25%	-0,25%
Technical interest rate	–18.8	20.2	–19.0	20.7
Salary increase	5.3	–4.7	6.8	–5.7
Pension indexation	12.9	–3.3	12.1	–2.5

19. Provisions

CHF million	Business risks	Other	**Total**
Provisions as at January 1, 2018	**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**
whereof current	4.0	10.4	14.4
whereof non-current	80.1	8.0	88.1
Reclassification [1]	–74.6	–	–74.6
Addition	14.0	31.3	45.3
Utilization	–1.8	–3.4	–5.2
Release	–1.6	–6.0	–7.6
Currency translation	–0.4	–0.7	–1.1
Provisions as at December 31, 2019	**19.7**	**39.6**	**59.3**
whereof current	8.7	11.9	20.6
whereof non-current	11.0	27.7	38.7

1 Due to IFRIC 23, a reclassification was done from provisions into current income taxes. See note 2 for details.

Provisions for business risks include unsettled claims, and legal proceedings as of December 31, 2019, 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 exists and the expected outflow of resources can be reliably estimated. Especially for the non-current positions, the timing of outflows is uncertain as it depends upon the outcome of the proceedings.

The additions to provisions for business risks arise due to new legal proceedings. The additions to other provisions are related to the one-off effects in the USA, whereof CHF 16.1 million are included in operating expenses and CHF 10.0 million in personnel expenses. These are caused by the strategic changes in the USA and predominantly composed of provisions for onerous contracts and severance payments. 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, 2019.

20. Accounts Payable

Accounts payable to suppliers are denominated in the following currencies:

CHF million	**2019**	2018
CHF	9.3	14.2
EUR	143.2	123.3
USD	52.6	47.3
GBP	9.1	10.5
Other currencies	19.7	18.9
Total	**233.9**	**214.2**

21. Accrued Liabilities

CHF million	**2019**	2018
Trade related accrued liabilities	348.0	359.2
Salaries/wages and social costs	117.5	104.1
Other	227.5	203.1
Total	**693.0**	**666.4**

"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 uninvoiced third-party services rendered, as for example for marketing or transporting services, as well as commissions.

22. Personnel Expenses

CHF million	**2019**	2018
Wages and salaries	714.4	691.7
Social benefits	155.0	147.4
Other	109.5	99.3
Total	**978.9**	**938.4**

For the year 2019, the Lindt & Sprüngli Group employed an average of 14,621 people (14,570 in 2018).

23. Net Financial Result

CHF million	2019	2018
Interest income	1.8	1.5
Other	1.3	2.3
Total financial income	**3.1**	**3.8**
Interest expense[1]	–35.0	–18.8
Other	–	–1.1
Total financial expense	**–35.0**	**–19.9**

1 Entails CHF 16.9 million interest expense in 2019 from leases, which due to the first time application of IFRS 16 needs to be shown within financial expense.

24. Earnings per Share/Participation Certificate (PC)

	2019	2018
Non-diluted earnings per share/10 PC (CHF)	**2,141.5**	**2,021.4**
Net income (CHF million)	509.6	485.1
Weighted average number of registered shares/10 PC	237,959	239,978
Diluted earnings per share/10 PC (CHF)	**2,123.7**	**2,008.1**
Net income (CHF million)	509.6	485.1
Weighted average number of registered shares/10 PC and outstanding options on 10 PC	239,963	241,575

25. Dividend per Share/Participation Certificate (PC)

CHF	2019	2018
Dividend per share/10 PC	1,750[1]	1,000

1 Proposal of the Board of Directors.

During the period January 1, 2020 to record date April 30, 2020, 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.

26. 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:

	2019		2018	
	Number of options	Weighted average exercise price (CHF/PC)	Number of options	Weighted average exercise price (CHF/PC)
Outstanding options as at January 1	**101,216**	**5,180**	**102,799**	**4,658**
New option rights	26,560	5,934	26,070	5,791
Exercised rights	–18,262	4,308	–24,382	3,624
Cancelled rights	–5,828	5,601	–3,271	5,243
Outstanding options as at December 31 [1]	**103,686**	**5,503**	**101,216**	**5,180**
of which exercisable at December 31	12,914	4,800	10,469	3,804
Average remaining time to expiration (in days)	775		654	

1 The exercise price varies between CHF 3,123 to CHF 5,936 as of December 31, 2019.

Options expenses are charged to the income statement proportionally according to the vesting period. The recorded expenses amount to CHF 14.5 million (CHF 15.2 million in 2018). The assumptions used to calculate the expenses for the grants 2016 to 2019 are listed in the following table:

Date of issue	**16.1.2019**	30.1.2018	16.1.2017	21.1.2016
Number of issued options	26,510	26,070	24,205	26,830
of which in bracket A (blocking period 3 years)	9,205	9,111	8,405	9,353
of which in bracket B (blocking period 4 years)	9,330	9,146	8,525	9,444
of which in bracket C (blocking period 5 years)	7,975	7,813	7,275	8,033
Issuing price (CHF)	5,936	5,794	5,360	5,401
Price of participation certificates on date of issue (CHF)	5,820	5,755	5,260	5,285
Value of options on issuing date (CHF)				
Bracket A (blocking period 3 years)	562	719	631	637
Bracket B (blocking period 4 years)	615	780	690	697
Bracket C (blocking period 5 years)	663	831	737	747
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	2.2%	2.1%	2.1%	2,1%
Expected volatility	18.3%	20.5%	21.2%	21,4%
Expected dividend yield	1.68%	1.66%	1.63%	1.57%
Risk-free interest rate	(0,27) – (0,11)%	0.03 – 0.17%	(0,38) – (0,25)%	(0,51) – (0,36)%
Model	Binomial model			

27. Contingencies

As last year, the Lindt & Sprüngli Group has no contingent liabilities that would require disclosure as of December 31, 2019. With respect to the Lindt Chocolate Competence Foundation's construction project, refer to note 29.

28. Commitments

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

CHF million	**2019**	2018
Property, plant and equipment	81.4	62.8

The future lease payments under operating lease commitments are:

CHF million	**2019**	2018
Up to 1 year	–	89.4
Between 1 and 5 years	–	254.7
Over 5 years	–	153.1
Total	**–**	**497.2**

Leasing commitments are related to the rental of retail stores, warehouse and office space, vehicles and EDP hardware. Due to the first time application of IFRS 16 for reporting period 2019 commitments from operating leases cease to exist. Potential commitments from leases are disclosed within note 8.

29. Transactions with Related Parties

A family member of a member of the Board of Directors has a majority share in a company, to which products were sold for the value of CHF 21.3 million (CHF 20.2 million in 2018) and license fee income of CHF 0.7 million (CHF 0.7 million in 2018) was generated. Receivables outstanding against this company were CHF 14.8 million (CHF 13.8 million in 2018) at the balance sheet date.

In current and prior year 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 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 2019 the Board of Directors consisted of 6 non-executive and executive Directors (6 in 2018). The number of executive Officers as at December, 31 2019 is 6 (6 in 2018). The compensation paid to non-executive Directors and executive Officers is shown below:

CHF thousand	**2019**	2018
Fixed cash compensation [1]	7,345	9,905
Variable bonus component [2]	3,325	3,259
Other compensation [3]	113	110
Options [4]	4,032	5,727
Registered shares	930	977
Total	**15,745**	**19,978**

1 Total gross cash compensation and allowances for Officers and Directors including pension benefits paid by employer amounting to TCHF 276 (TCHF 353 in 2018) (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 2018 was CHF 3,259k.
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 of Directors or a member of the Group Management. As of December 31, 2019, 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 of Directors or the Group Management.

30. Events after the Balance Sheet Date

The consolidated financial statements were approved for publication by the Board of Directors on March 2, 2020. 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 2, 2020, 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 Lindt & Sprüngli chocolate AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity and the 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 consolidated financial statements (pages 50 to 87) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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.

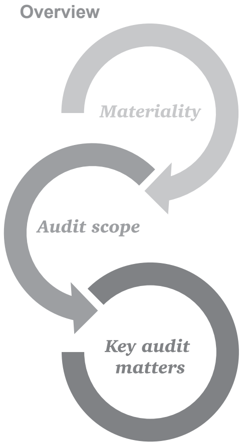
Basis for opinion

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.

Our audit approach

Overview



Overall Group materiality: CHF 42,000,000

We concluded full scope audit work at 27 Group companies in 19 countries. These Group companies represented 100% of the sales and the 99% of 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

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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 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 42,000,000
How we determined it	7.5% of profit before income taxes
Rationale for the materiality benchmark applied	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations. We chose 7.5% in light of the high equity level and the Group's past performance.

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 27 Group companies at which an audit of the financial information was performed. The three 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 also 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 1,367 million, of which CHF 763 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 in the calculation of present values. Please refer to note 9 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 2019 actual results with the 2019 budget figures fixed in the previous year to assess the accuracy of those 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; • the EBIT margin growth rates, by comparing them with other mature Lindt & Sprüngli production entities; • 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 that the models and assumptions used are appropriate to test for the impairment of intangible assets.

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n of pension fund assets

Key audit matter	How our audit addressed the key audit matter
Financial assets are recognised in the amount of CHF 1,802 million, of which CHF 1,801 million are assets relating to pension funds. We focussed on this area because of 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 to determine the pension fund liabilities and assets in the balance sheet. The most judgemental assumptions underlying this calculation are the salary growth rates, the pension increase rates, the mortality rate and the discount rate. For further information, please refer to notes 10 and 18.	We compared on a sample basis the personal 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 discount 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 concluded that the assumptions used by management in the valuation of the net assets of the pension funds were within a range considered 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.

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 available on 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, 2 March 2020

Balance Sheet

CHF thousand	Note	December 31, 2019	December 31, 2018
Assets			
Cash and cash equivalents		287,059	294,774
Marketable securities and short-term financial assets		440,131	440,015
Accounts receivable			
from subsidiaries		6,973	4,477
Other receivables			
from third parties		29,946	11,894
Loans to subsidiaries		260,000	170,000
Accrued income			
from subsidiaries		32,850	32,170
Total current assets		**1,056,959**	**953,330**
Loans to subsidiaries		–	260,000
Investments	4	884,899	876,081
Intangible assets		426,028	451,089
Total non-current assets		**1,310,927**	**1,587,170**
Total assets		**2,367,886**	**2,540,500**
Liabilities and Shareholders' Equity			
Accounts payable to subsidiaries		3,055	1,821
Short-term interest-bearing liabilities			
to subsidiaries		114,750	134,988
Bonds	5	500,000	–
Other accounts payable			
to third parties		102	4,143
Tax liabilities		20,800	22,031
Accrued liabilities			
to third parties		5,710	5,164
to subsidiaries		4	–
Total current liabilities		**644,421**	**168,147**
Bonds	5	500,000	1,000,000
Total non current liabilities		**500,000**	**1,000,000**
Share capital		13,599	13,609
Participation capital		10,726	10,725
Reserve from capital contribution	7	96,892	103,677
General legal reserve		76,040	76,040
Special reserve	7	1,060,378	1,060,755
Retained earnings			
Balance brought forward from previous year		38,388	36,443
Net income for the year		326,695	273,525
Treasury stock	6	–62,111	–82,790
Treasury stock (share buy-back program)	6	–337,142	–119,631
Total shareholders' equity		**1,223,465**	**1,372,353**
Total liabilities and shareholders' equity		**2,367,886**	**2,540,500**

Income Statement

CHF thousand	2019	2018
Dividends and other income from subsidiaries	378,728	350,523
Other income	333	422
Other expenses	–30,738	–25,950
Value adjustments on investments	10,777	3,735
Value adjustments on intangible assets	–25,060	–25,060
Operating profit	**334,040**	**303,670**
Financial income	24,659	11,515
Financial expenses	–8,570	–10,714
Income before taxes	**350,129**	**304,471**
Taxes	–23,434	–30,946
Net income	**326,695**	**273,525**

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 58 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, 2019, amounted to CHF 328.0 million (CHF 281.9 million in 2018). 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 55 of the notes to the consolidated financial statements.

5. Bonds

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

	2019		2018	
	Registered shares	Participation certificates	Registered shares	Participation certificates
Inventory as at January 1	**1,597**	**18,156**	**1,524**	**–**
Retirements	–458	–	–27	–
Share buy-back program	436	46,615	100	18,156
Cancellation of shares	–100	–18,156	–	–
Inventory as at December 31	**1,475**	**46,615**	**1,597**	**18,156**
Average sales price of retirements (CHF)	80,740	–	71,325	–
Average cost of share buy-back program (CHF)	76,180	6,520	74,922	6,176
Average cost of cancellation of shares (CHF)	74,922	6,176	–	–

7. Reserves

CHF thousand	Reserves from capital contribution Requested	Approved	Not approved [1]	Total	Special reserves Total
Balance as at January 1, 2018	**–**	**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**
Reserve from retained earnings	–	–	–	–	120,000
Additions during the year	77,545	–	937	78,482	–937
Approved reserves from capital contribution					
FTA approval February 21, 2020	–77,545	77,545	–	–	–
Share buy-back program	–	–	–	–	–119,440
Proposed dividend distribution	–	–87,603	–	–87,603	–
Undistributed dividends on own registered shares and participation certificates	–	2,626	–	2,626	–
Options exercised from January 1 to May 8, 2019	–	–290	–	–290	–
Balance as at December 31, 2019	**–**	**81,051**	**15,841**	**96,892**	**1,060,378**

1 The Swiss federal tax administration (FTA) has not yet approved the capital transaction costs of TCHF 15,841 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, 2019, 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 (4.46% in 2018). "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 20.29% of the voting rights of the Company (20.23% in 2018).

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	
		2019	2018	**2019**	2018	**2019**	2018
E. Tanner	Executive Chairman	3,067	3,055	9,800	12,000	4,725	4,725
A. Bulgheroni	Member of the Board	1,000	1,000	165	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	Member of the Board	11	11	–	–	–	–
Dr D. Weisskopf	Group Management	7	7	2,400	2,400	6,925	6,350
A. Pfluger [1]	Group Management	–	5	–	30	–	4,613
R. Fallegger	Group Management	5	5	869	100	4,550	4,548
A. Germiquet	Group Management	7	4	400	400	3,053	2,610
Dr A. Lechner	Group Management	7	7	56	56	4,500	4,195
M. Hug	Group Management	–	–	200	–	2,675	2,075
G. Steiner	Group Management	2	2	–	–	2,900	2,380
Total		**5,199**	**5,189**	**13,940**	**15,201**	**29,328**	**31,496**

1 Mr. A. Pfluger stepped down from Group Management on December 31, 2018, therefore no participation reported in 2019.

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, 2019**	December 31, 2018
Balance brought forward	34,229,750	36,089,743
Net income	326,695,427	273,524,790
Other	4,159,204[1]	353,777
Available retained earnings	**365,084,381**	**309,968,310**
Shares and participation certificates as per bylaws of CHF 24,325,210 as at December 31, 2019 (CHF 24,334,150 in 2018)		
720% (640% in 2018) dividend	–175,141,512[2]	–155,738,560
700% Special dividend	–170,276,470	–
Allocation to special reserves	–	–120,000,000
Balance carried forward	**19,666,399**	**34,229,750**
Allocation of approved capital contribution reserve to free reserves	80,273,193[2]	87,602,940
Withholding tax exempt distribution CHF 330.– per registered share/ CHF 33.– per participation certificate (CHF 360.– per RS/CHF 36.– per PC in 2018)	–80,273,193[2]	–87,602,940

1 Includes dividends not distributed on treasury stock held of CHF 4,668,288, dividends distributed on options exercised during the period January 1 to May 8, 2019 of CHF –516,800, and expired dividends of CHF 7,716.
2 Number of registered shares and participation certificates, status as at December 31, 2019. During the period from January 1 until record date of April 30, 2020, 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 2019 the Board of Directors proposes a total dividend of CHF 1,050.– per registered share and CHF 105.– per participation certificate, plus a special dividend of CHF 700.– per registered share and CHF 70.– per participation certificate.

CHF 330.– per registered share and CHF 33.– per participation certificate are distributed out of the approved capital contribution reserve (agio) and CHF 720.– per registered share and CHF 72.– per participation certificate are distributed out of retained earnings.

Report of the Statutory Auditor on the Financial Statements

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 2019, the income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 93 to 98) as at 31 December 2019 comply with Swiss law and the articles of incorporation.

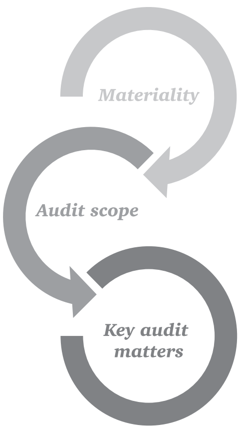
Basis for opinion

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 24,000,000

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

pwc

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 24,000,000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark for determining materiality. We chose total assets as the benchmark 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.

pwc

Impairment assessment of intangible assets

Key audit matter	How our audit addressed the key audit matter
Intangible assets recognised in the amount of CHF 426 million relate to the Russell Stover (CHF 391 million), Ghirardelli (CHF 30 million) and Caffarel (CHF 5 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 any impairment, in accordance with the requirements of commercial accounting and financial reporting. The impairment assessment of the brands is based on a comparison of their book value with the capitalised licensing incomes. 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 in 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, and considered country-specific factors. • Further, we inspected on a sample basis the budgets approved by the Board of Directors of the individual licence holders in order to assess the financial performance of these individual licence holders. We concluded that the models and assumptions used are appropriate to test for the impairment of intangible assets.

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 885 million and loans to subsidiaries in the amount of CHF 260 million. We focussed our audit on these assets because of their considerable size 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 book value with the intrinsic value of the investment. The intrinsic value of an investment is determined using historical and forecast financial data and on the basis of generally accepted valuation methods. 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 underlying financial information used in the loan valuations. 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.

A further description of our responsibilities for the audit of the financial statements is available from 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 retained earnings and of the statutory capital reserves 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, 2 March 2020

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

		2019	2018	2017	2016	2015
Income Statement						
Sales	CHF million	4,509.0	4,313.2	4,088.4	3,900.9	3,653.3
EBITDA	CHF million	915.8	816.2	764.4	714.0	645.8
in % of sales	%	20.3	18.9	18.7	18.3	17.7
EBIT	CHF million	593.0[1]	636.7	595.4	562.5	518.8
in % of sales	%	13.2[1]	14.8	14.6	14.4	14.2
Net income	CHF million	511.9	487.1	452.5	419.8	381.0
in % of sales	%	11.4	11.3	11.1	10.8	10.4
in % of average shareholders' equity	%	11.2	11.2	11.5	11.7	11.7
Operating cash flow	CHF million	830.9	651.6	591.0	515.4	488.9
in % of sales	%	18.4	15.1	14.5	13.2	13.4
Depreciation, amortization and impairment	CHF million	322.8	179.5	169.0	151.5	127.0
Balance Sheet						
Total assets	CHF million	8,040.8	7,249.8	6,975.6	6,428.8	6,259.0
Current assets	CHF million	2,975.7	2,933.0	2,781.1	2,374.5	2,111.7
in % of total assets	%	37.0	40.5	39.9	36.9	33.7
Non-current assets	CHF million	5,065.1	4,316.8	4,194.5	4,054.3	4,147.3
in % of total assets	%	63.0	59.5	60.1	63.1	66.3
Non-current liabilities	CHF million	1,680.9	1,735.3	1,730.8	1,495.9	1,782.3
in % of total assets	%	20.9	23.9	24.8	23.3	28.5
Shareholders' equity	CHF million	4,670.2	4,486.4	4,195.0	3,674.0	3,489.7
in % of total assets	%	58.1	61.9	60.1	57.1	55.7
Investments in PPE/intangible assets	CHF million	247.0	257.3	185.2	234.1	252.8
in % of operating cash flow	%	29.7	39.5	31.3	45.4	51.7
Employees						
Average number of employees		14,621	14,570	13,949	13,539	13,180
Sales per employee	TCHF	308.4	296.0	293.1	288.1	277.2

1 Includes one-off effects of CHF 81.6 million. Without these effects the EBIT amounts to CHF 674.6 million and the EBIT-margin to 15.0%.

Five-Year Overview: Data per Share/Participation Certificate

		2019	2018	2017	2016	2015
Share						
Registered shares at CHF 100.– par [1]	Number	135,988	136,088	136,088	136,088	136,088
Participation certificates at CHF 10.– par [2]	Number	1,072,641	1,072,535	1,048,153	1,013,136	988,475
Non-diluted earnings per share/10 PC [3]	CHF	2,142	2,021	1,893	1,791	1,646
Operating cash flow per share/10 PC [3]	CHF	3,492	2,715	2,482	2,200	2,115
Shareholders' equity per share/10 PC [4]	CHF	19,626	18,437	17,414	15,476	14,854
Payout ratio	%	83.2	50.0	49.5	49.8	49.4
Registered share						
Year-end price	CHF	85,500	73,300	70,485	61,900	74,620
High of the year	CHF	86,000	85,400	72,280	74,090	76,000
Low of the year	CHF	68,600	65,600	61,790	57,025	53,740
Dividend	CHF	1,750.00[5]	1,000.00	930.00	880.00	800.00
P/E ratio [6]	Factor	39.92	36.27	37.23	34.56	45.33
Participation certificate						
Year-end price	CHF	7,515	6,100	5,950	5,275	6,255
High of the year	CHF	7,715	7,270	5,985	6,240	6,300
Low of the year	CHF	5,730	5,270	5,055	4,877	4,570
Dividend	CHF	175.00[5]	100.00	93.00	88.00	80.00
P/E ratio [6]	Factor	35.08	30.18	31.43	29.45	38.00
Market capitalization [6]	CHF million	19,687.9	16,517.7	15,828.7	13,768.1	16,337.8
in % of shareholders' equity [4]	%	421.6	368.2	377.3	374.7	468.2

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

“We make the world a sweeter place”

For 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 500 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.

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Information

Agenda

April 24, 2020	122nd Annual Shareholders' Meeting
May 5, 2020	Payment of dividend
July 21, 2020	Half-year report 2020
Mid January, 2021	Net sales 2020
Mid March, 2021	Full-year results 2020
May 4, 2021	123nd Annual Shareholders' Meeting

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