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, 2017		December 31, 2016	
Assets					
Property, plant and equipment	7	1,289.3		1,240.4	
Intangible assets	8	1,378.7		1,424.4	
Financial assets	9	1,483.5		1,302.2	
Deferred tax assets	10	43.0		87.3	
Total non-current assets		**4,194.5**	**60.1%**	**4,054.3**	**63.1%**
Inventories	11	731.4		657.6	
Accounts receivable	12	1,047.5		994.5	
Other receivables		130.9		109.0	
Accrued income		4.0		10.9	
Derivative assets	13	14.1		10.1	
Marketable securities and short-term financial assets	14	0.2		0.2	
Cash and cash equivalents	15	853.0		592.2	
Total current assets		**2,781.1**	**39.9%**	**2,374.5**	**36.9%**
Total assets		**6,975.6**	**100.0%**	**6,428.8**	**100.0%**
Liabilities					
Share and participation capital	16	24.1		23.7	
Treasury stock		–84.0		–100.3	
Retained earnings and other reserves		4,246.2		3,743.8	
Equity attributable to shareholders		**4,186.3**		**3,667.2**	
Non-controlling interests		8.7		6.8	
Total equity		**4,195.0**	**60.1%**	**3,674.0**	**57.1%**
Bonds	17	997.5		747.7	
Loans	17	0.7		1.2	
Deferred tax liabilities	10	444.2		433.5	
Pension liabilities	18	174.8		191.7	
Other non-current liabilities		7.7		7.6	
Provisions	19	105.9		114.2	
Total non-current liabilities		**1,730.8**	**24.8%**	**1,495.9**	**23.3%**
Accounts payable to suppliers	20	217.3		180.4	
Other accounts payable		53.2		46.8	
Current tax liabilities		55.0		39.4	
Accrued liabilities	21	677.6		618.3	
Derivative liabilities	13	37.5		57.6	
Bonds	17	–		249.9	
Bank and other borrowings	17	9.2		66.5	
Total current liabilities		**1,049.8**	**15.1%**	**1,258.9**	**19.6%**
Total liabilities		**2,780.6**	**39.9%**	**2,754.8**	**42.9%**
Total liabilities and shareholders' equity		**6,975.6**	**100.0%**	**6,428.8**	**100.0%**

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

Consolidated Income Statement

CHF million	Note	2017		2016	
Income					
Sales		4,088.4	100.0%	3,900.9	100.0%
Other income	22	17.7		17.2	
Total income		**4,106.1**	**100.4%**	**3,918.1**	**100.4%**
Expenses					
Material expenses		–1,488.3	–36.4%	–1,388.8	–35.6%
Changes in inventories		63.0	1.6%	12.6	0.3%
Personnel expenses	23	–886.4	–21.7%	–846.3	–21.7%
Operating expenses		–1,030.0	–25.2%	–981.6	–25.1%
Depreciation, amortization, and impairment	7, 8	–169.0	–4.1%	–151.5	–3.9%
Total expenses		**–3,510.7**	**–85.8%**	**–3,355.6**	**–86.0%**
Operating profit (EBIT)		**595.4**	**14.6%**	**562.5**	**14.4%**
Financial income	24	3.0		5.7	
Financial expense	24	–15.6		–14.1	
Income before taxes		**582.8**	**14.3%**	**554.1**	**14.2%**
Taxes	10	–130.3		–134.3	
Net income		**452.5**	**11.1%**	**419.8**	**10.8%**
of which attributable to non-controlling interests		1.8		0.1	
of which attributable to shareholders of the parent		450.7		419.7	
Non-diluted earnings per share/10 PC (CHF)	25	1,892.5		1,791.3	
Diluted earnings per share/10 PC (CHF)	25	1,880.6		1,766.8	

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

Statement of Comprehensive Income

CHF million	**2017**	2016
Net income	452.5	419.8
Other comprehensive income after taxes		
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans	143.1	–171.9
Items that may be reclassified subsequently to profit or loss		
Hedge accounting	15.9	–63.0
Currency translation	–14.1	44.6
Total comprehensive income	**597.4**	**229.5**
of which attributable to non-controlling interests	1.7	1.1
of which attributable to shareholders of the parent	595.7	228.4

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

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

Consolidated Statement of Changes in Equity

CHF million	Note	Share-/ PC-capital	Treasury stock	Share premium	Hedge accounting	Retained earnings	Currency translation	**Equity attributable to share-holders**	Non-controlling interest	**Total equity**
Balance as at January 1, 2016		**23.5**	**–113.1**	**347.5**	**19.5**	**3,447.3**	**–239.0**	**3,485.5**	**4.2**	**3,489.7**
Total comprehensive income		–	–	–	–63.0	247.8	43.6	228.4	1.1	229.5
Capital increase [1]	16	0.2	–	63.7	–	–	–	64.0	1.5	65.5
Purchase of own shares and participation certificates	16	–	–10.0	–	–	–	–	–10.0	–	–10.0
Sale of own shares [1]	16	–	21.4	–	–	31.5	–	52.9	–	52.9
Share-based payment	27	–	1.4	–	–	32.2	–	33.6	–	33.6
Reclass into retained earnings		–	–	–93.6	–	93.6	–	–	–	–
Distribution of profits		–	–	–	–	–187.2	–	–187.2	–	–187.2
Balance as at December 31, 2016		**23.7**	**–100.3**	**317.6**	**–43.5**	**3,665.2**	**–195.4**	**3,667.2**	**6.8**	**3,674.0**
Total comprehensive income		–	–	–	15.9	593.5	–13.7	595.7	1.7	597.4
Capital increase [1]	16	0.4	–	100.6	–	–	–	101.0	0.2	101.2
Sale of own shares [1]	16	–	14.5	–	–	7.7	–	22.2	–	22.2
Share-based payment	27	–	1.8	–	–	7.2	–	9.1	–	9.1
Reclass into retained earnings		–	–	–71.2	–	71.2	–	–	–	–
Distribution of profits		–	–	–	–	–208.9	–	–208.9	–	–208.9
Balance as at December 31, 2017		**24.1**	**–84.0**	**347.0**	**–27.6**	**4,135.9**	**–209.1**	**4,186.3**	**8.7**	**4,195.0**

1 All directly attributable transaction costs related to capital increase and the gain on sale of registered shares are recognized in retained earnings.

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

Consolidated Cash Flow Statement

CHF million	Note		**2017**		2016
Net income		452.5		419.8	
Depreciation, amortization, and impairment	7, 8	169.0		151.5	
Changes in provisions, value adjustments and pension assets		–13.7		2.6	
Decrease (+)/increase (–) of accounts receivable		–31.3		–83.8	
Decrease (+)/increase (–) of inventories		–58.7		–3.6	
Decrease (+)/increase (–) of other receivables		–19.1		14.5	
Decrease (+)/increase (–) of accrued income and derivative assets and liabilities		–1.2		–25.6	
Decrease (–)/increase (+) of accounts payable		28.4		–2.9	
Decrease (–)/increase (+) of other payables and accrued liabilities		57.7		16.5	
Non-cash effective items [1]		7.4		26.4	
Cash flow from operating activities (operating cash flow)			**591.0**		**515.4**
Investments in property, plant and equipment	7	–173.2		–216.8	
Disposals of property, plant and equipment		1.1		4.6	
Investments in intangible assets	8	–12.0		–17.3	
Disposals (+)/investments (–) in financial assets (excluding pension assets)		–		4.9	
Cash flow from investment activities			**–184.1**		**–224.6**
Proceeds from loans/borrowings	17	–		63.4	
Repayments of loans/borrowings	17	–60.4		–83.8	
Proceeds from the issuance of bond	17	249.4		–	
Repayment of bond	17	–250.6		–	
Capital increase (including premium)		100.9		64.0	
Purchase of treasury stock		–		–10.0	
Sale of treasury stock		21.2		52.0	
Distribution of profits		–208.9		–187.2	
Cash flow with non-controlling interests		0.2		1.5	
Cash flow from financing activities			**–148.2**		**–100.1**
Net increase (+)/decrease (–) in cash and cash equivalents			**258.7**		**190.7**
Cash and cash equivalents as at January 1		592.2		404.3	
Exchange gains(+)/losses (–) on cash and cash equivalents		**2.1**	**594.3**	**–2.8**	**401.5**
Cash and cash equivalents as at December 31	**15**		**853.0**		**592.2**
Interest received from third parties [2]			0.7		2.3
Interest paid to third parties [2]			15.2		12.8
Income tax paid [2]			95.3		82.8

1 As at December 31, 2017, movements of CHF –3.4 million result from the translation of foreign exchange balances (CHF –13.7 million in 2016).
2 Included in cash flow from operating activities.

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

Notes to the Consolidated Financial Statements

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

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

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 5, 2018.

The subsidiaries of Chocoladefabriken Lindt & Sprüngli AG as at December 31, 2017 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
		Lind & 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
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	248.1
Sweden	Stockholm	Lindt & Sprüngli (Nordic) AB [1]	D	100	SEK	0.5
Czech Republic	Prague	Lindt & Sprüngli (CEE) s.r.o. [1]	D	100	CZK	0.2
Japan	Tokyo	Lindt & Sprüngli Japan Co., Ltd.	D	100	JPY	1,227.0
South Africa	Capetown	Lindt & Sprüngli (South Africa) (Pty) Ltd. [1]	D	100	ZAR	100.0
Hong Kong	Hong Kong	Lindt & Sprüngli (Asia-Pacific) Ltd. [1]	D	100	HKD	248.3
China	Shanghai	Lindt & Sprüngli (China) Ltd.	D	100	CNY	199.5
Russia	Moscow	Lindt & Sprüngli (Russia) LLC [1]	D	100	RUB	16.0
Brazil	São Paulo	Lindt & Sprüngli (Brazil) Holding Ltda.	D	100	BRL	49.1
		Lindt & Sprüngli (Brazil) Comércio de Alimentos S.A. [2]	D	51	BRL	40.2

D – Distribution, P – Production, M – Management
1 Subsidiaries held directly by Chocoladefabriken Lindt & Sprüngli AG.
2 The Joint Venture with the CRMPAR Holding S.A. is a subsidiary with substantial non-controlling interests and is therefore fully consolidated according to IFRS 10 "Consolidated Financial Statements". The non-controlling interests are CHF 8.7 million at December 31, 2017 (CHF 6.8 million at December 31, 2016). 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 standards and Interpretations

New and amended IFRS and interpretations (effective as of January 1, 2017 and thereafter)

The Lindt & Sprüngli Group has applied various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall financial position or performance.

New and amended IFRS and interpretations that are required in future periods

The following standards have already been published and are required in future periods, but have not been early adopted by the Lindt & Sprüngli Group:

- IFRS 9 – "Financial Instruments" will fully replace IAS 39 – "Financial instruments: Recognition and measurements" from January 1, 2018 onwards. The new standard requires impairments to be based on a forward-looking model, changes the approach to hedging financial exposures and related documentation, changes the recognition of certain fair value changes and amends disclosure requirements. The Group has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets. The impact of the new standard on the financial position or performance of the Group is immaterial. The new standard will result in an increased volume of disclosure information.
- IFRS 15 – "Revenue from contracts with customers" will replace IAS 11 – "Construction Contracts", IAS 18 – "Revenue", and related interpretations in 2018. The new standard defines a new five-step model to recognize revenue from customer contracts. The Group has undertaken a review of the main types of commercial arrangements used with customers under this model and has concluded that the application of IFRS 15 will not have a material impact on the Group's financial position or performance.
- IFRS 16 – "Leases" will replace IAS 17 and become effective on January 1, 2019. The new standard will change the principles of the recognition, measurement, presentation and disclosure of leases. The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases. It will therefore result in an increase of total property, plant and equipment and total financial as well as to an increased operating result, due to the replacement of operating lease expense with amortization of the lease assets. This increase would be partially or entirely offset by higher interest expense. The future lease payments under operating lease commitments of the Group are disclosed in Note 29 and provide, subject to the provision of the standard, an indicator of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet. The Group is currently finalizing the precise impact assessment of this new standard.

Consolidation method

The consolidated financial statements include the accounts of the parent company and all the entities it controls (subsidiaries) up to December 31 of each year. The Lindt & Sprüngli Group controls an entity when it is exposed to, or has the rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power 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		**2017**	2016	**2017**	2016
Euro zone	1 EUR	1.17	1.07	1.12	1.09
USA	1 USD	0.98	1.02	0.99	0.99
Great Britain	1 GBP	1.32	1.25	1.27	1.32
Canada	1 CAD	0.78	0.76	0.77	0.75
Australia	1 AUD	0.76	0.74	0.76	0.73
Poland	100 PLN	28.01	24.30	26.28	24.97
Mexico	100 MXN	4.95	4.92	5.21	4.44
Sweden	100 SEK	11.89	11.23	11.63	11.43
Czech Republic	100 CZK	4.57	3.97	4.28	4.03
Japan	100 JPY	0.87	0.87	0.88	0.90
South Africa	100 ZAR	7.90	7.48	7.39	6.77
Hong Kong	100 HKD	12.48	13.15	12.64	10.58
China	100 CNY	14.99	14.72	14.75	14.63
Russia	100 RUB	1.69	1.67	1.69	1.50
Brazil	100 BRL	29.45	31.19	30.81	28.91

Property, plant and equipment

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

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

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

Intangible assets

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

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

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

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

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

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

Financial assets
The Lindt & Sprüngli Group recognizes, measures, impairs (if required), presents and discloses financial assets as required by IAS 39 – "Financial Instruments: Recognition and Measurement", IAS 32 – "Financial Instruments: Presentation" and IFRS 7 – "Financial Instruments: Disclosures". Loans and receivables are categorized as short-term assets, unless their remaining post-balance sheet date life exceeds twelve months. Within the reporting period the majority of loans and receivables have been accounted for as short-term commitments; they were included in the balance sheet items "Accounts receivable" and "Other receivables". Value adjustments are made to outstanding receivables for which repayment is considered doubtful.

Purchases and sales of financial assets are recorded on trade-date – the date on which the Lindt & Sprüngli Group has committed to buy or sell the asset. Investments in financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried "at fair value through profit or loss". The derecognition of a financial investment occurs at the moment when the right to receive future cash flows from the investment expires or has been transferred to a third party and the Lindt & Sprüngli Group has transferred substantially all risks and benefits of ownership. Financial investments categorized as "available for sale" and "at fair value through profit or loss" are valued at fair value.

"Loans and receivables" and "held to maturity" investments are valued at amortized cost using the effective interest method. Realized and unrealized profits and losses arising from changes in the fair value of financial investments categorized as "fair value through profit or loss" are reflected in the income statement in the reporting period in which they occur.

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.

"Available for sale financial assets" which have a market value of more than 40% below their original costs or are, for a sustained 18-months period, below their original costs are considered as impaired and the accumulated fair value adjustment in equity will be recognized in the income statement. Impairment losses recognized in the income statement for an investment in an equity instrument classified as "available for sale" shall not be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as "available for sale" increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed in the income statement.

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.

Dividends

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

Financial liabilities

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

Employee benefits

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

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

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

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

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

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

Remeasurements recorded in other comprehensive income are not recycled.

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

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

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

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

Revenue recognition

Revenue consists of delivery of goods and services to third parties net of value-added taxes and minus price reductions, returns and all payments to trade partners with the exception of payments for distinctly and clearly identifiable services, rendered by trade partners, which could also be rendered by third parties at comparable costs. Revenue is recorded in the income statement once the risks and rewards of the goods are transferred to the buyer. For returns of goods or other types of payments regarding the sales, adequate accruals are recorded.

Interest income is recognized on an accrual basis, taking into consideration the outstanding sums lent and the actual interest rate to be applied.

Dividend income resulting from financial investments is recorded upon approval of the dividend distribution.

Operating expenses

Operating expenses include marketing, distribution and administrative expenses.

Borrowing costs

Interest expenses incurred from borrowings used to finance the construction of fixed assets are capitalized for the period in which it takes to build the asset for its intended purpose. All other borrowing costs are immediately expensed in the income statement.

Taxes

Taxes are based on the yearly profit and include non-refundable taxes at source levied on the amounts received or paid for dividends, interests, and license fees. These taxes are levied according to a country's directives.

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

Deferred tax assets are recorded to the extent that it is probable that future taxable profit is likely to be achieved against which the temporary differences can be offset.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Research and development costs

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

Share-based payments

The Lindt & Sprüngli Group grants several employees options on officially listed participation certificates. These options have a blocking period of three to five years and a maximum maturity of seven years. The options expire once the employee leaves the company. Cash settlements are not allowed. The disbursement of these equity instruments is valued at fair value at grant date. The fair value determined at grant date is recorded in a straight-line method over the vesting period. This is based on the estimated number of participation certificates, which entitles a holder to additional benefits. The fair value was defined with the help of the binomial model used to determine the price of the options. The anticipated maturity period included the conditions of the employee option plan, such as the blocking period and the non-transferability.

Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are recorded when the contract is entered into and valued at fair value. The treatment of recognizing the resulting profit or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Lindt & Sprüngli Group designates certain derivative financial instruments as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (securing the cash flow).

At the beginning of the business transaction, the Lindt & Sprüngli Group documents the relationship between the hedge and the hedged items, as well as its risk management targets and strategies for undertaking the various hedging transactions. Furthermore, the Lindt & Sprüngli Group also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

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

Amounts accumulated in equity are recognized in the income statement in the same reporting period when the hedged item affects profit and loss.

Critical accounting estimates and judgments

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

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

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

3. Risk Management

Due to its global activity, the Lindt & Sprüngli Group is exposed to a number of risks: strategic, operational, and financial. Within the scope of the annual risk management process, the individual risk positions are classified into these three categories, where they are assessed, limited, and responsibilities assigned.

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

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

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

Market risks

Commodity price risks
The Lindt & Sprüngli Group's products are manufactured with raw materials (commodities) that are subject to strong price fluctuations due to climatic conditions, seasonal conditions, seasonal demand, and market speculation. In order to mitigate the price and quality risks of the expected future net demand, the manufacturing Lindt & Sprüngli Group companies enter into contracts with suppliers for the future physical delivery of the raw materials. Commodity futures are also used, but only processed centrally by Corporate Treasury. The commodity futures for cocoa beans of a required quality are always traded for physical-delivery agreements. The number of outstanding commodity futures is dependent on the expected production volumes and price development and may therefore vary significantly throughout the year. Based on the existing contract volume as of December 31, 2017 and 2016, 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 IAS 39.

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

Since the operational Lindt & Sprüngli Group companies transact the majority of their transactions in their own functional currencies and any remaining non-functional currency-based transactions are hedged with currency forward contracts, the exchange rate risk at balance sheet date is not material. The changes, in exchange rates, include the fair value of the currency forward contracts since entering into the contract and are recognized in accordance with IAS 39.

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, 2017 and 2016, there were no such transactions.

The most material financial assets as of December 31, 2017 and 2016 are not interest-bearing. These include predominantly 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 operating companies of the Lindt & Sprüngli Group have implemented processes for defining credit limits for clients and suppliers and monitor adherence to these processes on an ongoing basis. Due to the geographical spread of the turnover and the large number of clients, the Lindt & Sprüngli Group's concentration of risk is limited.

Liquidity risks

Liquidity risks exist when the Lindt & Sprüngli Group or a subsidiary does not settle or meet its financial obligations (untimely repayment of financial debt, payment of interest). The Lindt & Sprüngli Group's liquidity is ensured by means of regular group wide monitoring and planning of liquidity as well as an investment policy coordinated on a timely basis by Corporate Treasury. The net financial position (defined as cash and cash equivalents plus marketable securities less financial debt), is monitored on a company-by-company basis by Corporate Treasury. As of December 31, 2017, the net financial position amounted to CHF –154.2 million (CHF –472.9 million in 2016). For extraordinary financing needs, adequate credit lines with financial institutes have been arranged.

The tables below present relevant maturity groupings as at December 31, 2017 and 2016, of the contractual maturity date:

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

CHF million	< 3 months	Between 3 and 12 months	Between 1 and 3 years	Over 3 years	2016 Total
Bonds (including interests)	0.1	255.3	10.0	765.0	1,030.4
Loans	–	–	1.2	–	1.2
Accounts payable	177.1	3.2	–	–	180.3
Other accounts payable	45.6	1.1	–	–	46.7
Derivative assets	–6.1	–3.1	–0.8	–	–10.0
Derivative liabilities	13.9	41.7	2.0	–	57.6
Bank and other borrowings	66.1	0.4	–	–	66.5
Total contractually fixed payments	**296.7**	**298.6**	**12.4**	**765.0**	**1,372.7**

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.

The Lindt & Sprüngli Group monitors its capital based on the ratio of shareholders' equity in percentage to total assets, which was 60.1% as of December 31, 2017 (57.1% in 2016).

The objectives, policies, and procedures as of December 31, 2017, 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;
- "NAFTA", consisting of the companies in the USA, Canada, and Mexico; and
- "All other segments", 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 NAFTA		All other segments		Total	
CHF million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Sales	2,231.0	2,051.4	1,640.5	1,670.5	524.6	457.1	4,396.1	4,179.0
Less sales between segments	299.0	269.3	8.7	8.8	–	–	307.7	278.1
Third party sales	**1,932.0**	**1,782.1**	**1,631.8**	**1,661.7**	**524.6**	**457.1**	**4,088.4**	**3,900.9**
Operating profit	345.1	301.4	166.5	197.7	83.8	63.4	595.4	562.5
Net financial result							–12.6	–8.4
Income before taxes							**582.8**	**554.1**
Taxes							–130.3	–134.3
Net income							**452.5**	**419.8**

The following countries achieved the highest sales in 2017:

- USA CHF 1,399.7 million (CHF 1,471.3 million in 2016)
- Germany CHF 611.3 million (CHF 549.9 million in 2016)

Balance sheet and other information

	Segment Europe		Segment NAFTA		All other segments		Total	
CHF million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Assets [1]	4,522.0	3,919.2	2,192.0	2,278.5	261.6	231.1	6,975.6	6,428.8
Liabilities [1]	2,245.5	2,172.1	343.6	384.1	191.5	198.6	2,780.6	2,754.8
Investments	117.7	117.5	56.9	104.0	10.6	12.6	185.2	234.1
Depreciation and amortization	97.9	90.0	61.6	53.2	7.5	5.6	167.0	148.8
Impairment	0.3	1.1	0.8	1.2	0.9	0.4	2.0	2.7

1 Assets of CHF –15.5 million (CHF –10.1 million in 2016) and liabilities of CHF 118.1 million (CHF 130.1 million in 2016) which cannot be clearly allocated to a particular segment are disclosed in the category "All other segments".

The following countries held the greatest portion of fixed and intangible assets in 2017:

- USA CHF 1,337.3 million (CHF 1,408.6 million in 2016)
- Germany CHF 283.9 million (CHF 258.6 million in 2016)

6. Financial Instruments, Fair Value, and Hierarchie Levels

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

		2017		2016	
CHF million	Level [1]	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial Assets					
Fair value through profit or loss					
Derivative assets	1	–	–	0.3	0.3
Derivative assets	2	14.1	14.1	9.8	9.8
Marketable securities and short-term financial assets	1/2	0.2	0.2	0.2	0.2
Total		**14.3**	**14.3**	**10.3**	**10.3**
Available for sale					
Investments third parties	3	1.4	1.4	1.3	1.3
Total		**1.4**	**1.4**	**1.3**	**1.3**
Other financial assets [2]					
Total		**1,992.5**	**1,992.5**	**1,649.1**	**1,649.1**
Total financial assets		**2,008.2**	**2,008.2**	**1,660.7**	**1,660.7**
Financial Liabilities					
Fair value through profit or loss					
Derivative liabilities	1	23.8	23.8	21.0	21.0
Derivative liabilities	2	13.7	13.7	36.6	36.6
Total		**37.5**	**37.5**	**57.6**	**57.6**
Other financial liabilities					
Bonds [3]	1	997.5	1,025.1	997.6	1,031.2
Loans [3]		0.7	0.7	1.2	1.2
Other non-current liabilities		7.7	7.7	7.6	7.6
Accounts payable		217.3	217.3	180.4	180.4
Other accounts payable		53.2	53.2	46.8	46.8
Bank and other borrowings [3]		9.2	9.2	66.5	66.5
Total		**1,285.6**	**1,313.2**	**1,300.1**	**1,333.7**
Total financial liabilities		**1,323.1**	**1,350.7**	**1,357.7**	**1,391.3**

1 Level 1 – The fair value measurement of same financial instruments is based on quoted prices in active markets.
Level 2 – The fair value measurement of same financial instruments is based on observable market data, other than quoted prices in Level 1.
Level 3 – Valuation technique using non-observable data.
For financial instruments with a short term maturity date it is expected that the carrying amounts are a reasonable approximation of the respective fair values.
2 Contains cash and cash equivalents, accounts receivable and other receivables (excluding prepayments and current tax assets).
3 See note 17.

7. Property, Plant and Equipment

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

CHF million	Land/ buildings	Machinery	Other fixed assets	Construction in progress	2016 Total
Acquisition costs as at January 1, 2016	**932.5**	**1,149.1**	**213.1**	**141.2**	**2,435.9**
Additions	41.2	48.8	17.7	109.1	216.8
Retirements	–9.6	–41.7	–5.6	–	–56.9
Transfers	36.8	39.7	4.6	–81.8	–0.7
Currency translation	8.6	5.0	1.3	3.6	18.5
Acquisition costs as at December 31, 2016	**1,009.5**	**1,200.9**	**231.1**	**172.1**	**2,613.6**
Accumulated depreciation as at January 1, 2016	**408.4**	**713.3**	**163.9**	**–**	**1,285.6**
Additions	43.3	70.1	18.7	–	132.1
Impairments	1.4	1.0	0.1	–	2.5
Retirements	–6.0	–41.0	–5.5	–	–52.5
Currency translation	2.4	2.8	0.3	–	5.5
Accumulated depreciation as at December 31, 2016	**449.5**	**746.2**	**177.5**	**–**	**1,373.2**
Net fixed assets as at December 31, 2016	**560.0**	**454.7**	**53.6**	**172.1**	**1,240.4**

Advance payments of CHF 49.8 million (CHF 95.4 million in 2016) are included in the position construction in progress. No mortgages exist on land and buildings.

The impairment charge totals CHF 1.9 million (CHF 2.5 million in 2016) and consists of write-downs of land and buildings of CHF 1.8 million (CHF 1.4 million in 2016) and of machinery and other fixed assets of CHF 0.1 million (CHF 1.1 million in 2016).

The net book value of capitalized assets, under financial lease, amounted to CHF 0.7 million (CHF 1.1 million in 2016). Operating lease commitments are not capitalized.

8. Intangible Assets

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

CHF million	EDP software& consultancy	Customer relationships	Brands&IP	Goodwill	Other intangible assets	2016 Total
Acquisition costs as at January 1, 2016	**77.9**	**132.3**	**459.8**	**779.5**	**13.6**	**1,463.1**
Additions	11.8	–	–	–	5.5	17.3
Retirements	–5.2	–	–	–	–	–5.2
Transfers	0.7	–	–	–	–	0.7
Currency translation	0.1	4.1	–	24.1	1.7	30.0
Acquisition costs as at December 31, 2016	**85.3**	**136.4**	**459.8**	**803.6**	**20.8**	**1,505.9**
Accumulated depreciation as at January 1, 2016	**57.2**	**11.8**	**–**	**–**	**0.2**	**69.2**
Additions	7.6	8.8	–	–	0.2	16.6
Impairments	0.1	–	–	–	0.1	0.2
Retirements	–5.2	–	–	–	–	–5.2
Currency translation	0.1	0.6	–	–	–	0.7
Accumulated depreciation as at December 31, 2016	**59.8**	**21.2**	**–**	**–**	**0.5**	**81.5**
Net intangible assets as at December 31, 2016	**25.5**	**115.2**	**459.8**	**803.6**	**20.3**	**1,424.4**

Research and development expenditures amounted to CHF 12.7 million (CHF 11.6 million in 2016) 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 cash generating unit consists of the acquired company plus parts of the Canadian subsidiary which distributs Russell Stover Chocolate products in Canada since 2017. In addition, synergies generated by the acquisition are considered.

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:

	2017	2016
Period of cash flow projections	5 years	5 years
Annual sales growth	2,0%	3,0%
Annual EBIT-margin evolution	Improvement	Improvement
Terminal growth	2,2%	2,3%
Discount rate post tax	6,0%	6,2%

9. Financial Assets

CHF million	**2017**	2016
Pension assets [1]	1,482.1	1,300.9
Investments third parties (available-for-sale)	1.4	1.3
Total	**1,483.5**	**1,302.2**

1 See note 18.

10. Taxes

10.1 Deferred tax assets and liabilities

The net value of deferred tax liabilities is as follows:

CHF million	**2017**	2016
As at January 1	**346.2**	**429.9**
Deferred income tax expense	6.8	18.1
Tax charged to comprehensive income	53.7	–79.6
Tax charged to other components of equity	–4.6	–22.5
Currency translation	–0.9	0.3
As at December 31	**401.2**	**346.2**

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

CHF million	2017	2016
Deferred tax assets		
Property, plant and equipment	8.0	7.3
Intangible assets	0.3	–
Pension assets and liabilities	33.4	48.9
Receivables	8.4	8.3
Inventories	26.2	22.7
Payables and accruals	43.7	58.3
Other	35.8	17.8
Deferred tax assets gross	**155.8**	**163.3**
Netting	–112.8	–76.0
Total	**43.0**	**87.3**
Deferred tax liabilities		
Property, plant and equipment	40.7	40.0
Intangible assets	51.7	58.4
Pension assets and liabilities	444.3	390.1
Receivables	2.9	2.9
Inventories	4.3	3.9
Payables and accruals	12.7	13.9
Derivative assets and liabilities	0.3	0.1
Other	0.1	0.2
Deferred tax liabilities gross	**557.0**	**509.5**
Netting	–112.8	–76.0
Total	**444.2**	**433.5**
Net deferred tax	**401.2**	**346.2**

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

CHF million	2017	2016
Between 1 and 5 years	10.5	9.3
Between 6 and 10 years	2.6	6.4
Over 10 years	4.4	2.8
Total	**17.5**	**18.5**

Tax loss carry-forwards utilized in 2017 amounted to CHF 5.1 million (CHF 2.4 million in 2016).

10.2 Tax expense

CHF million	2017	2016
Current tax expense	117.3	110.5
Deferred income tax expense	6.8	18.1
Other taxes	6.2	5.7
Total	**130.3**	**134.3**

The tax on the Lindt & Sprüngli Group's income before taxes differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

CHF million	2017	2016
Income before taxes	**582.8**	**554.1**
Expected tax [1]	**122.0**	**109.6**
Change in applicable tax rates on temporary differences	–3.6	–0.4
Utilization of unrecognized tax loss carry-forwards from prior years	–1.9	–0.7
Adjustments related to prior years	1.2	–1.0
Non-taxable items	–3.0	9.0
Withholding tax levied and other taxes	6.3	5.7
Income components with lower tax rates	–3.3	2.4
Other	12.6	9.7
Total	**130.3**	**134.3**

1 Based on the expected weighted average tax rate of 20.9% in 2017 (19.8% in 2016).

The tax for each component of other comprehensive income is:

			2017			2016
CHF million	Before tax	Tax	After tax	Before tax	Tax	After tax
Hedge accounting	15.9	–	15.9	–63.0	–	–63.0
Defined benefit plan	196.8	–53.7	143.1	–251.5	79.6	–171.9
Currency translation	–14.1	–	–14.1	44.6	–	44.6
Total	**198.6**	**–53.7**	**144.9**	**–269.9**	**79.6**	**–190.3**

11. Inventories

CHF million	2017	2016
Raw material	109.6	119.3
Packaging material	102.1	96.8
Semi-finished and finished products	563.3	484.1
Value adjustment	–43.6	–42.6
Total	**731.4**	**657.6**

In 2017, CHF 5.7 million (CHF 7.9 million in 2016) of the value adjustment as at the end of 2016 have been released to the income statement.

12. Accounts Receivable

CHF million	2017	2016
Accounts receivable gross	1,078.8	1,024.2
Value adjustment	–31.3	–29.7
Total	**1,047.5**	**994.5**
Value adjustment as at January 1	**–29.7**	**–27.1**
Addition	–6.8	–6.4
Utilization	4.3	3.5
Release	1.6	0.3
Currency translation	–0.7	–
Value adjustment as at December 31	**–31.3**	**–29.7**

The following table presents the aging of accounts receivable:

CHF million	2017	2016
Not yet past due	865.5	849.1
Past due 1–30 days	152.0	123.6
Past due 31–90 days	41.2	31.6
Past due over 91 days	20.1	19.9
Accounts receivable gross	**1,078.8**	**1,024.2**

Historically, the default rate for accounts receivable in the category "Not yet past due" was lower than 1%. Hence, the default risk is considered to be low. Value adjustments are calculated based on the assessment of the default risk with regards to accounts receivable balances already past due.

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

CHF million	2017	2016
CHF	54.6	52.5
EUR	362.5	334.3
USD	368.3	364.5
GBP	63.1	60.8
Other currencies	199.0	182.4
Accounts receivable net	**1,047.5**	**994.5**

13. Derivative Financial Instruments and Hedging Reserves

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

CHF million	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Derivatives for hedging (currencies and raw material)	11.8	37.5	8.0	57.4
Other derivatives	2.3	–	2.1	0.2
Total	**14.1**	**37.5**	**10.1**	**57.6**

The carrying amount (contract value) of the outstanding forward-currency and raw material contracts as at December 31, 2017, is CHF 1,535.0 million (CHF 1,275.7 million in 2016). 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 loss of CHF 27.6 million as of December 31, 2017 (net loss of CHF 43.5 million in 2016), 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 IAS 39.

14. Marketable Securities and Short-term Financial Assets

CHF million	2017	2016
Fair value through profit or loss financial assets	0.2	0.2
Total	**0.2**	**0.2**

Fair-value through profit or loss financial assets (held for trading)

CHF million	2017	2016
CHF equity securities	0.2	0.2
Total	**0.2**	**0.2**

The carrying amounts of the above financial assets are designated as “at fair value through profit or loss” upon initial recognition. Changes in the fair values of these assets are recorded in the positions “financial income” and “financial expenses” in the income statement.

15. Cash and Cash Equivalents

CHF million	2017	2016
Cash at bank and in hand	412.5	151.8
Short-term bank deposits	440.5	440.4
Total	**853.0**	**592.2**

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, 2016	**136,088**	**988,475**	**13.6**	**9.9**	**23.5**
Capital increase	–	24,661	–	0.2	0.2
As at December 31, 2016	**136,088**	**1,013,136**	**13.6**	**10.1**	**23.7**
Capital increase	–	35,017	–	0.4	0.4
As at December 31, 2017	**136,088**	**1,048,153**	**13.6**	**10.5**	**24.1**

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

The conditional capital has a total of 424,089 participation certificates (459,106 in 2016) with a par value of CHF 10.–. Of this total, 169,639 (204,656 in 2016) are reserved for employee stock option programs; the remaining 254,450 participation certificates (254,450 in 2016) are reserved for capital market transactions. There is no other authorized capital. In 2017, a total of 35,017 (24,661 in 2016) of the employee options were exercised at an average price of CHF 2,918 (CHF 2,631 in 2016). 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:

	2017		2016	
	Registered shares	Participation certificates	Registered shares	Participation certificates
Inventory as at January 1	**1,909**	**–**	**2,584**	**–**
Additions	–	–	150	–
Retirements	–385	–	–825	–
Inventory as at December 31	**1,524**	**–**	**1,909**	**–**
Average cost of additions (CHF)	–	–	66,889	–
Average sales price of retirements (CHF)	65,734	–	68,079	–

17. Financial Liabilities

CHF million	**2017**	2016
Non-current		
CHF 500 million 0.5% bond, 2014–2020	499.5	499.3
CHF 250 million 1.0% bond, 2014–2024	248.6	248.4
CHF 250 million 0.3% bond, 2017–2027	249.4	–
Loans	0.7	1.2
Current		
Bank and other borrowings	9.2	66.5
CHF 250 million floating rate bond, 2014–2017	–	249.9
Total borrowings	**1,007.4**	**1,065.3**

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

CHF million	**2017**	2016
CHF	997.5	997.6
EUR	9.1	65.7
USD	0.5	0.6
Other currencies	0.3	1.4
Total	**1,007.4**	**1,065.3**

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 to these pension funds or to the employees.

In 2017 the employer contributions to defined contribution plans amounted to CHF 12.4 million (CHF 11.9 million in 2016).

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 benefits 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 2017, the rate was 1.00% (1.25% in 2016). 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.

One of these foundations provides directly benefits to former employees. The Board made the eligibility criteria more restrictive resulting in a past service gain of CHF 3.7 million. A change in the eligibility criteria and the benefits level for the other long-term employee benefits plans resulted in a past service charge of CHF 0.9 million.

18.2.2 Employee benefits 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 born by the employer. The risk of life expectancy, the salary increase risk and the inflation risk might result in pension adjustments.

One of these plans has changed the eligibility criteria for one particular group of employees. This change resulted in a past service gain of CHF 6.1 million.

18.2.3 Employee benefits plans in the USA

In the USA, several defined benefit plans exist. The largest plan is a multi-employer plan. The employer contribution to this plan is calculated based on the working hours of the active employees. For each hour a fixed contribution is paid which is determined in the collective agreement with the unions. At retirement, a life-long pension is paid based on the contributions made.

Further, there is a closed defined benefit plan. The old age benefits are calculated based on the years of service and a fixed USD amount. The benefits are typically provided as annual old age pensions for life. Next to the old age benefits, the plan provides death benefits. The plan is financed in full by the employer. Plan participant's contributions are not allowed. Due to the plan characteristics, the employer is exposed to different actuarial risks, in special to the risk of the development of the future life expectancy. Due to the pooling, the assets of the plan can be influenced by the other employers.

In another defined benefit plan, 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 benefits 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 last actuarial valuation was prepared by independent actuaries at December 31, 2017. The market value of assets at December 31, 2017 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	
	2017	2016	**2017**	2016
Discount rate	1.6%	1.6%	1.4%	1.5%
Future salary increases	0.9%	0.9%		
Future pension adjustments	0.2%	0.2%		

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

	2017			2016		
	Switzerland	Germany	USA	Switzerland	Germany	USA
Retirement in 20 years (age of 45 at balance sheet date)						
Men	24.26	21.90	19.88	24.18	21.77	19.94
Women	26.29	25.82	22.12	26.22	25.70	22.21
Retirement at balance sheet date (age of 65)						
Men	22.38	19.26	18.34	22.26	19.13	18.14
Women	22.43	23.32	20.60	24.32	23.19	20.66

The demographic trend shows only in the United States a reduction in the life expectancy. In all other relevant countries an increase in the life expectancy can still be observed.

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

CHF million	Pension plans 2017	Pension plans 2016	Other long-term employee benefits 2017	Other long-term employee benefits 2016
Employee benefits expense				
Total service cost				
Current service cost	17.7	17.4	0.7	0.6
Past service cost and curtailments	–9.8	1.3	0.8	0.1
Net interest cost	–9.5	–16.9	0.1	0.1
Liability management cost	0.6	0.6	–	–
Actuarial gains (–)/losses (+)	–	–	0.9	0.4
Total defined benefit cost (+)/gain (–) of the period	**–1.0**	**2.4**	**2.5**	**1.2**
Valuation components accounted for in OCI				
Actuarial gains (–)/losses (+)				
Arising from changes in demographic assumptions	–0.4	–6.1	–	–
Arising from changes in financial assumptions	–16.7	0.3	–	–
Arising from experiences	–3.2	–3.3	–	–
Return on plan assets (excluding interest income)	–198.3	260.7	–	–
Return on reimbursement (excluding amounts in net interest)	–0.8	–0.1	–	–
Changes in asset ceiling	22.6	–	–	–
Total defined benefit cost (+)/gain (–) recognized in OCI	**–196.8**	**251.5**	**–**	**–**
Total defined benefit cost (+)/gain (–)	**–197.8**	**253.9**	**–**	**–**

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

CHF million	Pension plans 2017	Pension plans 2016	Other long-term employee benefits 2017	Other long-term employee benefits 2016
Defined benefit obligation as at January 1	**611.9**	**607.4**	**7.8**	**7.3**
Current service cost	17.7	17.4	0.7	0.6
Plan participants' contributions	5.5	4.6	–	–
Interest expense on the net present value of the obligation	9.4	11.4	0.1	0.1
Actuarial gains (–)/losses (+)	–20.3	–8.9	0.9	0.4
Past service gains (–)/losses (+)	–9.8	1.3	0.8	0.1
Benefits paid through pension assets	–23.3	–18.3	–	–
Benefits paid by employer	–5.3	–5.0	–0.7	–0.7
Currency exchange differences	5.4	2.0	0.6	–
Defined benefit obligation as at December 31	**591.2**	**611.9**	**10.2**	**7.8**

Changes in the fair value of plan assets

	Pension plans	
CHF million	2017	2016
Fair value of plan assets as at January 1	**1,728.9**	**1,970.2**
Plan participants' contributions	5.5	4.6
Contributions by employer	5.0	4.8
Interest income	18.5	27.7
Return on plan assets (excluding interest income)	198.3	–260.7
Benefits paid through pension assets	–23.3	–18.3
Liability management cost	–0.6	–0.6
Currency translations	–1.1	1.2
Fair value of plan assets as at December 31	**1,931.2**	**1,728.9**

Development of reimbursement rights [1]

CHF million	2017	2016
Reimbursement rights as at January 1	**11.8**	**12.0**
Employee contributions	0.6	–
Employer contributions	0.1	0.7
Interest income on reimbursements	0.5	0.5
Return on reimbursement (excluding interest income)	0.8	0.1
Reimbursements to employer	–2.2	–1.9
Currency translation	–0.6	0.4
Reimbursement rights as at December 31	**11.0**	**11.8**

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

Development of not recorded plan assets

	Pension plans	
CHF million	2017	2016
Asset ceiling as at January 1	**–**	**–**
Change in asset ceiling recognized in OCI	22.6	–
Asset ceiling as at December 31	**22.6**	**–**

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

Amount recognized in the balance sheet

CHF million	Pension plans 2017	Pension plans 2016	Other long-term employee benefits 2017	Other long-term employee benefits 2016
Present value of funded obligation	563.1	583.6	–	–
Fair value of plan assets	–1,931.2	–1,728.9	–	–
Underfunding (+)/overfunding (–)	**–1,368.1**	**–1,145.3**	**–**	**–**
Unrecognized prepaid pension costs	22.6	–	–	–
Present value of unfunded obligations	28.1	28.3	10.1	7.8
Net pension liability (+)/asset (–)	**–1,317.4**	**–1,117.0**	**10.1**	**7.8**
of which pension liabilities	164.7	183.9	10.1	7.8
of which pension assets[1]	–1,482.1	–1,300.9	–	–

1 See note 9.

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

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

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

The pension assets mainly consist of the following asset categories:

CHF million	2017 Listed	2017 Not listed	2017 Total	2016 Listed	2016 Not listed	2016 Total
Equities	1,602.4	–	1,602.4	1,410.9	–	1,410.9
Bonds	145.4	–	145.4	132.6	–	132.6
Alternative investments	15.1	–	15.1	11.7	–	11.7
Real estate	18.3	112.1	130.4	17.2	108.1	125.3
Qualified insurance policies	–	17.8	17.8	–	18.5	18.5
Liquidity and other	–	20.1	20.1	–	29.9	29.9
Total	**1,781.2**	**150.0**	**1,931.2**	**1,572.4**	**156.5**	**1,728.9**

The plan assets include investments in the Lindt & Sprüngli Group with a market value of CHF 1,442.5 million at December 31, 2017 (CHF 1,267.4 million at December 31, 2016). Moreover, the Lindt & Sprüngli Group has occupied property from the pension funds with a market value of CHF 16.5 million at December 31, 2017 (CHF 16.5 million at December 31, 2016).

The revaluation of assets resulted in a gain of CHF 216.8 million in 2017 and in a loss of CHF 233.0 million in 2016 respectively. In 2018 the expected employer contributions amount to CHF 5.1 million and the expected payments for pensions by the employer to CHF 4.8 million.

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

CHF million	Pension plans 2017	Pension plans 2016
Active employees	313.6	337.5
Vested terminations	24.6	22.1
Pensioners	253.0	252.3
Total	**591.2**	**611.9**

The average duration of the liabilities at December 31, 2017 is 15.9 years (17.1 years at December 31, 2016).

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

CHF million	2017		2016	
Increase (+)/decrease (–) of assumptions by	+0,25%	–0,25%	+0,25%	–0,25%
Technical interest rate	–21.3	23.1	–24.1	26.0
Salary increase	6.9	–5.9	8.4	–7.5
Pension indexation	11.9	–2.5	14.3	–2.4

19. Provisions

CHF million	Business risks	Other	Total
Provisions as at January 1, 2016	**83.6**	**20.0**	**103.6**
Addition	22.0	18.0	40.0
Utilization	–7.1	–2.9	–10.0
Release	–19.6	–	–19.6
Currency translation	0.1	0.1	0.2
Provisions as at December 31, 2016	**79.0**	**35.2**	**114.2**
Addition	17.4	1.2	18.6
Utilization	–7.7	–2.8	–10.5
Release	–9.0	–8.1	–17.1
Currency translation	0.5	0.2	0.7
Provisions as at December 31, 2017	**80.2**	**25.7**	**105.9**

Other provisions for business risks include unsettled claims, onerous contracts as well as legal and administrative proceedings, which arise during the normal course of business. Provisions are recognized at balance sheet date when a present legal or constructive obligation as a result of past events occurs and the expected outflow of resources can be reliably estimated. The timing of outflows is uncertain as it depends upon the outcome of the proceedings.

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, 2017.

20. Accounts Payable

Accounts payable to suppliers are denominated in the following currencies:

CHF million	2017	2016
CHF	13.6	11.8
EUR	119.3	96.1
USD	54.0	43.2
GBP	10.5	13.0
Other currencies	19.9	16.3
Total	**217.3**	**180.4**

21. Accrued Liabilities

CHF million	2017	2016
Trade related accrued liabilities	377.9	342.5
Salaries/wages and social costs	100.2	105.4
Other	199.5	170.4
Total	**677.6**	**618.3**

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

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

22. Other Income

CHF million	2017	2016
Fees from third parties	3.5	3.0
Insurance reimbursements	2.0	1.1
Other	12.2	13.1
Total	**17.7**	**17.2**

"Fees from third parties" comprise mainly the reimbursement of freight charges. The position "other" includes mainly license fees, company-produced additions involving investments in fixed assets, and gain on sale of assets.

23. Personnel Expenses

CHF million	2017	2016
Wages and salaries	656.9	631.3
Social benefits	136.8	124.7
Other	92.7	90.3
Total	**886.4**	**846.3**

For the year 2017, the Lindt & Sprüngli Group employed an average of 13,949 people (13,539 in 2016).

24. Net Financial Result

CHF million	2017	2016
Interest income	0.7	2.3
Interest expense	–15.6	–14.1
Income from other financial instruments	2.3	3.4
Total	**–12.6**	**–8.4**

25. Earnings per Share/Participation Certificate (PC)

	2017	2016
Non-diluted earnings per share/10 PC (CHF)	**1,892.5**	**1,791.3**
Net income (CHF million)	450.7	419.7
Weighted average number of registered shares/10 PC	238,145	234,298
Diluted earnings per share/10 PC (CHF)	**1,880.6**	**1,766.8**
Net income (CHF million)	450.7	419.7
Weighted average number of registered shares/10 PC and outstanding options on 10 PC	239,662	237,546

26. Dividend per Share/Participation Certificate (PC)

CHF	2017	2016
Dividend per share/10 PC	930[1]	880

1 Proposal of the Board of Directors.

During the period January 1 to record date (May 9, 2018), 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.

27. 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:

	2017		2016	
	Number of options	Weighted average exercise price (CHF/PC)	Number of options	Weighted average exercise price (CHF/PC)
Outstanding options as at January 1	**118,232**	**4,005**	**120,888**	**3,416**
New option rights	24,205	5,360	26,830	5,401
Exercised rights	–35,017	2,918	–24,661	2,631
Cancelled rights	–4,621	4,815	–4,825	4,027
Outstanding options as at December 31 [1]	**102,799**	**4,658**	**118,232**	**4,005**
of which exercisable at December 31	12,449	3,174	21,018	2,739
Average remaining time to expiration (in days)	677		735	

1 The exercise price varies between CHF 2,523 to CHF 5,401 as at December 31, 2017.

Options expenses are charged to the income statement proportionally according to the vesting period. The recorded expenses amount to CHF 14.0 million (CHF 13.9 million in 2016). The assumptions used to calculate the expenses for the grants 2014 to 2017 are listed in the following table:

Date of issue	**16.1.2017**	21.1.2016	28.1.2015	13.1.2014
Number of issued options	24,205	26,830	25,465	19,550
of which in bracket A (blocking period 3 years)	8,405	9,353	8,847	6,787
of which in bracket B (blocking period 4 years)	8,525	9,444	8,962	6,883
of which in bracket C (blocking period 5 years)	7,275	8,033	7,656	5,880
Issuing price (CHF)	5,360	5,401	4,811	4,062
Price of participation certificates on date of issue (CHF)	5,260	5,285	4,730	4,036
Value of options on issuing date (CHF)				
Bracket A (blocking period 3 years)	631	637	607	634
Bracket B (blocking period 4 years)	690	697	654	692
Bracket C (blocking period 5 years)	737	747	688	735
Maximum life span (in years)	7	7	7	7
Form of compensation	PC from conditional capital			
Expected life span (in years)	5–6	5–6	5–6	5–6
Expected rate of retirement per year	2.1%	2,1%	2,2%	2,3%
Expected volatility	21.2%	21,4%	21,3%	22,1%
Expected dividend yield	1.63%	1.57%	1.53%	1.49%
Risk-free interest rate	(0,38)–(0,25)%	(0,51)–(0,36)%	(0,53)–(0,38)%	0,66–0,92%
Model	Binomial model			

28. Contingencies

As last year, the Lindt & Sprüngli Group has no contingent liabilities that would require disclosure as of December 31, 2017. With respect to the Lindt Chocolate Competence Foundation's construction project, refer to note 30.

29. Commitments

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

CHF million	**2017**	2016
Property, plant and equipment	78.1	32.1

The future lease payments under operating lease commitments are:

CHF million	**2017**	2016
Up to 1 year	81.1	66.9
Between 1 and 5 years	238.0	176.4
Over 5 years	140.5	72.6
Total	**459.6**	**315.9**

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

30. Transactions with Related Parties

A family member of a Director of the Board has a majority share in a company, to which products were sold at arm's length for the value of CHF 18.6 million (CHF 18.8 million in 2016) and license fee income of CHF 0.6 million (CHF 0.6 million in 2016) was generated. Receivables outstanding against this company were CHF 13.7 million (CHF 13.7 million in 2016) at the balance sheet date.

In 2017 the Lindt & Sprüngli Group provided various administration services to the "Lindt Chocolate Competence Foundation", the "Lindt Cocoa Foundation", the "Finanzierungsstiftung für die Vorsorgeeinrichtungen der Chocoladefabriken Lindt & Sprüngli AG" and the "Fonds für Pensionsergänzungen der Chocoladefabriken Lindt & Sprüngli AG". The services were invoiced at arm's length.

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

Remuneration of the Board of Directors and Group Management

In 2017 the Lindt & Sprüngli Group consisted of 6 non-executive and executive Directors (6 in 2016). The number of executive Officers is 8 in 2017 (8 in 2016). The compensation paid to non-executive Directors and executive Officers is shown below:

CHF thousand	**2017**	2016
Fixed cash compensation [1]	11,152	7,085
Variable bonus component [2]	3,483	4,786
Other compensation [3]	296	598
Options [4]	5,092	6,913
Registered shares	3,161	3,232
Total	**23,184**	**22,614**

1 Total gross cash compensation and allowances for Officers and Directors including pension benefits paid by employer (excluding social charges paid by employer) for the Officers.
2 Accrual at year end for expected pay-out in April of following year (excluding social charges paid by employer).
3 Employees part of social charges (AHV) related to exercising of options and grant of registered shares, paid by employer.
4 The valuation of option grants on Lindt & Sprüngli participation certificates is based on the market value at grant date.

Apart from the payments mentioned above, no payments were made on a private basis or via consulting companies to either an executive or a non-executive member of the Board or a member of Group Management. As of December 31, 2017, there were no loans, advances or credits due to the Lindt & Sprüngli Group or any of its subsidiaries by any of the members of the Board or the Group Management.

31. Events after the Balance Sheet Date

The consolidated financial statements were approved for publication by the Board of Directors on March 5, 2018. 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 5, 2018, 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
to the General Meeting of Chocoladefabriken Lindt & Sprüngli AG

Kilchberg

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Chocoladefabriken Lindt & Sprüngli AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 78 to 114) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

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

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Our audit approach

Overview

Overall Group materiality: CHF 41,000,000

We concluded full scope audit work at 25 Group companies in 17 countries. These Group companies represented 99% of the sales and the assets of the Group.

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

- Intangible assets – Impairment testing of goodwill
- Financial assets – Valuation of pension fund assets

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 29 units, each of which is considered a component. In collaboration with Management, we identified 25 Group companies at which an audit of the financial information was performed. The 4 Group companies not in scope are not material to the Group and contribute around 1% to the sales and the assets of 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 in the course of the work of the component auditor to provide a basis for our opinion on the Group financial statements. Our involvement as Group auditors was based on auditing instructions and standardised reporting. It included regular written and oral communications with selected component audit teams.

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

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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall 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 41,000,000
How we determined it	7% of income before 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. In addition, earnings before tax is a generally accepted benchmark for materiality considerations. We chose 7% in light of the high equity level and the Group's past performance.

We agreed with the Board of Directors that we would report to them misstatements above CHF 2,000,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

Intangible assets – Impairment testing of goodwill

Key audit matter	*How our audit addressed the key audit matter*
Intangible assets are recognised in the amount of CHF 1379 million, of which CHF 769 million is goodwill arising in connection with the acquisition of Russell Stover LLC, a US-based chocolate producer, in 2014. We focused on this area due to the size of the goodwill balance and because valuation of this balance by management involves significant scope for judgement concerning future results of the Russell Stover business. Management compares the carrying value of goodwill with the value in use of the underlying business. 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 carrying 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 judgment are the long-term sales growth rates, EBIT margin growth rates and the discount rate. Please refer to note 8 for details of the impairment test and management's assumptions.	We evaluated the components used in management's forecasts of future cash flows. We also assessed the process by which the forecasts were established for Russell Stover. 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 2017 actual results with the cash flow forecasts used in the 2016 impairment test to consider whether any forecasts included assumptions that, with hindsight, were too optimistic. In 2017, the performance of Russell Stover was lower than forecast. Management has appropriately reflected this in the calculations for this year. Additionally, we evaluated the following assumptions used by management: • long-term growth rates, by comparing them to economic and industry forecasts; • EBIT margin growth rates, by comparing them with other, mature Lindt & Sprüngli production entities; and

	• the discount rate, by assessing the costs of capital for the company and comparable organisations, taking into consideration territory-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.

Financial assets – Valuation of pension fund assets

Key audit matter	*How our audit addressed the key audit matter*
Financial assets are recognised in the amount of CHF 1484 million, of which CHF 1482 million are assets relating to pension funds. We focused on this area due to the size of the pension fund assets and because management's assessment of the valuation of this balance involves important judgements regarding the valuation parameters used and the estimates of future benefits from the pension fund assets. Management engages an external actuary to perform the calculation of the net present value of the pension benefit obligations, which are then compared with the pension fund assets in order to determine the recognised liabilities and assets that relate to the pension funds. The most judgemental assumptions underlying this calculation were the salary growth rates, the pension increase rates, the mortality rate and the inflation rate. For further information, please refer to notes 9 and 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; and • the inflation rate, by comparing it with relevant market data. We tested on a sample basis whether the pension fund assets existed and that they were measured correctly. Based on the audit procedures performed, we found that the assumptions used by management in the valuation of the net assets of the pension funds were within a range considered to be reasonable.

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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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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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, 5 March 2018

Balance Sheet

CHF thousand	Note	**December 31, 2017**	December 31, 2016
Assets			
Cash and cash equivalents		179,749	17,425
Marketable securities and short-term financial assets		440,000	440,000
Accounts receivable			
from third parties		10,316	8,890
from subsidiaries		5,045	5,026
Other receivables			
from subsidiaries		2,437	–
Accrued income			
from subsidiaries		29,974	31,260
Total current assets		**667,521**	**502,601**
Loans to subsidiaries		430,000	430,000
Investments	4	870,415	857,965
Intangible assets		476,149	501,210
Total non-current assets		**1,776,564**	**1,789,175**
Total assets		**2,444,085**	**2,291,776**
Liabilities and Shareholders' Equity			
Accounts payable to subsidiaries		1,809	1,732
Short-term interest-bearing liabilities			
to subsidiaries		59,181	73,752
Other accounts payable			
to third parties		584	1,048
Bonds	5	–	250,000
Tax liabilities		23,914	19,831
Accrued liabilities			
to third parties		5,232	3,679
to subsidiaries		2	12
Total current liabilities		**90,722**	**350,054**
Bonds	5	1,000,000	750,000
Total non current liabilities		**1,000,000**	**750,000**
Share capital		13,609	13,609
Participation capital		10,481	10,131
Reserve from capital contribution	7	116,477	85,879
General legal reserve		76,040	76,040
Special reserve	7	931,815	773,074
Retained earnings			
Balance brought forward from previous year		35,604	34,175
Net income for the year		253,346	299,129
Treasury stock	6	–84,009	–100,315
Total shareholders' equity		**1,353,363**	**1,191,722**
Total liabilities and shareholders' equity		**2,444,085**	**2,291,776**

Income Statement

CHF thousand	2017	2016
Dividends and other income from subsidiaries	315,908	313,947
Other income	382	351
Other expenses	–21,735	–14,974
Value adjustments on investments and intangible assets	–23,571	–4,960
Operating profit	**270,984**	**294,364**
Financial income	23,972	46,380
Financial expenses	–14,660	–11,199
Income before taxes	**280,296**	**329,545**
Taxes	–26,950	–30,416
Net income	**253,346**	**299,129**

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 85 of the notes to the consolidation financial statements. In deviation to the table on page 85 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, 2017, amounted to CHF 247.0 million (CHF 287.2 million in 2016). 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 83 of the notes to the consolidated financial statements.

5. Bonds

In September 2014 Chocoladefabriken Lindt & Sprüngli AG placed bonds of CHF 1 billion in order to finance the acquisition of Russell Stover Chocolates, LLC. The bonds consist of the following three tranches:

– CHF 250 million floating rate bond with a term of 3 years and a floating interest rate based on 3-month CHF LIBOR plus 0.18% per annum. The interests are paid quarterly. The tranche was paid back in October 2017;
– CHF 500 million bond with a term of 6 years and a fixed coupon of 0.5% per annum. The interests are paid annually on October 8; and
– CHF 250 million bond with a term of 10 years and a fixed coupon of 1.0% per annum. The interests are paid annually on October 8.

In October 2017 Chocoladefabriken Lindt & Sprüngli AG placed a new bond of CHF 250 million with a term of 10 years and a fixed coupon of 0.3% per annum. The interests are paid annually on October 6.

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

6. Acquisition and Sale of Registered Shares and Participation Certificates

	2017		2016	
	Registered shares	Participation certificates	Registered shares	Participation certificates
Inventory as at January 1	**1,909**	**–**	**2,584**	**–**
Additions	–	–	150	–
Retirements	–385	–	–825	–
Inventory as at December 31	**1,524**	**–**	**1,909**	**–**
Average cost of additions (CHF)	–	–	66,889	–
Average sales price of retirements (CHF)	65,734	–	68,079	–

7. Reserves

	Reserves from capital contribution				Special reserves
CHF thousand	Requested	Approved	Not approved [1]	Total	Total
Balance as at January 1, 2016	**–**	**103,180**	**11,676**	**114,856**	**653,983**
Reserve from retained earnings	–	–	–	–	120,000
Additions during the year	63,737	–	910	64,647	–910
Approved reserves from capital contribution					
FTA approval February 27, 2017	–63,737	63,737	–	–	–
Proposed dividend distribution	–	–93,974	–	–93,974	–
Undistributed dividends on own registered shares and participation certificates	–	1,013	–	1,013	–
Options exercised from January 1 to April 26, 2016	–	–663	–	–663	–
Balance as at December 31, 2016	**–**	**73,293**	**12,586**	**85,879**	**773,073**
Reserve from retained earnings	–	–	–	–	160,000
Additions during the year	100,565	–	1,258	101,823	–1,258
Approved reserves from capital contribution					
FTA approval February 20, 2018	–100,565	100,565	–	–	–
Proposed dividend distribution	–	–71,220	–	–71,220	–
Undistributed dividends on own registered shares and participation certificates	–	557	–	557	–
Options exercised from January 1 to April 25, 2017	–	–562	–	–562	–
Balance as at December 31, 2017	**–**	**102,633**	**13,844**	**116,477**	**931,815**

1 The Swiss federal tax administration (FTA) has not yet approved the capital transaction costs of TCHF 13,844 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, 2017, Chocoladefabriken Lindt & Sprüngli AG disclosed the following shareholders known to the Company (in accordance with Art. 663c CO and the articles of association), which own voting shares of more than 4%: "BlackRock Inc." held 4.46% of the Company's shares. "Fonds für Pensionsergänzungen of Chocoladefabriken Lindt & Sprüngli AG", "Finanzierungsstiftung für die Vorsorgeeinrichtungen der Chocoladefabriken Lindt & Sprüngli AG", "Lindt Cocoa Foundation" and "Lindt Chocolate Competence Foundation" held as a group 20.23% of the voting rights of the Company (20.23% in 2016).

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	
		2017	2016	**2017**	2016	**2017**	2016
E. Tanner	Executive Chairman	3,172	3,122	12,060	8,400	8,950	14,750
A. Bulgheroni	Member of the Board	1,000	1,000	–	–	–	1,900
Dkfm E. Gürtler	Member of the Board	1	1	50	50	–	–
Dr R. K. Sprüngli	Member of the Board	1,092	1,090	–	–	–	–
Dr T. Rinderknecht	Member of the Board	–	–	–	–	–	–
P. Schadeberg-Herrmann	Member of the Board	127	127	–	–	–	–
Dr D. Weisskopf	Group Management	7	7	2,400	2,400	6,850	7,650
A. Pfluger	Group Management	5	5	30	30	4,850	6,483
R. Fallegger	Group Management	5	5	100	654	4,048	4,088
A. Germiquet [3]	Group Management	4	–	–	–	2,525	–
Dr A. Lechner	Group Management	7	7	56	56	4,025	5,150
M. Hug [3]	Group Management	–	–	–	–	1,825	–
G. Steiner [3]	Group Management	2	–	–	–	1,840	–
K. Kitzmantel [1]	Group Management	2	5	–	–	3,798	3,838
U. Sommer [2]	Group Management	–	1	–	–	–	5,400
Total		**5,424**	**5,370**	**14,696**	**11,590**	**38,711**	**49,259**

1 Mr. K. Kitzmantel stepped down from Group Management on December 31, 2017 on reaching retirement.
2 Mr. U. Sommer stepped down from Group Management on April 30, 2017 on reaching retirement, therefore no participation as December 31, 2017.
3 Messrs. Germiquet, Hug and Steiner joined Group Management on January 1, 2017, so there was no participation for 2016.

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, 2017**	December 31, 2016
Balance brought forward	35,611,547	33,824,277
Net income	253,346,403	299,128,993
Other	–7,524[1]	351,205
Available retained earnings	**288,950,426**	**333,304,475**
Shares and participation certificates as per bylaws of CHF 24,090,330 as at December 31, 2017 (CHF 23,740,160 in 2016)		
510% (580% in 2016) dividend	–122,860,683[2]	–137,692,928
Allocation to special reserves	–130,000,000	–160,000,000
Balance carried forward	**36,089,743**	**35,611,547**
Allocation of approved capital contribution reserve to free reserves	101,179,386[2]	71,220,480
Withholding tax exempt distribution CHF 420.– per registered share/ CHF 42.– per participation certificate (CHF 300.– per RS/CHF 30.– per PC in 2016)	–101,179,386[2]	–71,220,480

1 Includes dividends not distributed on treasury stock held of CHF 1,078,220, dividends distributed on options exercised during the period January 1 to April 25, 2017 of CHF –1,087,094, and expired dividends of CHF 1,350.
2 Number of registered shares and participation certificates, status as at December 31, 2017. During the period from January 1 until record date (May 9, 2018), 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 2017 the Board of Directors proposes a total dividend of CHF 930.– per registered share and CHF 93.– per participation certificate.

CHF 420.– per registered share and CHF 42.– per participation certificate are distributed out of the approved capital contribution reserve (agio) and CHF 510.– per registered share and CHF 51.– per participation certificate are distributed out of retained earnings.

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Report of the statutory auditor
to the General Meeting 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 2017, and income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 122 to 127) as at 31 December 2017 comply with Swiss law and the company's 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 21,000,000

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

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

- Impairment assessment of intangible assets
- Valuation of investments in subsidiaries and loans to subsidiaries

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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.

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 financial statements.

Based on 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 21,000,000
How we determined it	7.5% of income before taxes
Rationale for the materiality benchmark applied	We chose income before tax as the benchmark because, in our view, it is the benchmark against which the performance of the company is most commonly measured. In addition, income before tax 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.

We agreed with the Board of Directors that we would report to them misstatements above CHF 1,000,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

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Impairment assessment of intangible assets

Key audit matter	*How our audit addressed the key audit matter*
Intangible assets are recognised in the amount of CHF 476 million, relating to the Russell Stover (CHF 437 million), Ghirardelli (CHF 33 million) and Caffarel (CHF 6 million) brands. We focused on this area due to the size of the balance and because valuation of intangible assets by management involves significant scope for judgement concerning estimates of the future results of these three brands. Management compares the carrying value of the brands with the value in use of the underlying business. 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 carrying value of the intangible assets, 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 assumptions that offer the greatest scope for judgment are the long-term sales growth rates, EBIT margin growth rates and the discount rate. For further information on the impairment test and the assumptions used by management regarding the Russell Stover brand, please refer to note 8 in the notes to the consolidated financial statements.	We evaluated the components used in management's forecasts of future cash flows. We also assessed the process by which the forecasts were established for Russell Stover. 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 2017 actual results with the cash flow forecasts used in the 2016 impairment test to consider whether any forecasts included assumptions that, with hindsight, were too optimistic. In 2017, the performance of Russell Stover was lower than forecast. Management has appropriately reflected this in the calculations for this year. Additionally, we evaluated the following assumptions used by management: • long-term growth rates, by comparing them with economic and industry forecasts; • EBIT margin growth rates, by comparing them with other, mature Lindt & Sprüngli production entities; and • the discount rate, by assessing the costs of capital for the company and comparable organisations, taking into consideration territory-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 intangible assets to be impaired. We discussed the outcomes of the sensitivity analyses with management. For the Ghirardelli and Caffarel brands, we compared the licence income with the carrying value of the brands. We concluded the models and assumptions used are appropriate to test for the impairment of intangible assets.

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Valuation of investments in subsidiaries and loans to subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
Investments in subsidiaries are recognised in the amount of CHF 870 million and loans to subsidiaries in the amount of CHF 430 million. We focused our audit on these assets because of the large size of the balances and the significant scope for judgement involved in the assessment of the recoverability of these assets and in light of the financial performance of certain subsidiaries. The investments and loans are stated individually at historical cost less impairment in accordance with the requirements of commercial accounting and financial reporting. The impairment assessment of the investments in subsidiaries is based on a comparison of the carrying amounts with the intrinsic value of the investment, as determined by management. The intrinsic value of an investment is determined using generally accepted valuation methods in Switzerland that are based on past performance. If the carrying amount 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 have tested management's assessment of the impairment of investments in subsidiaries and loans to subsidiaries as follows: • We assessed the technical appropriateness and mathematical accuracy of management's valuations; • We checked the consistent application of the valuation methods; • We reconciled on a sample basis the input parameters used for the valuations to audited financial information; • We tested on a sample basis the financial information used in the valuations of loans. On the basis of our audit procedures, we consider the impairment tests performed by management on investments to subsidiaries and loans to subsidiaries as adequate.

Responsibilities of the Board of Directors for the financial statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends 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 located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Bruno Häfliger	Josef Stadelmann
Audit expert Auditor in charge	Audit expert

Zurich, 5 March 2018

Lindt & Sprüngli Group Financial Key data – Five-Year Review

		2017	2016	2015	2014	2013
Income Statement						
Sales	CHF million	4,088.4	3,900.9	3,653.3	3,385.4	2,882.5
EBITDA	CHF million	764.4	714.0	645.8	588.0	503.3
in % of sales	%	18.7	18.3	17.7	17.4	17.5
EBIT	CHF million	595.4	562.5	518.8	474.3	404.1
in % of sales	%	14.6	14.4	14.2	14.0	14.0
Net income	CHF million	452.5	419.8	381.0	342.6	303.0
in % of sales	%	11.1	10.8	10.4	10.1	10.5
in % of average shareholders' equity	%	11.5	11.7	11.7	12.2	14.0
Operating cash flow	CHF million	591.0	515.4	488.9	308.2	419.1
in % of sales	%	14.5	13.2	13.4	9.1	14.5
Depreciation, amortization, and impairment	CHF million	169.0	151.5	127.0	113.7	99.2
Balance Sheet						
Total assets	CHF million	6,975.6	6,428.8	6,259.0	5,581.5	3,880.7
Current assets	CHF million	2,781.1	2,374.5	2,111.7	1,822.1	1,965.7
in % of total assets	%	39.9	36.9	33.7	32.6	50.7
Non-current assets	CHF million	4,194.5	4,054.3	4,147.3	3,759.4	1,915.0
in % of total assets	%	60.1	63.1	66.3	67.4	49.3
Non-current liabilities	CHF million	1,730.8	1,495.9	1,782.3	1,638.4	507.4
in % of total assets	%	24.8	23.3	28.5	29.3	13.1
Shareholders' equity	CHF million	4,195.0	3,674.0	3,489.7	3,001.7	2,634.7
in % of total assets	%	60.1	57.1	55.7	53.8	67.9
Investments in PPE/intangible assets	CHF million	185.2	234.1	252.8	234.6	191.4
in % of operating cash flow	%	31.3	45.4	51.7	76.1	45.7
Employees						
Average number of employees		13,949	13,539	13,180	10,712	8,949
Sales per employee	TCHF	293.1	288.1	277.2	316.0	322.1

Data per Share/Participation Certificate – Five-Year Review

		2017	2016	2015	2014	2013
Share						
Registered shares at CHF 100.– par[1]	Number	136,088	136,088	136,088	136,111	136,111
Participation certificates at CHF 10.– par[2]	Number	1,048,153	1,013,136	988,475	956,066	925,311
Non-diluted earnings per share/10 PC[3]	CHF	1,893	1,791	1,646	1,504	1,339
Operating cash flow per share/10 PC[3]	CHF	2,482	2,200	2,115	1,353	1,852
Shareholders' equity per share/10 PC[4]	CHF	17,414	15,476	14,854	12,954	11,523
Payout ratio	%	49.5	49.8	49.4	49.0	49.0
Registered share						
Year-end price	CHF	70,485	61,900	74,620	57,160	48,100
High of the year	CHF	72,280	74,090	76,000	59,140	48,890
Low of the year	CHF	61,790	57,025	53,740	48,100	34,650
Dividend	CHF	930.00[5]	880.00	800.00	725.00	650.00
P/E ratio[6]	Factor	37.23	34.56	45.33	38.01	35.92
Participation certificate						
Year-end price	CHF	5,950	5,275	6,255	4,932	4,021
High of the year	CHF	5,985	6,240	6,300	5,095	4,036
Low of the year	CHF	5,055	4,877	4,570	4,013	3,002
Dividend	CHF	93.00[5]	88.00	80.00	72.50	65.00
P/E ratio[6]	Factor	31.43	29.45	38.00	32.79	30.03
Market capitalization[6]	CHF million	15,828.7	13,768.1	16,337.8	12,495.4	10,267.6
in % of shareholders' equity[4]	%	377.3	374.7	468.2	416.3	389.7

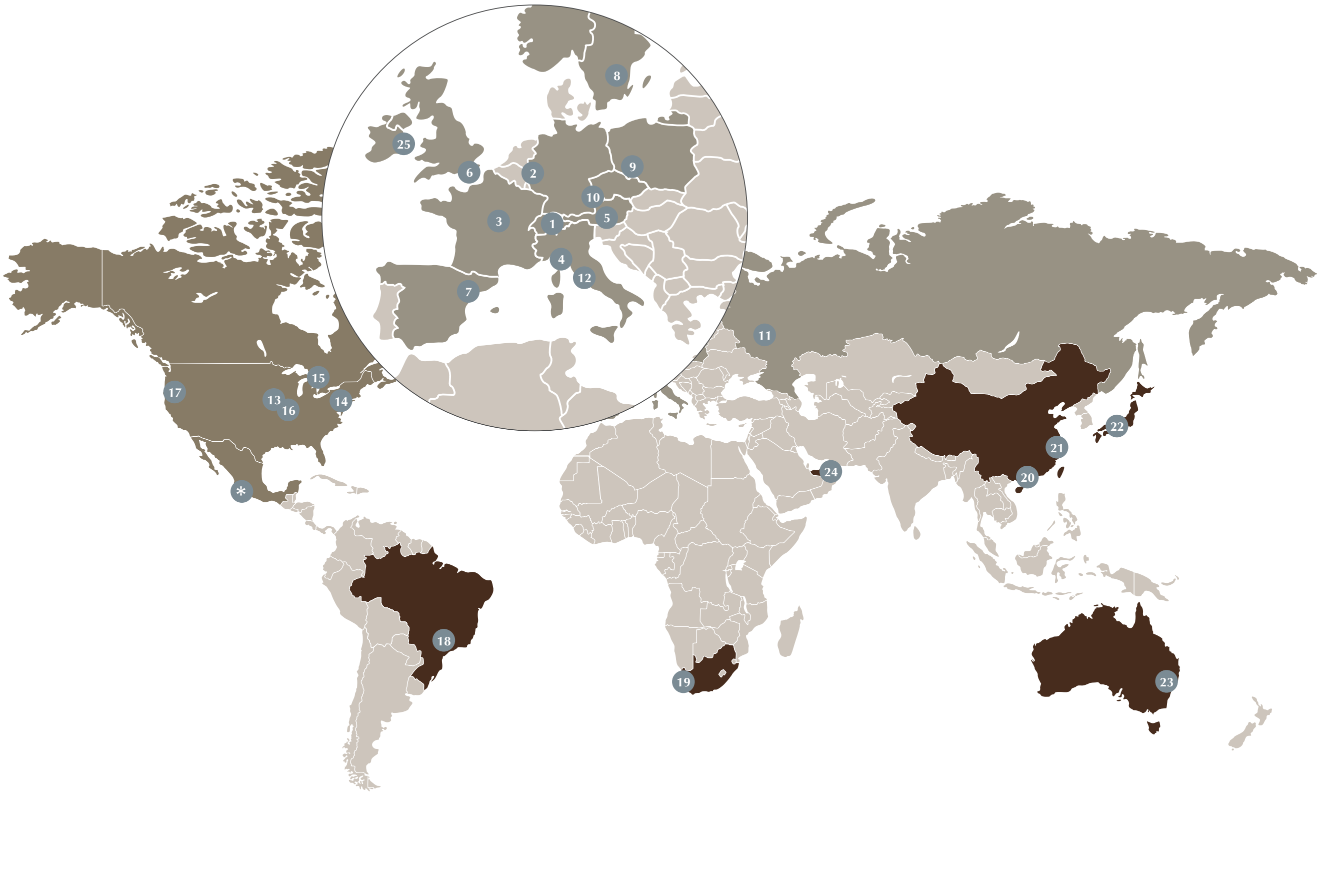
1 ISIN number CH0010570759, security number 1057075.
2 ISIN number CH0010570767, security number 1057076.
3 Based on weighted average number of registered shares/10 participation certificates.
4 Year-end shareholders' equity.
5 Proposal of the Board of Directors.
6 Based on year-end prices of registered shares and participation certificates.

Addresses of the Lindt & Sprüngli Group

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

Global Presence

We make the world a sweeter place



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Information

Agenda

May 3, 2018	120th Annual Shareholders' Meeting
May 11, 2018	Payment of dividend
July 24, 2018	Half-year report 2018
Mid January, 2019	Net sales 2018
Mid March, 2019	Full-year results 2018
Spring 2019	121st Annual Shareholders' Meeting

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Cadman Concept Store p. 8, 9, 11, Lindt & Sprüngli Archiv & Facebook
Blog p. 14–39, 59, 61, 62, 63, 65, 66, 67, 69, 70, 71, 73, 74, 75
Getty Images p. 60, 64, 68, 72, 73, 74, Keystone p. 10, 75, Shutterstock p. 58
Dreamstime p. 74, Deposit p. 62, 71, 75

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The actual results may vary from these. The annual report is published
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