

Letter to Shareholders 2017

Dear Shareholders

As in previous years, the Lindt & Sprüngli Group has continued to grow at a faster pace than the overall chocolate market. Despite the challenging conditions, such as the largely saturated chocolate markets, the changing retail landscape and the growing pressure on prices, we maintained our successful track record with another strong performance in 2017. For the first time since the company was founded almost 175 years ago, Lindt & Sprüngli managed to achieve Group sales of more than CHF 4 billion. Special highlights over the past financial year include the results reported by the “Europe” and “Rest of the World” segments, as well as the consistently strong performance of our Global Retail network, whose sales reached half a billion Swiss francs for the first time in 2017.

The difficult market situation for our key raw materials – cocoa beans, cocoa butter and sugar – improved following much better harvests in 2016/17, allowing the previous record-high prices to ease back to normal levels. The prices for hazelnuts and almonds were stable, while milk prices increased and the price of vanilla climbed to a record high following storm damage to the crop in Madagascar. All in all, price trends for our main raw materials had a slightly positive impact on our profitability.

The foreign currency situation also remained somewhat volatile. Lindt & Sprüngli’s group sales increased by +4.8% in Swiss francs to reach CHF 4.088 billion in 2017. While the euro and pound sterling made significant gains against the Swiss franc, the US dollar softened slightly. Overall this resulted in a marginally positive currency translation effect for our consolidated sales in Swiss francs. The Lindt & Sprüngli Group achieved organic sales growth of +3.7%, which is at the lower end of our strategic target range due to a modest growth of the US companies.

“Group sales in excess of CHF 4 billion for the first time, half a billion was generated by our own retail network, and 50 new shop openings are just some of the many highlights in 2017.”

The segment “Europe” achieved organic growth of +6.2%. This is an excellent result, as Lindt & Sprüngli once again managed to generate higher than average growth and expand its market share even in saturated markets. Growth was particularly encouraging in the subsidiaries in the two biggest European chocolate markets, Germany, and the UK. But sales figures were also very solid in Switzerland, France and Italy. Furthermore, almost all the smaller subsidiaries in this segment managed to achieve double-digit growth.



Ernst Tanner Executive Chairman of the Board of Directors and **Dr Dieter Weiskopf** CEO of the Lindt & Sprüngli Group in front of the planned Lindt Cocoa Center in Olten, Switzerland (project visualization).

The US market remained challenging. As a result, Lindt & Sprüngli's sales in the "NAFTA" segment dipped slightly, with negative organic growth of -1.6%. One highlight worth particular mention is the excellent result reported by Lindt Canada, which enjoyed growth in double figures. The American companies Lindt and Ghirardelli also recorded modest growth in a rapidly changing retail environment, which was affected by the repositioning of the drugstore channel (an important channel for chocolate) and department stores struggling with a decline in customer traffic. Russell Stover faced a drop in sales, caused by the combination of a weaker market in general, the difficulties experienced by individual retail partners and adjustments to its product portfolio. As part of the strategic realignment of Russell Stover's portfolio, the second half of the year saw the successful relaunch of the sugar-free chocolate line based on stevia. Sales were also stimulated by new packaging and additional attractive price points during the Christmas period. With the three brands Lindt, Ghirardelli and Russell Stover, the Lindt & Sprüngli Group is No. 1 in the premium segment and No. 3 in the US chocolate market as a whole. With the ongoing strategic realignment of Russell Stover and the activities scheduled for Lindt and Ghirardelli, Lindt & Sprüngli is still well on track in the world's biggest chocolate market and during the last fiscal year has managed to lay the foundation for further profitable growth.

The "Rest of the World" segment is becoming increasingly important and makes a vital contribution to the overall performance of the Lindt & Sprüngli Group. The subsidiaries belonging to this segment produced an above average result, with organic growth of +12.4%. The markets of Japan, China, South Africa and Brazil, as well as Russia (actually part of the "Europe" segment) will be important for the expansion of our Group in the years ahead, as the chocolate markets in all these countries hold enormous potential. This positive trend is being fueled by consumers' growing demand for quality, greater purchasing power and also a growing desire for chocolate with a high cocoa content. For Lindt & Sprüngli, this is an excellent foundation to boost our brand visibility and the positioning of our premium products in these markets.

The special focus of this year's annual report is therefore these five exciting markets and the vast opportunities they provide to Lindt & Sprüngli. By tailoring our growth strategies to specific countries, the Lindt & Sprüngli Group generally considers the distinctive characteristics of local markets. In Japan, for example, our strategy focuses on opening Lindt's own shops. In 2017 alone, we opened 10 new Boutiques. Today, Lindt & Sprüngli already has 30 of our own shops nationwide. In China, by contrast, our focus is on e-commerce and expanding our distribution partnerships in Shanghai and Beijing. Our e-commerce channel, for example, achieved unusually high growth in 2017 due to the high visibility of the Lindt Flagship E-Store in China's leading online marketplaces Tmall and JD. Chocolate has a long tradition in Russia, where it is often taken with a cup of tea, the most popular national beverage. Our two leading brands Excellence and Lindor in particular provide unique growth potential in this country, whose chocolate market has been one of the world's fastest-growing in recent years. In Brazil, we have had a close collaboration since 2014 with our joint-venture partner, CRM Group. In establishing and expanding our brand in Brazil, we particularly benefit from the exceptionally strong market presence already established through our varied premium assortment offered in duty-free shops. The successful expansion of Lindt's shops in South Africa's major cities is generating millions of consumer contacts every year. In April 2017, the Lindt Chocolate

Studio opened in Cape Town's world-famous V&A Waterfront. This now gives us a presence in this market with two of our own Chocolate Studios. As a concept, they offer special chocolate workshops and thus increase brand awareness and the first-hand experience of our Lindt premium brand. By consistently implementing our locally focused strategy, we are confident that we will be able to continue to fully exploit the enormous potential of these countries in the years ahead.

Whether in less developed growth markets or in mature markets where Lindt & Sprüngli has already been established in the premium segment for many years, our own Boutiques and Chocolate Cafés made a key contribution to the overall Group result in 2017. Over 50 new retail outlets at prime locations have extended our network to more than 410 sites worldwide, attracting around 60 million visitors in total. This business, which falls under the term Global Retail, achieved double-digit growth and its sales reached half a billion Swiss francs for the first time in its history. The Duty Free business maintained its successful track record as well. To target travelers, Lindt & Sprüngli focuses on special product lines and one-off collaborations with global trading partners.

“As well as traditional chocolate markets, it is increasingly the up-and-coming growth markets such as Brazil, China, Japan, Russia, and South Africa driving our dynamic performance.”

The overall solid rate of growth once again laid the foundation for a positive operating performance in 2017: the Group's operating profit (EBIT) rose again by +5.8% to CHF 595.4 million (previous year: CHF 562.5 million). The EBIT margin also improved supported by operational efficiency gains from 14.4% in the previous year to 14.6%. Net income increased by +7.8% to CHF 452.5 million (previous year: CHF 419.8 million), providing a return on sales of 11.1%. Operating cash flow rose to CHF 591 million (previous year: CHF 515.4 million). Our balance sheet is still very solid.

We are extremely grateful for the continuing trust placed in the company by our shareholders. Thanks to the strong result in 2017, we would therefore like to continue our attractive dividend policy. The Board of Directors is proposing to the 120th Annual General Meeting scheduled for May 3, 2018, a +5.7% higher dividend of CHF 930.– per registered share (CHF 420.– from the approved capital contribution reserve (agio) free of withholding tax and CHF 510.– from available retained earnings) and CHF 93.– per participation certificate (CHF 42.– from the approved capital contribution reserve (agio) free of withholding tax and CHF 51.– from available retained earnings).

We would also like to draw your attention to some personnel changes in Lindt & Sprüngli's Board of Directors. For personal reasons Ms Petra Schadeberg-Herrmann has decided not to stand for re-election to the Board at the Annual General Meeting 2018. The Board would like to thank her for her engagement and valuable contributions to Lindt & Sprüngli. We are delighted to be able to put forward another strong candidate for election to the Board: Mr Silvio Denz, a manager with extensive international experience in the areas of marketing and distribution.

Our long-term success is based on a commitment to the highest quality in all areas of activity, as well as our endeavors to ensure the business is managed according to sustainable principles. From our perspective, one of the most important aspects is the sustainability of our raw materials, especially cocoa. With this in mind, we launched the Lindt & Sprüngli Farming Program in 2008 and have continuously expanded it since. The aim of the Program is to promote more effective cocoa-growing methods, thereby bringing a lasting improvement to the living standards of the farmers and their village communities. Ensuring traceability makes it possible to identify when, where, and by whom the cocoa beans are grown, harvested, processed, stored and transported. In 2017 we have continued to consistently develop our Program and have made significant progress: the Lindt & Sprüngli Farming Program for growing premium bean varieties in Ecuador and Madagascar was extended to include cocoa beans from Papua New Guinea as a country of origin. Three pilot projects involving sustainable cocoa butter were successfully completed. In addition, we have supplemented our existing transparent sustainability reporting in 2017 with a new website: www.farming-program.com. This website provides details about the purpose of our Lindt & Sprüngli Farming Program and the measures we have already taken to date, as well as those in the pipeline.

Our long-term success is also based on the farsighted leadership and continuity of our senior management. In 2016 we therefore added three new members to our Group Management team. Since then, Uwe Sommer, latterly in charge of Global Retail and Marketing, has retired in the spring of 2017, followed at the end of 2017 by Kamillo Kitzmantel, latterly the CEO of Lindt & Sprüngli Switzerland. These two executives are taking well-deserved retirement after 23 years. The Board of Directors and Group Management would like to thank them both for their valuable contribution over many years towards the success of the Lindt & Sprüngli Group.

Equally important for our continuing success is the long-term investment in our expertise as a leading manufacturer of premium chocolate products. Construction work on the new Chocolate Competence Center has started as planned in 2017. This project is financed and overseen by the charitable Lindt Chocolate Competence Foundation. The multifunctional building at Lindt & Sprüngli Switzerland Kilchberg site is meant to strengthen Switzerland's international standing as a center of excellence in chocolate-making and also help to pool knowledge about chocolate across the entire industry. In mid-September a ceremony was held to mark the laying of the foundation stone for the new center, which is due to open its doors to visitors in 2020. The Lindt Chocolate Competence Foundation provides a more detailed report on the ceremony on pages 8–11.

Above all, however, our success is based on the millions of consumers worldwide who enjoy our premium chocolate products every day, as well as the support of our dedicated and motivated employees. On behalf of the Board of Directors and Group Management, we would like to thank them all personally for their trust, respectively for their hard work over the past year. We would also like to thank our business partners and suppliers for the crucial contribution they make to ensure the exceptional quality of our products, as well as our shareholders for their continuing trust and the capital they provide.

Outlook

Lindt & Sprüngli confirms its mid- to long-term target of organic growth in the region of 6 to 8%, combined with a 20–40 basis point improvement in the operating margin.

Given the Group's high liquidity, solid balance sheet and consistently high cash flow, the Board has decided to launch a buyback program worth up to CHF 500 million for registered shares and participation certificates. This program is scheduled to start on March 12, 2018 and will end no later than July 31, 2019.

We are keen to further strengthen our business in Switzerland in the long term: apart from the Chocolate Competence Center, this includes the expansion of our Olten facility for producing cocoa mass. The cocoa mass produced there is supplied to our European production companies, where it is then processed into fine chocolate. In 2018, over CHF 30 million will be invested in the expansion and modernization of the Lindt Cocoa Center in Olten. As a result, additional capacity will come on stream in the spring of 2019 that will support the future growth of the entire Lindt & Sprüngli Group. With the production plants in Kilchberg and Olten, as well as the logistics center in Altendorf, Switzerland will continue to be one of the Group's most important and productive international locations.

We intend to raise our visibility also in 2018 in less developed markets. A new regional office in Hungary will help to support the planned expansion into other Central Eastern European (CEE) countries and underpin our long-term growth plans for that region. Our subsidiary in Mexico is set to open in March 2018. We will also push ahead with the successful expansion of Lindt Shops in the most vibrant major cities, expand cooperation agreements in the area of duty free, and continue to launch exciting product innovations to delight millions of consumers.



Ernst Tanner
Executive Chairman of the Board of Directors



Dr Dieter Weiskopf
CEO Lindt & Sprüngli Group