

*Cloetta*



*Annual report 2011*

# This is Cloetta

Founded in 1862, Cloetta is the oldest confectionery company in the Nordic region. The Cloetta brand represents responsibility and high quality but is at the same time strongly associated with enjoyment, pleasure and energy. The company's key brands are *Kexchoklad*, *Center*, *Plopp*, *Polly*, *Tarragona*, *Guldhougat*, *Bridge*, *Juleskum*, *Sportlunch* and *Extra Starka*. Cloetta has two production units in Sweden, one in Ljungsbro and one in Alingsås.



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## Financial calendar\*

2011	Dec	Interim report Q1, Sep – Nov 2011	19 Dec 2011
		Annual General Meeting 2010/2011	19 Dec 2011
2012	Jan		
	Feb	Interim report Q4, Sep – Dec 2011	10 Feb 2012
	Mar		
	Apr	Interim report Q1	27 Apr 2012
	May		
	Jun		
	Jul		
	Aug	Interim report Q2	23 Aug 2012
	Sep		
	Oct	Interim report Q3	18 Oct 2012
	Nov		
	Dec		
2013	Jan		
	Feb	Year-end report 2012	14 Feb 2013
	Mar		
	Apr	Annual Report 2012	Apr 2013
		Annual General Meeting	Apr 2013

\* Provided the Annual General Meeting resolves to change the Articles of Association resulting in a changed financial year.

## Annual General Meeting

The Annual General Meeting (AGM) will be held on Monday, 19 December 2011 at 14.00 CET, at Collegium in Linköping, Sweden.

### Registration

Registration to participate in the AGM must be received by the company no later than Tuesday, 13 December 2011.

### Shareholders can register as follows:

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Susanne Beijar  
SE- 590 69 Ljungsbro,  
Sweden

**Tel:** +46 13 28 51 11 or +46 13 28 51 02  
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**E-mail:** [susanne.beijar@cloetta.se](mailto:susanne.beijar@cloetta.se)

### To order the annual report

The annual report is published in Swedish and English. The printed annual report can be ordered via the website, e-mail to [eva.gad@cloetta.se](mailto:eva.gad@cloetta.se) or by calling +46 13 28 51 02. It can also be downloaded from [www.cloetta.se](http://www.cloetta.se) or [www.cloetta.com](http://www.cloetta.com).





# Energy



# Pleasure

# Enjoyment



## Highlights of the year

- > **Consolidated net sales** for the financial year from 1 September 2010 to 31 August 2011 amounted to SEK **987** million (1,061), of which Cloetta's products accounted for SEK **874** million (914).
- > **Operating profit** reached SEK **27** million (35), equal to an operating margin of **2.7%** (3.3).
- > **Earnings per share** before and after dilution amounted to SEK **0.73** (0.90).
- > **Dividend** – the Board proposes a dividend of SEK **0.75** per share (0.75) and an extraordinary dividend of SEK **0.50** per share (–).



## Quarterly data

	2010/2011	Q 4	Q 3	Q 2	Q 1	2009/2010	Q 4	Q 3	Q 2	Q 1
Net sales, SEK M	987	193	237	224	333	1,061	213	267	249	332
of which , Cloetta products	874	171	207	202	293	914	185	230	212	287
Operating profit/loss, SEK M	27	0	5	–23	45	35	–6	4	–7	44
Operating margin, %	2.7	0.0	2.1	neg.	13.5	3.3	neg.	1.5	neg.	13.3
Operating profit before amortisation, depreciation and impairment, SEK M	82	14	19	–10	59	85	7	17	6	55
Operating margin before amortisation, depreciation and impairment, %	8.3	7.3	8.0	neg	17.7	8.0	3.3	6.4	2.4	16.6
Earnings per share before dilution, SEK	0.73	–0.06	0.15	–0.71	1.35	0.90	–0.24	0.09	–0.28	1.30
Earnings per share after dilution, SEK	0.73	–0.06	0.15	–0.71	1.32	0.90	–0.24	0.09	–0.28	1.30



## Focus where we are market leaders

*Cloetta is the market leader in Sweden within countlines brands such as Kexchoklad, Plopp and Sportlunch, within chocolate bags with Polly and within seasonal products with Juleskum. These brands are market leaders which due to their size are profitable for Cloetta and our customers.*

During the year we revitalised Kexchoklad, our flagship brand, with a new design and new flavours. We launched Polly Rocks during the autumn and Juleskum Polka will be in time for Christmas. We plan to continue to invest extra resources in product development and marketing of our market-leading brands.

Kexchoklad, Polly and Juleskum will also be marketed more explicitly within export sales based on the strong market position. We launched Polly in Norway under the name Popsy during the autumn. So Polly is now available in all the Nordic countries.

### A YEAR WITH MAJOR FLUCTUATIONS

2010/2011 was a year with major fluctuations. After a good autumn in 2010 with continued favourable sales development during our first quarter, there was a trend reversal in December with more intense competition and lower sales due, among other things, to the weak trend for the grocery sector.

Confectionery is relatively insensitive to business cycles but is affected if consumers in times of economic constraints become more cautious and, for example, visit grocery stores less often. In terms of earnings the third and fourth quarters were on a par with the previous year. Profit for the year

was negatively affected by lower revenues from contract manufacturing and a continued high price for our raw materials, primarily cocoa. Cash flow for the year, however, was far higher than in the previous year and we have a strong balance sheet. This provides room for manoeuvre.

We introduced some price increases to retailers during the autumn to be implemented successively in the coming year. At the same time we are now implementing changes in our positioning, discussing new partnerships, pursuing a number of internal efficiency improvement projects and developing our business together with our customers.

### CHOOSE RIGHT – CHOOSE CLOETTA

Cloetta is associated among other things with having a good reputation and high product quality. Young people strongly associate Cloetta with spontaneity, togetherness and an outgoing personality. In Nordic Brand Academy 2010 (Reputation Barometer) Cloetta was ranked sixth among 50 selected companies that were chosen by asking consumers to spontaneously name companies with a good reputation.

We have positioned the Cloetta brand more explicitly towards the consumer in recent years. Surveys have told us that the Cloetta brand is associated with expressions such as Swedish, active, outdoor and reliable



at the same time as our product brands are strongly associated with enjoyment, pleasure and energy.

As part of efforts to further enhance Cloetta we have given our brands in prioritised segments a uniform design where the Cloetta symbol is more visible. One example of this is our new chocolate bag range that was launched in spring 2011 in a cohesive concept. For the countline products, with brands such as Kexchoklad, Sportlunch, Plopp, Center and Guldnoget, a step was taken in product development in 2009 and additional steps are underway.

## *"We will nurture and develop what we do best"*

### ENJOYMENT, PLEASURE AND ENERGY

In our product development, design and market communication, we combine enjoyment, pleasure, playfulness and energy. The resources we invest in marketing must be cost-effective and smart and aim to trigger positive emotions and be visible to our consumers. We therefore choose to place a large part of our marketing budget in taking part in or creating playful events. Here we have good experiences for example with Kexchoklad and the Swedish Alpine Ski Team.

As a continuation of this, starting in 2012 Cloetta will be seen together with the tennis player Robin Söderling.

As a team sponsor to the Swedish Olympic Committee we will also be able in 2012 to link our brands to energy, playfulness and enjoyment – good combinations in other words.

### STRENGTH THROUGH COOPERATION

Cloetta will continue to seek various forms of cooperation. Naturally directly with our retail customers but also with other players. This year we have started a collaboration with the sales company Sales Support which will sell our brands Mums-Mums and Mandelbiskvier, that are not part of the confectionery category, in Swedish retail outlets.

We already cooperate with SIA Glass in order to improve our brand visibility. During 2011 we started a collaboration where, together with Löfbergs Lila, we will be visible within chocolate drinks. Our plans for increased partnership in different areas will also boost our competitiveness in the future.

### EFFICIENT, HEURISTIC PRODUCTION

We have a well-functioning production system in which efficiency has risen in recent years. This is partly due to new and more flexible working methods, skills development, investments and a maintenance programme that is more integrated with production. Our efforts to achieve continual improvements within production are also highly valuable.

However, the decreased volumes from contract manufacturing have led to lower capacity utilisation. Internally, we will optimise production for our current volumes and the contract levels we can achieve.

### CLOETTA CELEBRATES 150 YEARS IN 2012

Cloetta was founded 1862, which means we will celebrate our 150th anniversary in 2012. We have a long tradition within social responsibility to live up to and we make every effort to be a good citizen in all the markets in which we operate, both locally and globally.

During the year we have continued to improve the environment inside and outside our factories, become involved in international organisations in order to improve conditions for the cocoa growers and started to buy eco-certified palm oil. Read more in our sustainability report on pages 33–46.

### TEAM WORK

The reorganisation we carried out at the end of 2010 with a more systematic cooperation between the different parts of the company and a flatter organisation has raised the level of creativity and energy within the company. We absorb new ideas faster and can implement them more effectively.

We want to expand our partnerships with customers and colleagues. We are planning exciting activities in cooperation with retailers at the same time as we have several innovative new products in the pipeline. I am convinced that we will be able to strengthen our position and profitability during the current financial year.

Cloetta is a unique company with unique brands, a fantastic tradition and employees with an outstanding commitment and willingness to develop the company.

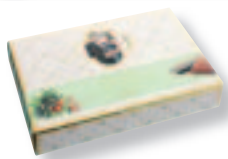
Ljungsbro, November 2011



**Curt Petri**  
Managing Director



# Key events in the market during the year

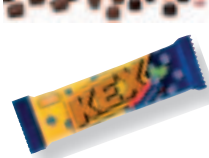


## First quarter, September–November 2010

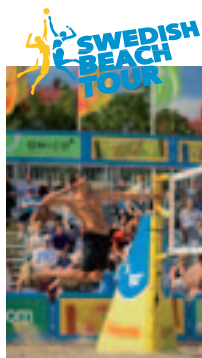
- > **Tarragona** was named "Product of the Year" by the Pressbyrå convenience store chain.
- > The production staff in Ljungsbro were reduced by 17 people during September 2010.
- > **Juleskum** was given a new package design.
- > **Cloetta's 2010 annual report** and sustainability report according to GRI was published.
- > **Cloetta's bite-sized chocolate pieces** with lingonberry and blueberry were launched in new packaging.
- > **Good Mint crisp** 10g chocolate pieces had their debut.
- > The Lidingöloppet cross-country race was held and **Kexchoklad** took part in collaboration with A Swedish Classic.

## Second quarter, December 2010–February 2011

- > **Kexchoklad** was given a new design that is aimed at increasing the brand's visibility. During the quarter, Kexchoklad was featured in a nationwide outdoor campaign.
- > **Kexchoklad** with blueberry flavour was launched at the start of the year's ski season. As part of the collaboration with A Swedish Classic, Kexchoklad took part in the Engelsbrektsloppet cross-country ski race.
- > Cloetta's chocolate bags were given a new family identity. The series initially consisted of **Polly**, **Bridge**, **Kexchoklad mini bars** and the new **Pops Crunchy**. A cohesive concept results in clearer exposure in the store and is therefore more attractive to the retail trade. Pops Crunchy is a new taste combination for Cloetta, a mixture of chocolate and salt.
- > **Cloetta Good Mandelbiskvi** (almond macaroon) is another new taste combination. Cloetta's traditional almond macaroons have been chopped and mixed with our Fairtrade-labelled chocolate bar.
- > In connection with Valentine's Day, **Plopp mini bars** were relaunched with the message Kiss, Hug, Joy and Love.



Linköpings universitet



## Third quarter, March–May 2011

- > **Kexchoklad bars** in raspberry and banana flavours were launched.
- > **Polly Summer Berries** was relaunched as a limited edition.
- > **Kexchoklad mini bars** with a taste of raspberry were relaunched as a limited edition.
- > **Kexchoklad** was an official supplier to the Göteborgsvarvet half marathon.
- > Cloetta took part in the Citizenship Ceremony at Stockholm City Hall on Sweden's national day, 6 June.
- > **Kexchoklad** signed on as a new sponsor for the Swedish Beach Tour beach volleyball competition in 2011.
- > A strategic research partnership was established with Linköping University.

## Fourth quarter, June–August 2011

- > Cloetta launched **Polly Rocks** – a chocolate bag with attitude. The bag has been designed by the musician Dregen and contains a mix of classic milk chocolate Polly and new lemon and salt liquorice flavours.
- > Cloetta prolonged the summer with the launch of the **Center Kokos** roll, Cloetta's milk chocolate filled with creamy toffee and coconut.
- > **Tarragona** was introduced in a new flavour, almond crisp, that was launched in a playful outdoor campaign.
- > **Juleskum Polka** was launched ahead of Christmas 2011.
- > A new display solution for **Kexchoklad** was developed, a half pallet that provides better in-store exposure.
- > Cloetta and **Kexchoklad** established a sponsorship collaboration with the Swedish Alpine Ski Team.
- > Polly was launched in Norway under the name **Popsy**.
- > A collaboration was started with the sales company Sales Support for the sale of brands outside the confectionery category, i.e. **Mums-Mums** and **Mandelbiskvier**.
- > Our Fruktklubb fruit lollipops were relaunched under the name **Björnar Klubbmix**. The lollipops contain all natural flavours and colours.





A vibrant photograph of two women in winter ski attire. The woman on the left wears a red patterned beanie, goggles, and a colorful patterned scarf. The woman on the right wears a blue and red patterned beanie, a red scarf, and a denim vest over a patterned sweater. They are both smiling and holding ski poles. In the background, a ski lift with yellow and blue chairs is visible against a bright blue sky with scattered white clouds. The mountain slopes are covered in snow, and a few evergreen trees are scattered across the landscape.

# Energy

# Enjoyment

About Cloetta

# Market leader

Cloetta is the market leader in three confectionery segments: Countlines, or as the segment is sometimes called – Break & recharge, Chocolate bags and Seasonal marshmallows. By continued revitalisation in the form of new flavours, playful marketing and increased visibility, we will further strengthen our market-leading position and offer retailers good business concepts within these segments.



## Break & recharge

> Kexchoklad 55 grams is Sweden's best-selling countline and in Sweden we eat an average of two per second. Break & recharge includes many of Cloetta's brands in the snack segment, Kexchoklad, Sportlunch, Center, Plopp, Tarragona and Guldhougat are the most important. Kexchoklad, Sportlunch and Plopp will launch exciting innovations in 2012.



## Chocolate bags

> Polly is Sweden's best-selling chocolate bag and is available in several flavours.

Other brands in this segment include Bridge, Pops Crunchy and Kexchoklad mini bars.



## Seasonal marshmallows

> Juleskum is the market leader in seasonal bags in Sweden, Norway and Denmark. Cloetta Juleskum accounts for about 83% of all seasonal marshmallows in Sweden during the Christmas period.\*

\* AC Nielsen Oct 2010-Jan 2011, value + volume, grocery retail+service trade.

# Needs segments

Consumers choose brands on the basis of need and consumption occasion. In simple terms the confectionery market can be divided into four needs segments: Energy, Pleasure, Enjoyment and Luxury. Cloetta's products are found in three of these segments – Energy, Pleasure and Enjoyment, which permeates product development and communication.



## Energy

> When consumers think about energy and confectionery, Kexchoklad or Sportlunch must be their first choice.



## Pleasure



> When consumers are looking for pleasure, Polly, Tarragona, Bridge and Center must be their obvious choice.



## Enjoyment



> Juleskum and Plopp are brands which signal enjoyment and parties.





# Vision, goals and strategies

## Vision

Cloetta's vision is to be one of the Nordic region's leading confectionery companies.

## Business mission

The vision, goals and strategies together express Cloetta's business mission.

## Core values

Cloetta's core values guide the way the company works and acts and strengthen solidarity in the organisation. Read more on page 43.

- > Expertise
- > Responsibility
- > Innovation
- > Enjoyment

## Value drivers

- > Cloetta's brands are easily accessible to consumers.
- > Cost-effective market communication which raises consumer awareness of Cloetta's brands.
- > Good cooperation with the retail sector.
- > High capacity utilisation in production.
- > Employees who take the initiative.

## Financial goals

### Growth **3%**

Average annual organic growth of 3% over a five-year period.  
*Average growth for sales of Cloetta's products since 2008 when Cloetta was formed is 3.8%.*

### Profitability **8%**

The long-term operating margin should amount to 8%. *During the financial year the operating margin amounted to 2.7% (3.3). The operating margin before amortisation, depreciation and impairment amounted to 8.3% (8.0).*

### Dividend **40%**

The goal is to maintain a consistent dividend payout ratio. The target is to distribute at least 40% of the Group's net profit. *The Board of Directors proposes an ordinary dividend of SEK 0.75 per share (0.75). In view of the company's cash flow and strong balance sheet, the Board also proposes an extraordinary dividend of SEK 0.50 per share.*

### Equity/assets ratio **35%**

The equity/assets ratio should be at least 35%. *At 31 August 2011, the equity/assets ratio was 67.5% (65.7). The high equity/assets ratio permits an attractive dividend payout ratio.*

## Strategies and activities

### Optimise our sales opportunities in the Swedish market

#### Use the Cloetta brand in new product segments.

- Increased focus on segments where we are market leader, i.e. countlines, chocolate bags and seasonal marshmallows.
- Cloetta's brands are associated with energy, pleasure and enjoyment. All product development, design and market communication must be characterised by playfulness and movement or pleasure.
- Collaboration with other food players to be evaluated.

#### Improve the potential of our brands in retail outlets together with customers.

- Cooperation with retail should be based on Cloetta's brands contributing to the retail trade's profitability. The company's understanding of consumer behaviour means that Cloetta's salespeople can help individual retailers to optimise display of Cloetta's products which can improve profitability for both parties. Similarly our category expertise can contribute to the development of the confectionery category that benefits Cloetta and our customers.
- In-store activities, events and sponsoring have been given higher priority in order to improve visibility towards the consumer.
- New recruitment of Key Account Managers
- Collaboration started with the sales company Sales Support for the sale of brands outside the confectionery category.

#### Complement our own product portfolio with suitable sales agencies.

- Evaluation of interesting sales agencies continues.

### Expansion in the Nordic market, partly through acquisitions and partnerships

#### Expand the existing product range in the Nordic market through partnerships with distributors and agents.

- Prioritise products which are strong in each market with product launches and marketing.
- Continued launch of Polly, Juleskum and Kexchoklad in all Nordic countries.
- New products and design in the Travel Retail range.

#### Expand through acquisitions and partnerships that complement the existing product range.

- Continuous evaluation of attractive acquisitions and partnerships.

### Develop attractive product innovations with a focus on our consumers and customers

#### Innovative product launches and new sales channels for greater impact among both customers and consumers.

- Increased focus on brands where we are market leaders, i.e. Kexchoklad, Polly and Juleskum.
- A number of innovative new concepts are currently under development in different product groups from a starting point in energy, pleasure and enjoyment.

#### Trend and market monitoring combined with in-depth knowledge of consumer preferences are prioritised.

- Cloetta regularly gathers information about trends and the business environment in the confectionery industry and in other areas through the use of tools, external partners, market statistics, surveys, customers, suppliers, the internet, direct observations, trade fairs and seminars.
- In an internal chocolate project activities are underway to further strengthen knowledge of raw materials and new flavours.

### Enhance our competitiveness by recruiting, developing and retaining competent employees

#### Cloetta strives to offer its employees an attractive workplace with opportunities for involvement and participation.

- A large-scale competence mapping project is underway within production at the same time as substantial investment in skills development.
- A flatter organisation has been put in place in order to encourage greater participation and to improve and accelerate the approval and decision-making process.
- Teamwork is encouraged in every situation.
- The marketing and sales organisation has been organised in segment and customer teams.
- Cloetta's management and leadership development programme was completed by 12 individuals in the past financial year.
- All employees in production have attended courses on personal health.
- Working groups for corporate responsibility and sustainability are aimed among other things at strengthening the Cloetta brand among the company's employees.

### Optimise operating efficiency

#### Through better capacity utilisation, we will optimise our production economy.

- The factories in both Ljungsbro and Alingsås have increased their productivity for several years at the same time that the number of returns has decreased.
- Continual improvements in production are leading to higher efficiency and a better working environment.
- Cloetta is actively seeking new contract or private label production in order to make better use of the facilities. Opportunities for insourcing are evaluated continuously.

#### Shorter lead times in product development and a high level of customer service are decisive in raising cost efficiency throughout the value chain.

- The new, flatter organisation facilitates more efficient processes.
- Efforts to make the supply chain more efficient have yielded good results and delivery reliability to customers was high during the year.
- A clear, documented process for product innovation, the project for lean product development continues.



# Energy

Brands

# Enjoyment





The Cloetta symbol is visible on products, in stores and in places where we interact with consumers. The symbol protects the Cloetta logotype and highlights the family feeling we strive to create with and between our products.



## Strong brands

*Cloetta has several of the best-known and respected product brands in Sweden. Kexchoklad, Polly and Juleskum are also market leaders within their segments.*

Cloetta has two umbrella brands: Cloetta and Karamellpojkar. Under these there are a number of strong product brands with long histories and an enduring relationship with consumers.

### THE CLOETTA UMBRELLA BRAND

The Cloetta brand has a high value and a strong position in the Swedish confectionery market. The brand conveys the company's tradition and acts as a guarantee for high product quality. In order to clarify a family feeling between its products, Cloetta has developed a Cloetta symbol, see above, which was added to most product packages during the year.

The Cloetta brand also stands for good combinations. By this we mean not only good taste combinations but also other values, such as the way we combine profitability with responsibility and our focus on health.

Surveys\* show that Cloetta is associated among other things with being Swedish, having a good reputation and high product quality. Younger respondents strongly associate Cloetta with spontaneity, togetherness and an outgoing personality. In the Nordic Brand Academy 2010 (Reputation Barometer) Cloetta was ranked sixth among 50 selected companies that were chosen by asking consumers to spontaneously name companies with a good reputation.

### MARKET-LEADING PRODUCT BRANDS

Cloetta's product brands have been on the market for a long time and are well established among both customers and consumers. Some have

traditions dating back to the early 1900s. For the most important brands, Cloetta draws up short- and long-term plans that deal with aspects such as product innovation, packaging development and marketing.

By continuously developing the product range and brands, Cloetta strengthens its competitiveness. Good product innovations create interest which is essential for the development of an impulse-driven category like confectionery.

Kexchoklad, Polly and Juleskum are market leaders in their segments but other major Cloetta brands also have excellent market positions. However, strong brands are not necessarily synonymous with growth. Good growth is achieved by further developing the brands, primarily via product innovations and effective marketing. Helped by the strongest brands, Cloetta's entire brand portfolio can be highlighted and strengthened.

### POSITIONING PRODUCT BRANDS

Traditional market segmentation on the basis of age, gender, location, income, etc., decreases in significance when positioning brands in the confectionery market. Consumers choose brands on the basis of need and consumption occasion.

In simple terms the confectionery market can be split into four needs segments: Energy, Pleasure, Enjoyment and Luxury. Cloetta's products are mainly found in the three segments Energy, Pleasure and Enjoyment.

\* Sources: Research International Brand Image Study 2007 and Brand Jobs brand survey 2008.





## New squares for Kexchoklad

As part of the development and revitalising of Kexchoklad, Chokladkexchoklad or Kexchokladchoklad will be launched in February 2012. A competition to see which name consumers prefer will be held in conjunction with the launch.

Swedes have a strong relationship with Kexchoklad. In consumer surveys, 90% of Swedes confirm that they buy Kexchoklad from time to time. Cloetta's greatest challenge is to nurture the brand and develop it at the same time. Most consumers associate Kexchoklad with activity, skiing and energy.



## EFFECTIVE MARKETING IN A MATURE MARKET

Marketing, from advertisements to activities in the stores, raises consumer awareness of and demand for Cloetta's products. Combined with product development, this is a critical success factor in a mature market where the products are most frequently purchased on impulse.

Cloetta's marketing is based on the brands' positions and is characterised by image-creating brand advertising in the mass media, sponsorship and events for selected target groups.

### Events and sponsoring

A large part of Cloetta's marketing is based on events and sponsoring. Events can range from the Citizenship Ceremony at Stockholm City Hall to a presence at festivals around the country. Cloetta also creates events with retail partners.

During the financial year Cloetta and Kexchoklad were principal sponsors for A Swedish Classic which includes sporting events such as the Vätternrundan cycle race, the Vansbrosimningen swimming event, the Lidingöloppet cross-country race and the Vasaloppet cross-country ski race alternatively the Engelbrektsloppet cross-country ski race.

Cloetta also cooperates with SkiStar and Kexchoklad is available in the Swedish mountains throughout the entire winter season. Starting in 2012, Cloetta via Kexchoklad will be a sponsor of the Swedish Alpine Ski Team.



SVERIGES OLYMPISKA  
KOMITTÉ

Kexchoklad signed on as a new sponsor for the Swedish Beach Tour (SBT) beach volleyball competition in summer 2011. This tour will give Kexchoklad a clear and active presence throughout Sweden during the summer months. With SBT, Cloetta has found a summer equivalent to its mountain activities in the winter. In 2012 Cloetta will start a cooperation as a team sponsor to the Swedish

Olympic Committee. Collaboration has also started with the tennis player Robin Söderling.

## PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

To prevent infringement of its intellectual property rights, Cloetta uses a monitoring service and is alerted about applications for registration of brands, both nationally and internationally, that are identical or confusingly similar to Cloetta's key brands.

Kexchoklad, for example, has had a design patent for many years and the name Kexchoklad has had brand protection since 2007.





# High tempo in product development

*Product innovations are a key driver and a totally decisive success factor in the confectionery industry. Cloetta's innovation work and streamlining of the product development process are creating conditions for future new products and relaunches.*

Product innovations strengthen Cloetta's offering to customers and consumers and revitalise the brands.

## TREND MONITORING

Market analysis and trend monitoring provide valuable input for the marketing department. Fashions and trends also play a role in the confectionery business in terms of colours, package designs, new flavours and ingredients. Changes in consumption patterns are followed up and analysed. Knowledge about market trends and consumer behaviour is necessary to develop successful product innovations. Because Cloetta does not have the resources to exploit all trends, it is important to be able to identify the trends that can be significant for the company. Thorough and competent market monitoring is therefore vital.

## PRODUCT DEVELOPMENT



To a large degree, the confectionery market is driven by new trends and products. Attractive innovations and an effective product development process are essential for profitable growth and are imperative in maintaining Cloetta's strong position in the Swedish confectionery market. Innovations and new product launches under the strong existing brands are therefore critical for Cloetta. Innovations are seldom entirely new brands but normally take the form of a line extension, i.e. new packaging, sizes or flavours under existing brands.

Both product development and work on innovations are based on market trends, new consumer needs and how these can be combined with existing brands in the best way.

Aside from tasting good and being reasonably priced for consumers, a new product also has to be commercially attractive to the retail trade. Packaging and distribution must also be adapted to the various sales channels and markets.

## CLOETTA'S INNOVATIONS 2010/2011

During the 2010/2011 financial year Cloetta launched a number of innovations within all prioritised segments in Sweden.


Kexchoklad was given a new design and expanded with the flavours blueberry, raspberry and banana.

When Cloetta's chocolate bags were given a new design with a new family affinity, a new product Pops Crunchy was launched which has a flavour combination new to Cloetta, chocolate and salt. During the summer the bags series was extended with Cloetta Summer Berries and Kexchoklad mini bars with a taste of raspberry, both as a limited edition.

Tarragona pistachio and almond chocolate bars were launched and also Cloetta Good Mandelbiskvi. Good Mintcrisp was also launched during the year in a bite-size 10 gram version.

In the autumn Polly Rocks, a totally new Polly variant with a mixture of light Polly and yellow and black Polly dragées with lemon and salt liquorice flavours was launched. At the same time Tarragona Mandelkrokant and Center Kokos in a roll were launched. The final launch in 2011 was Juleskum Polka.

As a member of Cloetta's Facebook group, consumers can see Cloetta's new products, trends, films and more.



## Consumer trends



### Health high priority

Health has become a central lifestyle issue and led to increased interest in natural and genuine raw materials. Additives of various kinds and chemically produced substances, as well as the large number of ingredients unfamiliar to the consumer, are being questioned in favour of natural materials.



### Social media increasingly important

Many companies and organisations use social media to communicate directly with their end consumers.



### On-the-go

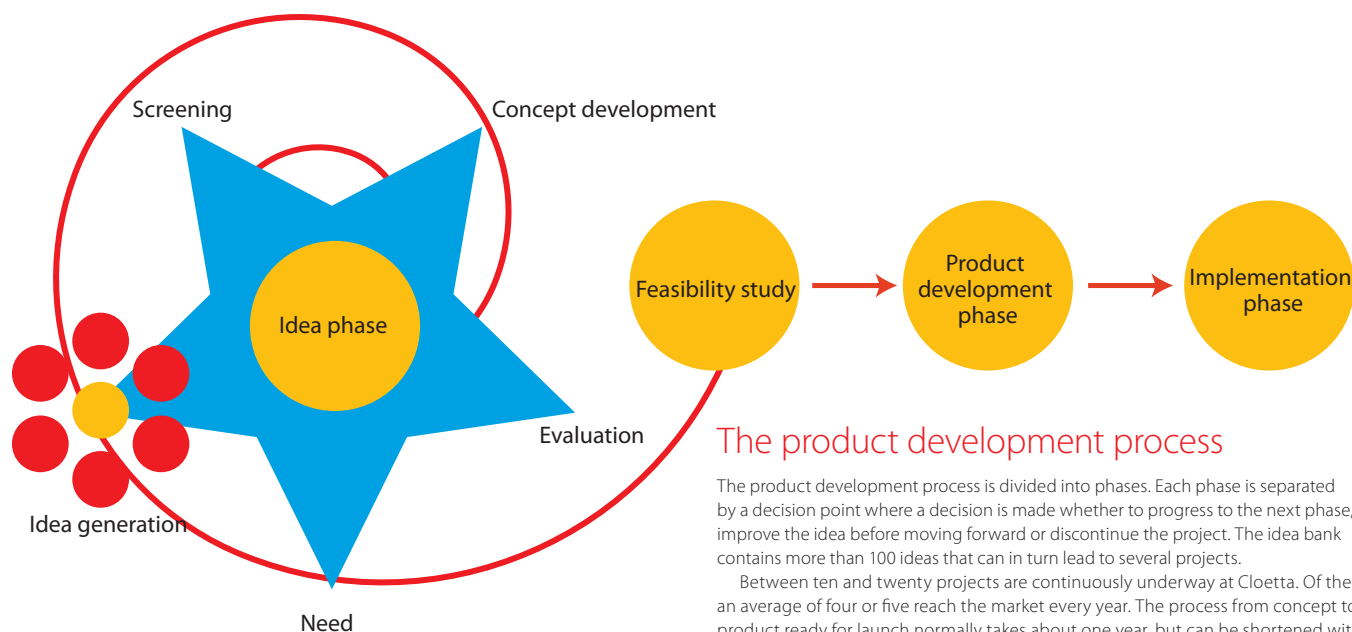
We are increasingly eating outside the home on our way to different activities. Increased availability allows consumers to satisfy their needs immediately.



E numbers are being replaced by the name of the additive in plain language. Natural sugar is preferred to chemical sweeteners. The natural trend is also reflected in how the consumer views packaging and packaging materials.







### EFFICIENT PROCESS

To make the product development process more efficient, Cloetta is conducting a lean project designed to provide continuity, simplify the process and shorten lead times from product idea to market launch.

### FOCUS ON FLAVOUR

Packaging and marketing can tempt consumers to try a new product, but if the flavour fails to measure up there is rarely a repeat purchase. It is therefore extremely important that the product innovations launched by Cloetta meet consumer requirements and expectations. The focus is on flavour when Cloetta develops new products. Cloetta has an in-house tasting panel and many products also undergo consumer testing to obtain input on flavour, consistency and overall impression.

### PACKAGING DEVELOPMENT

One critical step in any product development process is to find the right packaging. With proper packaging, many brands that are strong in one market can also secure a good position in new markets. The important

factors here are details like bag size and weight, but also brand. Even a good, high quality product relies on brand identity and effective marketing to reach consumers.

By adapting only the packaging size and design to each market, but essentially offering the same product, it is possible to exploit economies of scale in production.

Packaging development also includes outer packages. In autumn 2011 Kexchoklad 55 gram was given a new look in the form of a half pallet which displays the product more clearly in the store and has led to additional sales.

### LICENSING AND COOPERATION

Cloetta has had a collaboration with SIA Glass since 2009. Plopp, Tarragona and Guld nougat have been available as ice cream since summer 2010. SIA Glass created the Harrys restaurant chain's three "Cloetta desserts" for summer 2011 with Salta Björnar, Juleskum and Plopp. A number of projects are underway with other potential partners, including Löfbergs Lila.



#### Functional confectionery

Chocolate has positive health benefits. International examples of functional confectionery are jellies with collagen which is thought to be good for the skin, throat lozenges to improve the voice and anti-stress chocolate. Dark chocolate in particular has positive health effects since it contains antioxidants.

As a matter of interest it is worth mentioning that back in 1925 Cloetta launched Vita, Cloetta's vitamin chocolate, the result of vitamin research which was seen as epoch-making at the time.



Raw chocolate is an international trend. Raw chocolate is less processed, slightly coarse-grained and contains more of the cocoa's wholesome attributes.



#### Responsibility for environment and working conditions

One key trend is interest in the effects of food production on the environment and social conditions.



Suppliers and retailers have responded to consumer demands for information above all about the cocoa's origins, quality and cultivation methods by introducing various types of labelling and certification.

# Consumers' favourites

## Kexchoklad®

Kexchoklad is Cloetta's active Swedish classic. Nine out of ten Swedes say that they buy Kexchoklad and naturally Christer Fugelsang took a Kexchoklad with him out into space.

Kexchoklad was launched back in 1938. It has been the same ever since with its delicious taste and the red-yellow packaging that conveys warmth and friendliness. Advertisements back in the 1940s recommended Kexchoklad as provisions on skiing trips and long walks. Sales of Kexchoklad doubled in the 1970s.

Kexchoklad has three wafer layers with a milk chocolate filling. The wafers are cut to size before being coated with a layer of milk chocolate. An average of two 55 gram Kexchoklad bars per second are eaten in Sweden.

In 2011 Kexchoklad was given a new design to strengthen its position, give it a modern feel, and make it more visible. Kexchoklad with blueberry, raspberry and banana flavours was also launched during the year.

Kexchoklad is strongly associated with energy, vitality, togetherness and shared enjoyment. Over the years Kexchoklad has sponsored several Swedish national teams and is principal sponsor for A Swedish Classic. Starting in 2012 Kexchoklad will sponsor the Swedish Alpine Ski Team as well as the top-ranked tennis player Robin Söderling. Through cooperation with the Swedish Olympic Committee, Kexchoklad will achieve greater visibility ahead of and during the 2012 Olympic Games.



**Cloetta Kexchoklad  
-mättande gott,  
när du har brått!**

Byt det alla - Smakfullt från Cloetta





## Center

Center has been around since 1941 when the roll was first launched. The roll is the soul of the brand – just unroll and enjoy! It is easy to share Center in the dark of the cinema, in the sports arena or during the match. The original version is a delicious blend of milk chocolate and a soft and creamy caramel filling. The Center innovation for the year, Center Kokos, was launched in autumn 2011 with the hope of prolonging the summer. Center is available in all our neighbouring Nordic countries.



## Plopp

A tiny treat when you want to give yourself a moment of pleasure. Originally introduced in 1949, Plopp is personified by the little mini bar that stands for nostalgia and tradition.

Plopp is mischievous and playful, the perfect way to show your appreciation to someone special. Since love and chocolate belong together, in connection with Love Stockholm 2010, Plopp was given a new wrapper with the words Kiss, Hug, Joy and Love. This was relaunched for Valentine's Day 2011. Plopp is also available as an ice cream in collaboration with SIA Glass.

## Polly

Polly Original and Polly Milkchoco are the big favourites. In the company of good friends or for solitary enjoyment, Polly has been a Swedish favourite since 1965. Despite intense competition over the past year, Polly is market leader in Sweden. Polly is also available in Finland and was launched in Norway this year under the name Popsy.

Polly was originally created by the confectionery company Svea Choklad. To develop a dragéed product, they tried covering something they were already good at, namely flavoured foam. Their trials with chocolate covered foam drops were successful, tasted great and had a wonderful chewy consistency – and Polly was born. In summer 2011 Polly Summer Berries was relaunched and during the autumn Polly Rocks was launched in cooperation with the musician Dregen. Polly Rocks has attitude and a taste of chocolate, lemon and salt liquorice.



**Best-selling chocolate bags, total, weeks 36–40, 2011\***

**Market leader: Polly Original**

**Market number two: Polly Rocks**

**Market number three: Polly Milkchoco**

\* AC Nielsen ranking chocolate dragées, value, weeks 36–40, 26 Nov 2011

*“Polly has been the number-one best seller for 42 weeks of the year”*



## Sportlunch

Sportlunch is a delightful crispy wafer, generously coated with pure milk chocolate in easy-to-break pieces. Sportlunch is perfect for a break and re-charge. It was launched in 1936 when it was called "Mellanmål" and changed name to the well-known Sportlunch in 1996. Sportlunch has a strong position in Norway.

In 2012 a new flavour will be launched for the first time since 1936, Sportlunch Power Break!

## Tarragona

Tarragona is a chocolate bar for the passionate nut lover, a celebration of taste with a timeless flavour. The name Tarragona comes from the city in Spain, which has been known for its hazelnut groves for centuries. It was from here that the hazelnuts were imported when Tarragona was introduced in 1928.

Tarragona was named "Product of the Year 2010" by the Pressbyrån convenience store chain. During the year Tarragona pistachio and almond was launched as well as Tarragona Mandelkrokant. Tarragona is also available as an ice cream in cooperation with SIA Glass.



*"Guld nougat was launched back in 1913"*

## Guld nougat

Guld nougat is the original that has endured since 1913. With a unique flavour of creamy, soft and rich hazelnut nougat that melts in the mouth, Guld nougat is a real treat, shaped like a gold bar. Guld nougat is also available as an ice cream in cooperation with SIA Glass.





## Bridge

Bridge is a candy mix that was introduced on the market back in 1966. The story goes that Bridge was created when some employees at Nordchoklad were playing bridge during their lunch break. They ate a mixture of the different tasty products made at the factory and someone came up with the idea of launching the mix as a bag. And just like that, Bridge Original came into being. The original version is a generous blend of ten delightful personalities. Bridge is a classic candy experience, so varied and rich in flavours that you never get tired of it. Everyone can find their favourite.



## Extra Starka

The Extra Starka Original brand that was launched in 1965 is one of Sweden's top-selling volume products in the throat lozenge segment. Extra Starka Original is a refreshing hard throat lozenge with a taste of menthol, eucalyptus and peppermint. It is also available in lemon-flavoured and sugar-free variants.

The lozenge remains a Swedish classic in a modern package that is equally suitable as a breath mint or cough drop.

## Juleskum

Cloetta's Juleskum is the original and contributes to a wonderful Christmas spirit. Cloetta started making marshmallow Santas as early as the 1930s, but the real predecessor to today's Juleskum was not introduced until the 1960s.

The past decade has seen unparalleled market growth for Juleskum. Cloetta sells a total of approximately 900 tonnes of Juleskum in Sweden over a period of about two months, making Juleskum the market leader within seasonal marshmallows. A popular Santa that has become a cherished Swedish Christmas tradition. Before last Christmas the entire Juleskum family was given new packaging design, but the bag still contains the same soft and fluffy two-coloured marshmallow Santa with a taste of strawberry as in earlier years. Juleskum Polka will be launched ahead of Christmas 2011.





# Cloetta's customers develop strong concepts

*The Swedish grocery and service retail market is concentrated to a small number of strong concepts. Hypermarkets are gaining market shares at the expense of smaller stores and service outlets.*

Grocery retail accounts for approximately 60% of Cloetta's sales in Sweden and service retail outlets for about 22%. Other sales channels such as DIY chains, department stores, restaurants, hotels, sports venues and arenas account for approximately 18% of Cloetta's sales.

## FAST RESTRUCTURING WITHIN RETAIL

Significant structural changes have taken place within Swedish retail over the past ten years. The number of stores has decreased at the same time as store floor space has increased. Grocery retail and the service trade can now be said to consist of four overall concepts each with its own distinct profile in terms of size, product mix, price, service level and location, see top of next page.

Hypermarkets with annual sales in excess of SEK 200 million have a market share of over 80%. During the period 1998 – 2008 the smallest stores' share of sales has fallen from over 30% to 15% while the share for the largest stores has increased to a corresponding extent. There is every indication that the hypermarkets will continue to gain market shares.

Strong drivers that characterise retail development are increased economies of scale, technical innovations, private labels and new pur-

chasing patterns, see below. A growing number of discount stores are setting up business.

## RETAILERS AND SUPPLIERS IN COOPERATION

For the suppliers these rationalisations and developments within retail bring a corresponding increase in demands for efficiency and rational solutions. Good products with a high quality and strong brands must be attractively priced, delivered, displayed and marketed in an efficient manner. Suppliers play a key role in cooperation with retailers.



## LUXURY AND EVERYDAY CONSUMPTION

Confectionery consumption can be said to be of two different types: luxury, made up of products that are a little more expensive and are mainly saved for weekends and special occasions, and everyday, with products that must be simple, fast and easily accessible.

Cloetta's products belong to the everyday segment and sales depend entirely on the products being accessible close to consumers. Good sales solutions are important to retailers since everyday consumption is spontaneous and the purchasing decision is taken at the check-out to a very high extent.

## Drivers for future development within retail

### New technology

In recent years the retail sector has rationalised and become far more efficient with the help of new technology. Fast and integrated point-of-sale, warehouse and logistics systems are today the rule rather than the exception.

Self-scanning is an example of a technical innovation. Increased access to business critical data has led to reduced stocks, more efficient logistics and centralised purchasing decisions.

### Economies of scale

The success of the hypermarkets is underpinned among other things by economies of scale within purchasing, transport and handling. For example, costs for IT and other systems can be spread across greater volumes.





## Four main concepts within retail

### Hypermarkets



are located on the outskirts of metropolitan regions or in city centres. They compete with price, long opening hours and a high degree of self service based on innovations and technical solutions. For example, today some 70 ICA Maxi hypermarkets account for approximately 30% of ICA's total sales in Sweden. The largest ones have average annual sales of about SEK 500 million.

### Supermarkets



are found in suburbs and town centres and offer a relatively high level of service such as manual service counters and a broad product range with well-known brands.

### Service outlets



service and convenience stores, filling stations, newspaper kiosks, lottery and tobacco shops, fast food outlets and cafés have a relatively limited product range and long opening hours. The service trade is a heterogeneous segment and growth varies. In recent years cafés have enjoyed the strongest growth while sales in filling stations have fallen because they are fewer in number. The service trade has a broad range of snack products.

### Discount stores



often located out-of-town. They carry a narrow product range, offer low prices, have few known brands and a relatively low level of service. In recent years establishments have risen again and both Lidl and Netto are showing positive growth.



A large proportion of everyday consumption has traditionally been sold via the service trade, which has developed a growing number of private label snack alternatives over the past decade. Simple, fast meal solutions which compete with everyday confectionery.

#### SUPPLIERS JOIN FORCES

Concentration in the Nordic grocery trade is high. In Sweden, Finland, Norway and Denmark more than 70% of total grocery sales takes place in the three largest chains in each country. In Sweden, ICA-handlarna, Coop, Axfood and Bergendahls account for over 90% of the total grocery market.

#### CATEGORY MANAGEMENT

Category management is becoming increasingly sophisticated. Using strong management of product range, product placement and environment such as furnishings, lighting, pricing and sales support, retailers and suppliers endeavour to achieve a faster product turnover, higher growth and increased profitability.

Suppliers contribute to category development with their expertise. Effective category management requires cooperation between suppliers and retailers.

#### WELL-KNOWN BRANDS IMPORTANT

To be attractive partners to retail, suppliers must offer well-known brands and a continuous flow of appealing product innovations, good knowledge of category development, and so on.

The Nordic market is characterised by comparatively high brand loyalty. Consumers' loyalty to strong, often local, brands is relatively high and taste preferences for confectionery are often formed in early years. By focusing on and building strong brands, as well as responding to new trends and consumer needs, suppliers can meet the chains' expectations and demands.

#### PRODUCT INNOVATIONS CRUCIAL

Innovations today account for a large portion of growth in value within the confectionery industry. An exciting new product tempts consumers to buy an extra piece of candy. A key factor for success is therefore to regularly launch new and attractive products within segments where there is consumer demand. In order to retain existing and attract new consumers it is important to provide the market with innovations and to develop and modernise existing products.



#### Private labels

Retailers' own private labels have become more visible again in recent years.

In the Nordic region the proportion of private labels within confectionery has stabilised at a level of approximately 11%, which is lower than the total proportion of private labels within retail which is approximately 20%.

#### New purchasing patterns

Another trend which is becoming increasingly pertinent is packaging and distribution of ready-picked grocery bags, both among traditional retailers and specialists. This new way of buying groceries is at a relatively low level so far but is growing fast among consumers.



## Effective sales

*Confectionery is one of the most impulse-driven categories in the retail trade, with over 80% of purchasing decisions made at the point of sale. Cloetta attaches great importance to being an efficient and skilled partner to retail and finding new solutions and sales channels.*

### IN-STORE DISPLAY A DECISIVE FACTOR

A decisive success factor for Cloetta is how retailers receive and display Cloetta's products. It is therefore important to launch products that customers see as needed, which are easy to handle and profitable for retailers.

The stores are one of the most important marketing channels. Cloetta usually combines marketing activities with strong sales-promoting efforts in the stores. Product innovations in particular are given effective sales support through campaigns, events, store activities and advertising.

Cloetta's sales team plays a central role here. The most important part of their daily work is to help the individual retailer to display Cloetta's products so that turnover rates and margins rise in the store. In order to be able to offer retailers such advice, Cloetta's sales representatives must be knowledgeable and inventive.

### SALES STRATEGY AND ORGANISATION

The Sales Director heads Cloetta's sales organisation, which also includes a customer organisation with seven Key Account Managers (KAM), three of whom were recruited during the year.

In autumn 2011 Cloetta started a collaboration with the sales company Sales Support for sales of brands outside the confectionery category, i.e. Mums-Mums and Mandelbiskvier. This allows Cloetta's own sales team to focus more on the confectionery range.

Cooperation has also started with Löffbergs Lila in the fast-growing capsule market. Löffbergs Lila will market and sell capsules for drinking choc-

olate under three of our brands, see below. By licensing out these brands to Löffbergs Lila the brands will be visible in new venues and new channels which will create opportunities for good marketing and new consumers.



Capsules for drinking chocolate in cooperation with Löffbergs Lila.

### FOCUS ON SEGMENTS

With bags, countlines, Kexchoklad, seasonal products and chocolate bars, Cloetta covers in principle the entire range of chocolate confectionery. Towards the retail sector, Cloetta has chosen to concentrate its resources to a small number of segments in order to have an impact. With this in mind Cloetta has built segment teams with specialists within store and brand development. The teams include representatives from marketing, sales, customers, product development and finance. The teams create opportunities for broader perspectives and greater understanding of the business and are headed by a segment manager.





A new display half pallet for Kexchoklad was developed during the year.



Polly Rocks was launched in cooperation with the musician Dregen.

Using this new strategy, Cloetta highlights the brands and segments where Cloetta can make a difference and is unique. The segments are as follows:

#### Countlines

Countlines including Kexchoklad are a key overriding segment for Cloetta, also sometimes known as break & recharge. Cloetta's flagship brand is Kexchoklad. During the financial year Cloetta invested in a new design. Kexchoklad has been seen in outdoor advertising campaigns throughout Sweden and was launched with the new flavours blueberry, raspberry and banana. In addition to Kexchoklad, the segment includes most of Cloetta's most important brands such as Plopp, Sportlunch, Center and Guld nougat.



#### Chocolate bags

Cloetta's chocolate bags have been placed together in a family concept in order to gain greater visibility and be more practical for retailers. Cloetta is market leader within chocolate bags. Polly, Bridge and Kexchoklad mini bars were launched together with the new Pops Crunchy. The series was complemented with Polly Rocks during autumn 2011. The shared concept simplifies new product launches within the series.



#### Seasonal marshmallows

Juleskum is the market leader within seasonal marshmallows and one of Cloetta's most important products.



#### CHANNEL-ADAPTED PACKAGING

Products and offerings will be adapted to sales channels to a greater extent. One example is adapted packaging solutions to the service trade in the form of new bag sizes. During the year Cloetta developed a half pallet for Kexchoklad which gives a better display solution on the shop floor, see picture above.

#### NEW CHANNELS

Cloetta wishes to increase cooperation with new sales channels such as Julia, K-rauta and Rusta, naturally in order to be where the consumers are. For these new channels, Cloetta's task to an even greater extent is to help customers with good ideas and to display the brands.

Restaurants, the food service sector and hotels as well as sports arenas are attractive channels which will be worked on. This can with advantage be undertaken with partners such as SIA Glass. Such collaboration will lead to additional sales as well as increased visibility.

#### OTHER SALES COOPERATION

Since 2009 Cloetta's sales portfolio has also included various types of liquorice products from the Finnish company Oy Panda Ab. Through this cooperation, Cloetta has strengthened its position as a good partner to retail with a broad and attractive offering.





# The Nordic confectionery market

*As well as in Sweden, Cloetta's products also marketed in Norway, Finland and Denmark and within Travel Retail. The largest market is Sweden which accounts for 84% of total sales. Cloetta has had success in export markets during the past financial year through new launches and cooperation agreements.*

The total market for confectionery in the Nordic region amounts to approximately EUR 3.6 billion excluding Travel Retail\*. Per capita consumption is relatively stable but a growing population means that the market rises by a few percentage points each year. The confectionery market is traditionally divided into chocolate and sugar confectionery. Cloetta manufactures and sells primarily chocolate confectionery but also has sugar confectionery such as tablets, liquorice, marshmallows and jellies. The chocolate segment is the largest in terms of value.

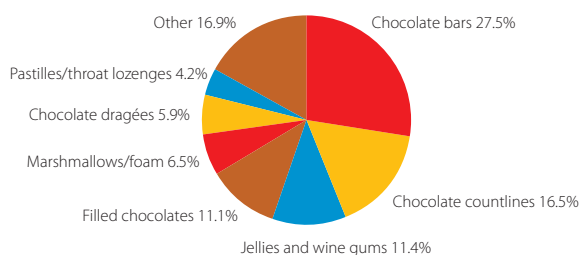
## RELATIVELY CYCLICALLY INSENSITIVE

The confectionery market is fairly insensitive to economic fluctuation. Per capita consumption is roughly equal in all the Nordic countries. On the other hand, growth in the various product segments varies from year to year and from market to market.

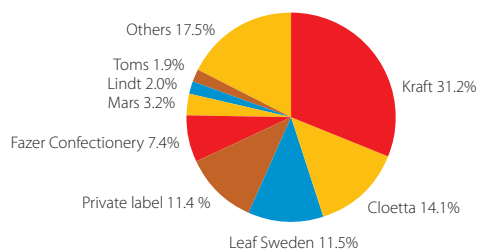
Source: \* Datamonitor 2010 (total market excl. chewing gum)

## Packaged confectionery in the Swedish market, volume

### Confectionery categories



### Major players



Nielsen, Packaged confectionery excl. chewing gum in grocery retail incl. HD +service trade. Rolling full year Feb-Mar 2011. (Pick-and-mix which accounts for about 30% of the Swedish confectionery market is not measured by Nielsen.)



## Norway

8% of Cloetta's sales

**Population:** 4.9 million  
**Market size:** Consumer sales of EUR 693 million\*  
**Largest customers:** NorgesGruppen, Coop, Reitan and ICA  
**Top-selling brands:** Pops, Bridge, Center, Sportlunch and Juleskum

## Finland

2% of Cloetta's sales

**Population:** 5.3 million  
**Market size:** Consumer sales of EUR 816 million\*  
**Largest customers:** Kesko, S-Gruppen, Tokmanni and Tradera  
**Top-selling brands:** Polly and Center

## Sweden

84% of Cloetta's sales

**Population:** 9.4 million  
**Market size:** Consumer sales of EUR 1,163 million\*  
**Largest customers:** Axfood, Bergendahls, Coop and ICA  
**Top-selling brands:** Kexchoklad, Polly, Center and Plopp

## Denmark

2% of Cloetta's sales

**Population:** 5.5 million  
**Market size:** Consumer sales of EUR 946 million\*  
**Largest customers:** Coop, Dansk Supermarked and SuperGros  
**Top-selling brands:** Center, Juleskum and Bridge

## Travel Retail and other exports

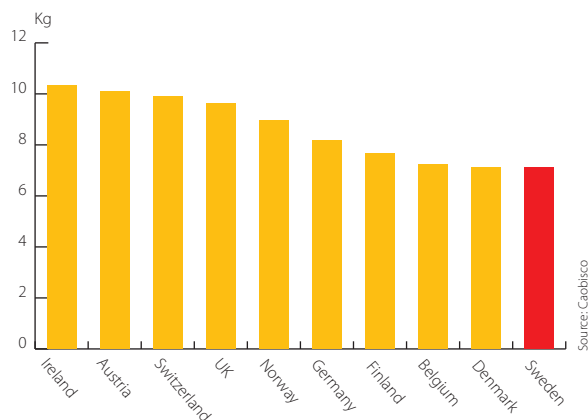
4% of Cloetta's sales

**Largest customers:** Ferry lines and airports  
**Top-selling brands:** Kexchoklad, Center, Polly, Bridge and Juleskum

Source: \* Datamonitor full-year 2010 (total market excl. chewing gum)

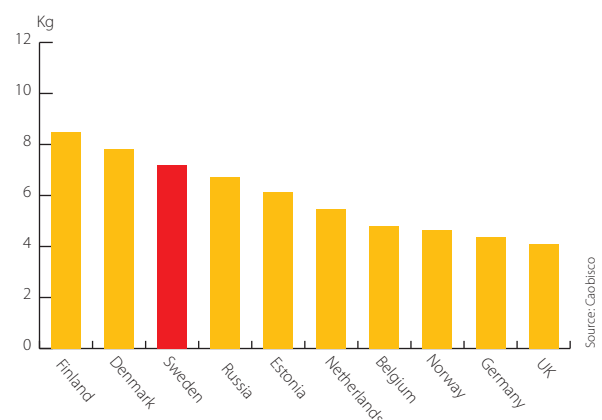
### Per capita consumption of chocolate confectionery in Europe

e.g. filled chocolates, bars, dragées, countlines and rolls

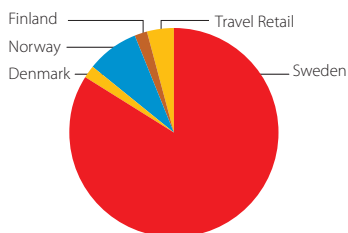


### Per capita consumption of sugar confectionery in Europe

e.g. tablets, liquorice, marshmallows, jellies and chewing gum



Cloetta's sales volume by country



## LOCAL AND INTERNATIONAL PLAYERS

The global market for chocolate confectionery is dominated by companies such as Nestlé, Mars and Kraft Foods. Despite substantial investments in marketing, they meet tough opposition in the Nordic market from local players, such as Cloetta, with strong positions in their home markets.

## OVERCAPACITY AND CONSOLIDATION

No player has a dominant position in all the Nordic markets. Sweden has a population of over 9 million and is the largest single market in the Nordic region.

Sweden is Cloetta's home market and accounts for 84% of the company's sales. The total Swedish market for confectionery has increased in value by almost 7% over the last ten years and by roughly half in volume. Some segments, such as chocolate bars and pick-and-mix, have grown faster, however.



### SWEDEN

The Swedish consumer market for packaged chocolate and sugar confectionery, excluding chewing gum, sold via the grocery grade and in service outlets, amounts to around SEK 6.7 billion annually, or 55,400 tonnes\* at the check-out corresponding to 5.9 kg per inhabitant. With a share of 14.1% in volume Cloetta is number two in this market after Marabou (Kraft Foods) which has 31.2%.

The retail chains' private labels have stabilised at a volume share of approximately 11% of packaged confectionery.

Including pick-and-mix and chewing gum as well as sales in channels other than the grocery and service sectors, the total market for confectionery in Sweden amounts to approximately EUR 1,163 million or about 129,800 tonnes\* corresponding to 13.8 kg per inhabitant. The pick-and-mix category accounts for about 30% of the total market. Attempts were made during the year to establish premium pick-and-mix candy and increase prices. This has so far met with resistance, however.

### Development during the financial year

#### For the market in general

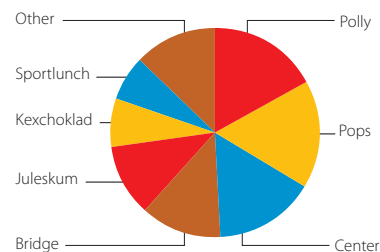
During the financial year the Swedish confectionery market\*\* increased by 2.0% in volume and 0.4% in value. According to the Swedish Retail Institute (HUI), 2011 will show the weakest retail growth since 1996. Cloetta's three largest customers within grocery retail account for 65% of Cloetta's revenues.

\* Datamonitor full-year 2010 (total market excl. chewing gum)

\*\* Nielsen, confectionery total, grocery retail trade, private labels and service trade, rolling full year October 2011.

\*\*\* Nielsen, chocolate confectionery, grocery retail trade, rolling full-year October 2011.

Export and Travel Retail – sales by brand



### For Cloetta

Cloetta's market share within chocolate confectionery\*\*\* decreased during the financial year from 16.3% in volume to 15.2% compared with the previous year and from 15.7% to 14.6% in value.

Cloetta saw a strong upswing in sales during 2010 through the launch of the Wedding Series to commemorate the wedding between HRH Crown Princess Victoria and HRH Prince Daniel. Excluding this launch when comparing with the previous year, Cloetta's sales were unchanged between the years.

## EXPORT MARKETS

For the export brands, product innovations are every bit as important as they are in the home market in Sweden. Competition is intense and one way to gain visibility is to continuously present new and appealing products. New launches in the export market are selected from Cloetta's existing products that have proved successful in the home market.

The main strategy for export markets is to grow through Polly, seasonal marshmallows and Kexchoklad, and to build and nurture the existing product portfolio in each market. Polly is now established in all the Nordic countries and Juleskum in most of them. There are plans to launch Kexchoklad in the Nordic markets where it has not yet been established.

## NORWAY

Norway is Cloetta's largest market outside Sweden and sales of the company's products increased during the financial year.

Annual consumer sales in the Norwegian confectionery market, excluding chewing gum, amount to EUR 693 million, or 63,600 tonnes\*.

Kraft Foods Freja has long held a dominant position in the Norwegian market. The number two player is Nidar followed by Galleberg which has been a distributor of Cloetta's products in Norway since 2005.

As in the other Nordic countries, the grocery trade is dominated by major chains. NorgesGruppen, Coop, ICA and Reitan together control almost the entire grocery market. Decisions about the product range are made at a central level but effective cultivation of the sales force is critical in ensuring that agreed product listings are implemented in the stores.

Cloetta's top-selling brand in Norway is Pops which during the financial year was relaunched in a new design together with Bridge. The bags have sold successfully and advanced up the ranking list and captured market share from the outset. Pops is now Norway's third-largest chocolate bag. Polly Original and Polly Milkchoco, known as Popsy in Norway, were also launched in autumn 2011. This launch was one of the biggest ever for Cloetta outside Sweden and included media campaigns with TV and outdoor advertising, tastings and various well-attended events.







## FINLAND

Consumer sales in the Finnish confectionery market, excluding chewing gum, amount to EUR 816 million, or 84,900 tonnes\*.

In 2011, new legislation introduced selective purchase tax on confectionery, ice cream and soft drinks. For confectionery, the tax is 75 cents per kg and an increase has been announced for the beginning of 2012. Cloetta's assessment is that the total confectionery market has lost an estimated 6% in volume during the year.

Fazer Confectionery is the leading player in Finland followed by Leaf and Panda.

Cloetta's sales in Finland increased during the financial year which also led to higher market shares. Polly Summer Berries and Center Salmiak in a roll were launched during the year. Center Original and Center Nougat were already in the Finnish market.

The sales partnership with Oy Panda Ab, which started in December 2008, has developed very well and strengthened Cloetta's opportunities for continued growth in Finland. Intensified marketing with outdoor advertising for Polly and TV advertising for Center have contributed to the favourable sales growth.

The Finnish grocery trade is dominated by major chains such as Kesko, S-Gruppen Tokmanni and Tradera that primarily use centralised purchasing. This means that new products can obtain wide distribution and be rapidly accessible for consumers.

## DENMARK

Consumer sales in the Danish confectionery market, excluding chewing gum, amount to approximately EUR 946 million, or 82,500 tonnes\*.

The market leader in Denmark is Toms and the second largest player is Haribo, followed by Leaf and Kraft Foods.

The grocery trade in Denmark is moving towards greater centralisation but is far more decentralised than in the other Nordic countries. Extensive efforts at store level are therefore required to increase distribution. The most important customers are Coop, Dansk Supermarked and SuperGros.

A/S Beauvais has been a distributor of Cloetta's brands and products in the Danish market since spring 2010. The change of distributor has led to some adjustment which affected sales development for Cloetta's brands.

Cloetta's sales in the Danish market were largely unchanged during the past financial year.

In addition to building and nurturing products already in the Danish market, Polly was sold on a test basis in autumn 2011 with plans for a launch soon. Another "innovation" in the Danish market is Kehlet, a countline with dark chocolate and mint which was originally launched in Denmark in 1885. The brand is in demand in the Danish market which is why Cloetta has decided to relaunch Kehlet in Denmark in 2012.

## TRAVEL RETAIL

Travel Retail consists of sales to ferry lines, charter operators and airports. Attractive product innovations are also important within Travel Retail. Confectionery is the ideal gift to bring home from a trip. Unique packaging, in terms of both appearance and size, is a key competitive tool in this market.

The chocolate bag assortment in specially designed, larger bags for Travel Retail was extended with Bridge and Polly Summer Berries during the year. Gift packaging for children designed as a suitcase has been given a different content including a soft toy. The focus on Travel Retail has been successful and Cloetta's brands are now sold once again on Tallink Silja Line's ferries and as pre-ordered items on charter flights.

The potential for increased sales of Cloetta's products remains high and in 2012 the classic 55 gram Kexchoklad will be launched in a new and different packaging.



Source: \*Datamonitor full-year 2010 (total market excl. chewing gum)



## Flexible production

*Production in Ljungsbro is mainly focused on chocolate confectionery while the factory in Alingsås produces sugar confectionery in the form of throat lozenges, toffee and lollipops. Skills development has been centre stage for the improvement programme in Ljungsbro over the past financial year.*

### SKILLS DEVELOPMENT PROVIDES FLEXIBILITY

Production efficiency has increased in recent years. New more flexible working methods, investments and maintenance that is more closely integrated with production have contributed to this. The reduced volumes from contract manufacture (production of others' brands) have at the same time led to lower capacity utilisation. Taken overall this resulted in redundancies during the first quarter of the financial year and notice being issued to 17 factory operatives. In order to increase flexibility a skills development programme was started at the same time.

Cloetta has twelve production lines and approximately 200 factory operatives. In Alingsås, there are eight lines and 22 employees. When sales of an individual product fluctuate, it is important to be able to use the machine park flexibly to achieve more efficient utilisation. This requires every operative to be able to operate more than one line.

During the year major investments were therefore made in skills development, both in the form of training, but above all by all employees being given an opportunity to learn from a more experienced person on the line in order to increase their expertise.

### One day in production

#### 06.48 – 07.00 Change of shift

Hand over and summary of the previous shift. This takes place at information boards where details of production over the past 24 hours are collected.

#### 07.00 – 07.05 Team meeting

The reporting manager at each line goes through with the maintenance manager what has happened over the past day and whether there are any working environment risks/incidents (Green cross).



#### 07.30 – 07.45 Maintenance meeting

Maintenance managers collect information from all lines.



In order to work strategically with skills development Cloetta has invested in a web-based tool where individual competencies and the company's total requirements can be mapped.

### MANAGEMENT SYSTEM

The overall production plans are based on analyses where strengths and weaknesses are identified and clear and measurable targets are drawn up linked to activities.

The basis for the management system is a systematised meeting structure and frequency. Production evaluation meetings are held on a shift, daily, weekly and monthly basis in order to detect both positive and negative deviations from plan and solicit proposals for improvements. Results and efficiency in the supply chain are continuously visualised on large format displays and bulletin boards. This provides a good overall perspective and awareness of the current situation. In the event of deviations, action can be taken immediately and systematic follow-up provides scope for proactive improvements.

Incidents or accidents are continuously followed up in the factory's daily meetings and lead to immediate corrective measures. Greater awareness of the risks of incidents sharpens preventive work and the number of accidents and sickness absence are low.

When developing new products, Cloetta uses the Product Development Tool (PDT). This system provides a checklist where every function involved in the product development process can monitor how a new product is progressing.

### SUPPLY CHAIN

Work carried out to improve the efficiency of the supply chain has yielded good results and delivery reliability to customers was good during the year. Improved forecasts have facilitated production planning and made it more accurate. This has been used to make the entire production chain more efficient from purchasing to manufacturing, and on to finished goods warehouse in Norrköping and finally to the customer. Having a more efficient flow reduces capital tied up in inventories of both raw materials and finished products while the level of service improves.

### INVESTMENTS IN PRODUCTION

Cloetta makes ongoing investments in production equipment in order to raise productivity, save energy and improve the working environment. During the past financial year Cloetta made the following investments in production in Ljungsbro:

#### Increased productivity and new packaging

New bag machines were installed for the new Travel Retail packages for Kexchoklad mini bars and Juleskum. The new machines offer more sizes and are more efficient and safer from a working environment aspect.

#### Reduced energy consumption

The three-year project to fully replace the switchgears at the Ljungsbro factory has now been completed. This provides a more modern electrical system with greater opportunities to save energy, read more on pages 39–40.

Other investments included new frequency transformers which control all the compressed air units. This provides greater flexibility when it comes to adjusting operations according to how much compressed air is needed in the factory and therefore saves energy.

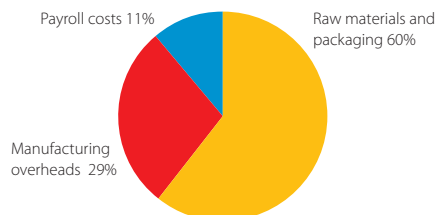
#### Improved working environment

Investments to improve the working environment included new lifting devices and platforms at the dragée manufacturing line. Ventilation has also been improved.

### CONTINUAL IMPROVEMENTS IN PRODUCTION

Key factors for success in the manufacturing process are long-term and daily efforts to achieve continual improvements and a learning culture. Working methods and processes are continuously improved and refined. During the year the focus was on configuration efficiency and systematic problem solution.

Production costs 2010/2011  
share of costs



Raw materials and packaging are by far the largest cost item in production. Manufacturing overheads are mainly costs for energy and water as well as depreciation of machinery.



#### 07.45 – 8.15 Rounds

Team members make a round of the factory to identify deviations and plan improvements.



#### 08.30 – 8.45 Factory meeting

Factory management and all support functions meet and go through the events of the day and can quickly adopt measures to solve problems if required.

22.48 – 23.00  
Change of shift.

14.48 – 15.00  
Change of shift.



Scheduled improvement meetings, with operatives, maintenance technicians and managers, are held once a week. A new working method linked to continual improvements was introduced during the year. This resulted in a substantial increase in implemented suggestions for improvements. A whiteboard system means that suggestions for improvements are visualised on site at each line. Every week new proposals and ongoing and implemented proposals are followed up by operatives, maintenance technicians and managers. The aim is to increase the number of suggestions for improvements to eight per employee and year. 900 suggestions for improvements were implemented during the financial year.

During the year an automated Overall Equipment Effectiveness (OEE) system, which measures machine operating times in relation to stoppages, was implemented at most production lines in Alingsås.

During spring 2011 a project was also initiated to install a Material Planning System (MPS) in the Alingsås factory. The aim is to have this in operation and all employees trained at the beginning of 2012.

### PRODUCT SAFETY

The BRC Global Standard, which is a system for product safety in the food industry, is a cornerstone in quality management. The majority of customers require a certified or otherwise documented quality management system from their suppliers.

Cloetta's factories in Ljungsbro and Alingsås received BRC certification in 2004 and 2007, respectively. In the 2009/2010 financial year the Alingsås factory was upgraded to the same level as the factory in Ljungsbro, i.e. level A which is the highest level. In the BRC standard, product safety is based on the HACCP method (Hazard Analysis Critical Control Points). With the help of the HACCP method it is possible to analyse potential food safety hazards and identify critical control points (CCP) for these.

Chemical and physical tests are performed daily as well as checks to ensure product safety at the critical control points identified according to HACCP.

Declarations of contents for Cloetta's products can be found at [www.cloetta.com](http://www.cloetta.com). Both the BRC standard and EU food product legislation require traceability of raw materials. The traceability is verified and tested. Raw materials are purchased only from suppliers verified in accordance with Cloetta's quality and hygiene requirements, read more on page 32. Cloetta has drawn up a detailed product recall programme to enable rapid withdrawal of a product from the market if needed.

Cloetta does not use azo food colourings or trans fats in its products.

### FLAVOUR AND QUALITY ASSURANCE

Cloetta sets rigorous quality standards for its operations. High quality chocolate cannot be manufactured without first-class raw materials and correct handling and processing methods.

High product quality and delivery reliability are key success factors. For each product there is a specification for flavour, aroma, appearance and consistency. When purchasing raw materials and on the production lines, regular measurements and sensory assessments are performed to ensure that these criteria are met.

At Karamellpojarna in Alingsås all production staff attended basic sensory training during 2011 to enable them to more easily identify any deviations in the taste, appearance and consistency of the products.

### Chocolate project

During the financial year, Cloetta started a project designed to increase knowledge of the attributes and sensory properties (taste, sight, smell, sound and touch) of the raw material and finished products, known as the chocolate project. By looking, for example, at the chemical properties in each cocoa delivery (melting points, etc.) treatment in production can be optimised. More knowledge of exactly which raw materials create well-defined flavours is also, combined with new research findings about taste, valuable in product development.



## Ljungsbro

<b>Production 2010/2011:</b>	16,600 tonnes (18,900)
<b>Number of factory operatives:</b>	228 (235)
<b>Certifications:</b>	BRC Global Standard, level A and ISO 14001 since 2004
<b>Number of production lines:</b>	12
<b>Largest products:</b>	Kexchoklad, Center, Polly, Plopp, Bridge and Juleskum



## Alingsås

<b>Production 2010/2011:</b>	1,231 tonnes (1,400)
<b>Number of factory operatives:</b>	22 (24)
<b>Certifications:</b>	BRC Global Standard since 2007, level A since 2010
<b>Number of production lines:</b>	8
<b>Largest products:</b>	Extra Starka, Fruktklubbor, Hemkola, Fünf Kräuter and Kungen av Danmark



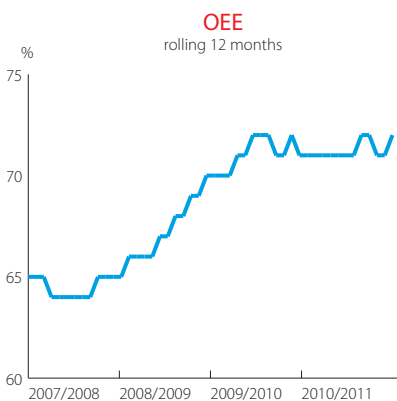
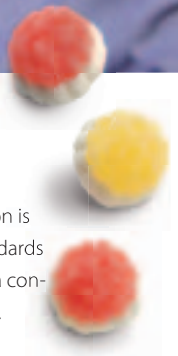


### Consumer and customer feedback

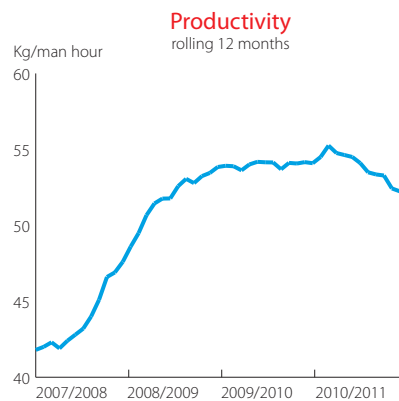
Consumer feedback is vital to Cloetta. A project is underway to more effectively channel consumer and customer input into development and improvement initiatives. There is zero tolerance to serious complaints and any such complaints must always be reported to management.

### EXTERNAL PRODUCTION

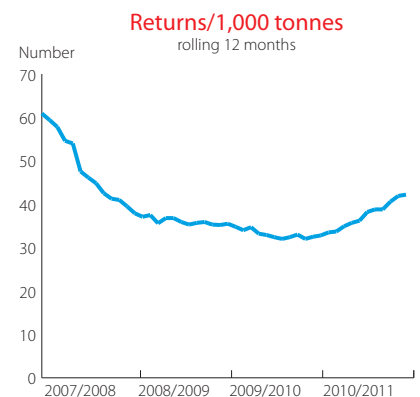
Cloetta's product range includes products that are made by other manufacturers, such as certain filled chocolates. External production is outsourced only to manufacturers with the same high quality standards in production as Cloetta, and these undergo regular audits. Cloetta continuously evaluates external production versus possible insourcing.



OEE (Overall Equipment Effectiveness). This indicator measures equipment performance in relation to stoppages caused by events such as product changes, disruptions or equipment malfunctions.



Productivity improved dramatically for a number of years. Due to less contract manufacturing the level fell slightly during the past year.



The number of returns increased slightly during the year. This was due to initial problems with the mix of Bridge in a new, smaller package. In a bag with relatively few products, the consumer can be sensitive about variations if his or her favourite is under-represented. This problem has now been solved.



# Raw material purchasing

*The cocoa price rose during the first half of the financial year to reach a peak of £2,400/tonne in March 2011. This is the highest listing since 1977 apart from a few individual occasions during the previous financial year. Subsequently, greater political stability in the most important export country, Côte d'Ivoire (Ivory Coast), together with a good harvest contributed to increased supplies which led to falling prices.*

The prices of many of Cloetta's raw materials are affected by agropolitical decisions regarding subsidies and trade barriers. The EU is currently drafting an agricultural policy reform that will come into force in 2014 and will most likely change the market conditions for commodities like sugar, milk powder and grain in the EU.

Alongside political decisions, the prices of agricultural commodities are affected by supply and demand, i.e. the size of the harvest and consumption of food products. In recent years, speculative trading in agricultural commodities has increased dramatically. Commodities in general are seen as an interesting investment alternative and a means of diversifying risks. One effect of this increased speculation in important raw materials is greater price volatility.

Cloetta's purchasing unit is of central importance in optimising the Group's costs for purchased goods and services. The purchasing unit continuously monitors risk exposure in raw material to attain predictability in the financial outcome with a certain degree of foresight.

## SUPPLIERS MUST BE APPROVED

All of Cloetta's suppliers are checked and approved before they are permitted to supply materials to the factories. The process varies depending on the type of supplier and the type of material delivered. Certain suppliers are physically audited at regular intervals by Cloetta employees. In an audit, Cloetta reviews the supplier's sustainability performance, what challenges and problems exist and how the supplier addresses them. In connection with this, raw material suppliers are also assessed for their application of a code of conduct that is consistent with Cloetta's rules. The aspects that are covered in an audit include product safety, ethics, quality and environment.

Cloetta collaborates closely with its largest suppliers, among other things through automated order and delivery processes that are adapted to raw material consumption in production.

## COST TREND

Cloetta's largest cost items, accounting for approximately 60% of total production costs, are raw materials and packaging. The most significant raw materials in terms of value are cocoa, milk products and sugar. During

the financial year prices of the raw materials purchased by Cloetta rose compared with the previous year.

## Cocoa

The price of cocoa beans, which account for a significant share of the Group's raw material costs, has almost doubled in the past five years. The bean price rose at the beginning of the financial year to levels of around £2,400/tonne, due to conflicts in Ivory Coast. When the troubles ceased exports resumed and together with a good harvest this meant, global market prices fell back to levels between £1,900 and £2,000/tonne. The price is very high, however, in a historical perspective.

The sharp price fluctuations are partly explained by the fact that the cocoa exchange is comparatively small and therefore attracts speculation. The cocoa price is naturally also dependent on the level of supply, i.e. the harvest and demand. To counter the effects of price fluctuations, Cloetta continuously signs delivery contracts for cocoa within the framework of the Board's established policy.

Cocoa price development  
£/tonne

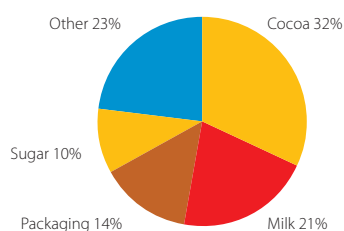


## Other raw materials

The price of milk powder rose by 17% compared with the previous financial year. Increased demand for processed milk products such as cheese and yoghurt is the main price driver. Increased demand for milk powder itself also underpinned the price increase.

The price of European sugar rose sharply during the financial year. Approximately 16 million tonnes of sugar are consumed within the EU each year, while only 13 million tonnes are produced. The shortfall is an effect of partial deregulation implemented within the EU and since the global market price is at a historically high level, the sugar imports which are required to bridge the gap partly failed to materialise, which led to a difficult delivery situation and high prices for European sugar.

Raw materials and packaging 2010/2011  
share of costs







*Pleasure*

*Enjoyment*

Sustainability report





# Sustainability

*Cloetta's vision is to be one of the Nordic region's leading confectionery companies. This is the driver for Cloetta's commitment to corporate responsibility. The goal is to act as a good and responsible corporate citizen both in the local environment where Cloetta operates and throughout the entire value chain.*



## REPORTING PERIOD AND GUIDELINES

This is Cloetta's second sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines, G3. The report meets the criteria in level C and has not been externally assured. The contents refer to the financial year from 1 September 2010 to 31 August 2011 and include all of Cloetta's activities unless otherwise specified. Cloetta's ambition is to report on its sustainability performance in its annual report every year. No significant changes in the reporting have been made compared with the previous report.

The sustainability report and corporate governance report are part of the annual report for the financial year 2010/2011. To avoid repetition, references are sometimes made to these two reports including the section with the Managing Director's comments on pages 4–5. On page 46 Cloetta presents a tabular summary that shows where in the annual report the different GRI performance indicators can be found. A detailed table of contents and more formal disclosures can be viewed at [www.cloetta.com](http://www.cloetta.com).

The sustainability report is designed to reflect the company's economic, environmental and social impact. The performance indicators and metrics that Cloetta has chosen to present have been selected in view of their significance and relevance to the company's operations. Cloetta's website provides additional sustainability information that is primarily directed to consumers.

## BOUNDARIES

The sustainability report covers Cloetta's own operations, meaning Cloetta's direct impact on the environment and people. All of Cloetta's production and virtually all sales take place in the Nordic region and all of Cloetta's direct suppliers, with a few exceptions, are found in Europe, where there is human rights legislation.

Product responsibility and product safety are an integral part of Cloetta's production process and are described on page 30.

However, Cloetta has a certain responsibility for the entire life cycle of its products, from raw material supplier to recycling of product packaging. All of Cloetta's suppliers undergo an approval process in which sustainability requirements are a natural part. This process is described under "Raw material purchasing" on page 32.

For raw material suppliers with whom Cloetta has no direct relationship, such as growers and dairy farmers, Cloetta is responsible for promoting development toward better environmental and working conditions. Read more about Cloetta's involvement in international initiatives on page 46.

## ORGANISATION FOR SUSTAINABILITY WORK

Cloetta's sustainability work is overseen by the Corporate Responsibility Council, which is made up of representatives from all of Cloetta's functions. The Council acts as a conduit for issues related to corporate responsibility and is charged with identifying prioritised areas, acting as a link between



the company's stakeholders and management, and implementing the strategy for Cloetta's corporate responsibility in each area of operations.

Cloetta's environmental activities are led by an Environmental Council. Cloetta's Work Environment Council is responsible for the company's occupational health and safety activities and works systematically with monitoring of issues related to OHS.

### AWARDS DURING THE FINANCIAL YEAR

Cloetta was awarded the highest score in WWF's Palm Oil Buyers' Scorecard 2011 which measures performance among more than 130 retail companies and producers of consumer products. Performance is measured within the four areas that WWF considers show whether the companies are acting responsibly with regard to purchase and use of palm oil.

### STAKEHOLDERS

Cloetta's stakeholders and target groups include customers, consumers, employees, shareholders, business partners/suppliers and the public/society. These groups are crucial for Cloetta's long-term survival. Cloetta has a continuous, open dialogue with the most important stakeholders based on the expectations and requirements of each stakeholder group.

### INTERNATIONAL SUSTAINABILITY INITIATIVE

Cloetta has extensive involvement in NGOs in order to accelerate development towards more sustainable raw material production, primarily of cocoa, but also of palm oil and other raw materials. Read more about this in the section Responsibility for raw material producers on page 45.

Stakeholders	Key issues – sustainability	Communication and cooperation
<b>Customers/consumers</b>	Product safety and quality. Clear declarations of ingredients. Eco-friendly packaging. Cloetta takes responsibility for the environment and working conditions as far as possible. Ethics in general. Efficiency transports to the retail trade.	With consumers primarily via the website. With customers via personal customer and sales meetings and via customer surveys, but also cooperation on eco-friendly transports from the finished goods warehouse to customers and consumers.
<b>Employees</b>	A good and stimulating working situation. Safe working environment. Health and wellness activities. Ethical issues in general.	Daily meetings to discuss occupational health and safety in the factories, annual performance reviews with all employees, systematic skills development activities, up-to-date information via the intranet and union representatives.
<b>Shareholders</b>	Long-term, sustainable development of shareholder value. Ethical issues in general.	Annual report, website, analyst and investor meetings, interim reports and annual general meeting.
<b>Suppliers and other business partners</b>	Ethics and business codes in procurement. Product safety. Long-term sustainable development. Support for human rights.	Supplier evaluations, FTI (REPA, Swedish Packaging and Newspaper Collection), sponsorship evaluations and discussions about development.
<b>The public/society</b>	Cloetta accepts responsibility for the environment and working conditions as far as possible. Laws and standards. Cloetta makes a positive contribution to the development of society, including the local community.	The municipalities of Linköping and Alingsås regarding the local environment, public authorities in areas related to occupational health and safety, environmental and product responsibility. Swedish Food Federation (LI), schools and universities, certification bodies for ISO and BRC and key lobbyists.

## Economic impact

*Production and sales of Cloetta's products generate economic values that benefit stakeholders such as customers, suppliers/business partners, employees, society and shareholders.*

Direct economic value generated and distributed (SEK M)	Stakeholders	2010/2011	2009/2010
Revenues	Customers	987	1,061
Other operating income	Business partners	10	6
Financial income	Business partners	6	3
<b>Total generated value</b>		<b>1,003</b>	<b>1,070</b>
<b>Distributed as</b>			
Costs excluding payroll	Suppliers/business partners	-741	-799
Payroll and other compensation	Employees	-229	-233
Financial expenses	Business partners	-7	-7
Dividends*	Shareholders	-30	-18
Income tax	The state	-8	-9
<b>Retained earnings</b>		<b>-12</b>	<b>4</b>

\* The Board of Directors proposes to the Annual General Meeting a dividend of approximately SEK 30 million (18), which means an ordinary dividend of SEK 0.75 per share and an extraordinary dividend of SEK 0.50 per share.

Cloetta did not receive any financial support from the public sector during the financial year or in the previous year.

# Cloetta in society

*Responsible business has always characterised Cloetta. It is part of our corporate culture and tradition to safeguard people, society and the environment. Cloetta is involved in the local community and at a global level. This commitment is expressed in environmental projects and sports associations in Ljungsbro and the surrounding area as well as in schools in West Africa.*

## LOCAL COMMITMENT

To the greatest possible extent, Cloetta strives to act in an ethical and environmentally sustainable manner. All operations and collaborative arrangements are continuously reviewed from a sustainability perspective. This commitment to sustainable development at the local and global level is aimed at strengthening Cloetta's brand both within and outside the company. Cloetta's sustainable development initiatives are linked to the company's core values: Expertise, Responsibility, Innovation and Enjoyment.

Today, Cloetta's local activities are mainly focused on consideration for the local environment. But as the largest private employer in Ljungsbro, Cloetta has a wider responsibility and has chosen to become involved in the local community, for example by supporting sports associations in Ljungsbro, Linköping Fairtrade City and Fourth City Region. Cloetta is also providing funding to a project in association with Vreta kloster Tourism, the Municipality of Linköping and the County Administrative Board of Östergötland to restore a dried-out stream bed behind the factory in Ljungsbro. The stream bed will be filled with water to revive a large and varied fish population that can migrate and spawn between Lakes Roxen and Vättern. As a natural part of its local commitment, Cloetta is a long-standing sponsor of Linköping Hockey Club (LHC) and the Cloetta Center arena in Linköping.

Cloetta will also lease premises in a replica of a building from the 1950s in Old Linköping which is currently under construction. The building, which will be opened in spring 2012, will include a self-service shop from the 1950s, where Cloetta will create a brand store.

Cloetta has an ongoing dialogue with local authorities, with both nationwide and local media and also with schools and universities. During the financial year Cloetta started a strategic research cooperation with Linköping University. Cloetta will thereby become a member of the Process Industrial Centre, which aims to make Swedish process industry more efficient.

To create a well defined and stable platform for its ongoing activities, Cloetta has identified areas of importance to the company and its operations where it is possible for Cloetta to exert an influence.

## CLOETTA'S CODE OF CONDUCT

Cloetta is dedicated to manufacturing and marketing its products in a manner that generates added value for the company's consumers, customers, shareholders and employees. Cloetta has established a set of principles to guide the way in which the company conducts its operations. These are described in Cloetta's Code of Conduct, which is available on the corporate intranet. New employees are provided with information about the company's principles and core values.

### General principles

- > Cloetta prioritises a long-term approach to value creation, primarily by building and nurturing profitable brands.
- > Cloetta recognises and supports the ten principles in the UN's Global Compact and works to promote these in the communities and environments where the company conducts business.
- > To ensure compliance with these general principles, Cloetta has adopted a number of basic standards:
- > Cloetta complies with the applicable laws, regulations and norms in the countries where the company operates.
- > Cloetta conducts its operations with the highest standards of integrity and ethics and takes responsibility for its actions.
- > Cloetta respects the UN's Declaration of Human Rights and accepts responsibility for protecting the rights of employees and society in its operations.
- > Cloetta takes part in international collaborative efforts to improve the working conditions of those active in producing the company's raw materials, such as cocoa.

## Value chain

### Suppliers

- > All suppliers of raw materials and other direct material undergo an approval process in which both environmental and ethical aspects are taken into account.
- > Cloetta promotes sustainable production of raw materials such as cocoa and palm oil.
- > When possible, Cloetta sources raw materials such as flour, sugar and milk nationally.
- > All packaging can be pre-sorted.
- > Cloetta strives to avoid unnecessary transport packaging and thereby reduce emissions of CO<sub>2</sub>.

### Production

#### Environment

- > Heating, around 50% of energy requirement. When possible, Cloetta uses energy types with lower environmental impact, such as district heating.
- > Electricity, close to 50% of energy requirement. All electricity used at the facilities in Ljungsbro and Alingsås is wind power certified.
- > Development of more energy-efficient processes.
- > Waste is sent to material recycling and energy recovery.
- > All water used for cooling comes from Cloetta's own wells and is not contaminated.
- > Better sewage systems reduce the level of fats and organic effluents in the wastewater.

#### Occupational health and safety

- > OHS activities with systematic monitoring and follow-up.

#### Product safety

- > Product safety system.
- > Zero tolerance to serious complaints.





Cloetta moved to Ljungsbro in 1901 and has been the largest employer there for many generations, which has given the company a natural role in taking responsibility for the community and its development.

Ljungsbro was built as a model community – an airy and healthy garden city where the company was responsible for all urban planning for many years, including road maintenance and the supply of water and electricity.

Employee housing was built as early as the 1910s. As recently as the 1930s there was a post office, a telephone station and a bank inside the factory compound itself. Cloetta took care of refuse collection, built streets, founded a power station and started its own bus company between Ljungsbro and Linköping. The workers were granted low-interest home loans in order to purchase inexpensive plots of land that were developed by Cloetta.

In the 1940s there was a vision for Ljungsbro to become Sweden's "chocolate city". The company had its own architects who designed and built employee housing, medical and dental clinics and opened Sweden's first daycare centre (preschool).

Today Cloetta collaborates with local associations in Ljungsbro and supports activities in the community during the year.

Cloetta is proud to have succeeded in preserving the positive aspects of the early factory community and combining this legacy with a modern entrepreneurial spirit.

## Cloetta and Ljungsbro

- > In the areas where Cloetta conducts business, the company actively encourages its suppliers to adhere to the principles in Cloetta's Code of Conduct.

### CONSUMER AND CUSTOMER RELATIONS

Cloetta safeguards and respects the trust customers and consumers invest in the company by honouring their legitimate right to information about Cloetta's values and activities.

**Comment:** Customers and consumers can read about Cloetta's values, which are described on the corporate website and in publications such as the annual report. Read more about our cooperation with the retail trade on page 20.

### EMPLOYEE RELATIONS

Employee relations are built on a foundation of mutual respect and trust. All terms of employment comply with the provisions in collective agreements, national laws and the relevant ILO conventions (International Labour Organisation).

**Comment:** All employees are covered by collective agreements and no case of discrimination has been identified.

### BUSINESS ETHICS

Corruption, bribery and unfair competition-restricting practices distort the market and obstruct economic, social and democratic progress. Cloetta never employs or is otherwise associated with such methods.

**Comment:** There has been no case of corruption leading to legal action during Cloetta's history. Likewise, there has been no reason to evaluate suppliers with regard to corruption since there have been no such suspicions.

### ENVIRONMENT

Environmental consideration permeates every aspect of Cloetta's work. The ambition is to consistently surpass the expectations of consumers, customers and other stakeholders with respect to product safety, quality and environmental performance.

**Comment:** The authorities' external requirements for the local environment include the level of BOD<sub>5</sub> (organic effluents), fats and the pH level of the wastewater, as well as noise from the factories. The limit for fats in the wastewater was exceeded slightly during the financial year, although not to such an extent that sanctions were imposed. Other requirements were met by a wide margin.



#### Transport

- > Cloetta's sales representatives drive eco-friendly cars.
- > Transport to retail outlets is mainly handled by customers.
- > Products are usually delivered to a central warehouse rather than to a large number of stores.
- > "Empty" transports are minimised through cooperation with the customers.

#### Customers

- > Recyclable packaging waste.
- > ICA and Axfood require BRC certification.



#### Consumers

- > Recyclable packaging.
- > Cloetta is a member of the Swedish Packaging and Newspaper Collection (REPA).
- > Feedback on returns.





# Environmental responsibility

*Cloetta works to reduce its environmental impact through systematic environmental and quality management. Cloetta's greatest environmental impact comes from water and energy consumption, wastewater, production waste and transport. Viewed over the entire life cycle of the products, the greatest environmental impact occurs in raw material and packaging production.*

## ENVIRONMENTAL MANAGEMENT SYSTEM

- > The production unit in Ljungsbro has been certified according to the global ISO 14001 standard for environmental management systems and BRC level A since 2004.
- > The production unit in Alingsås has been certified according to BRC since 2007, at level A since 2010.

The certificates are revised and renewed continuously. Cloetta is classified in the C category, according to the Environmental Code, which means that the company is required to submit reports to the regulatory authorities.

## ENVIRONMENTAL WORK

Cloetta complies with the statutory environmental requirements and the Group is not party to any environmental disputes. Cloetta's environmental initiatives are an integral part of the company's operations and environmental and quality aspects are always taken into consideration when decisions are made. Frequent evaluation and follow-up of measures increases awareness about the effects of different working methods on the environment and quality.

Cloetta's environmental policy is founded on the principle that all employees should know how Cloetta affects the environment and how each individual can contribute to sustainable environmental development.

Cloetta develops and uses resource-efficient methods and production processes. In doing so, we take quality, economic and environmental aspects into account.

### **Information and communication – everyone should have an influence**

Cloetta provides open and honest information about its environmental performance, both within and outside the company. By educating the employees about the environmental effects of the company's activities and allocating responsibility for environmental aspects, Cloetta provides the knowledge and understanding needed to make the right decisions in day-to-day operations.

### **Legislation – everyone should be aware of Cloetta's obligations**

Cloetta conducts its operations in compliance with the applicable laws and environmental standards and cooperates with public authorities and organisations to ensure that the company's environmental activities are in harmony with society's environmental objectives.

### **Continual improvements – everyone can contribute to a better environment**

Cloetta creates a climate in which it is possible for all employees to pursue continuous environmental improvements. Every year, Cloetta formulates concrete environmental targets and action plans.



*The former dried-out stream bed behind Cloetta's factory in Ljungsbro.*



As a significant player in the confectionery market, Cloetta must preserve and nurture the strong confidence placed in the company by consumers. Cloetta strives to exceed the requirements of consumers, customers and other stakeholders, not only with regard to environment and quality but also areas such as ethics and product safety.

### ENVIRONMENTAL COUNCIL

Practical handling of environmental issues is supervised by an Environmental Council that is led by Cloetta's Quality Controller. Every year, Cloetta carries out an assessment of all environmental aspects to identify the inherent risks and opportunities. For each significant environmental aspect, measurable targets are set on an annual basis. Cloetta has an action plan that defines and governs the activities to be carried out to reduce the company's environmental impact. Efforts to meet these goals are conducted in the form of projects for which a responsible person is appointed. The action programme is evaluated and revised by the Environmental Council in monthly meetings.

### COMMITMENT AND RESPONSIBILITY

Education and communication create awareness of and commitment to environment and quality issues. Regular training courses on environment, hygiene and quality are held at the production units.

Cloetta's participation in a number of international bodies is aimed partly at accelerating development towards sustainable production of raw materials such as cocoa and palm oil. Read more on page 46.

### RAW MATERIALS AND PACKAGING

Cloetta's suppliers undergo an approval process before they are permitted to deliver material to the company's factories. In selection of suppliers and in the audits, a supplier's environmental performance is always taken into account. The most important raw materials are sugar, cocoa and milk powder. Read more on page 32.

The packaging materials must perform several functions, such as protecting the product on its way to the consumer, enabling easy handling of the product and communicating the brand. Cloetta places rigorous environmental demands on its material suppliers. The most commonly used consumer packaging method is flowpack, a material that can be recycled or incinerated. Cloetta fulfils its producer responsibility through affiliation with REPA, which is part of FTI (Swedish Packaging and Newspaper Collection).

### ENVIRONMENTAL IMPACT AND PRIORITIES

Environmental impact in the confectionery industry occurs among other things from water and energy consumption, wastewater, raw material and packaging waste, production waste and transport. There is also some environmental impact from coolants and other chemicals as well as from noise and particulates. The largest direct environmental impact is caused by emissions of nutrients and fats into the wastewater network.

The priorities for Cloetta's environmental work have been set based on how and to what extent our operations impact the environment, the probability of unplanned environmental events occurring, the requirements of public authorities and other stakeholders and, finally, the extent to which Cloetta can influence development. The prioritised areas for Cloetta's environmental work are:

- > energy consumption
- > volume and attributes of wastewater
- > waste volume, quality and recycling

### ENERGY CONSUMPTION

The Group's aggregate energy consumption during the financial year was around 41 GWh (44). Approximately half of the total energy usage is independent of production volume, i.e. related to heating and cooling of properties, while the other half is directly linked to production. Heat is mainly produced with non-fossil fuels. In order to minimise energy consumption in production of cooling, Cloetta has invested in free cooling systems that utilise cold outdoor air and cold water. Cloetta has replaced fuel oil with wood powder to produce the steam needed for certain manufacturing processes.

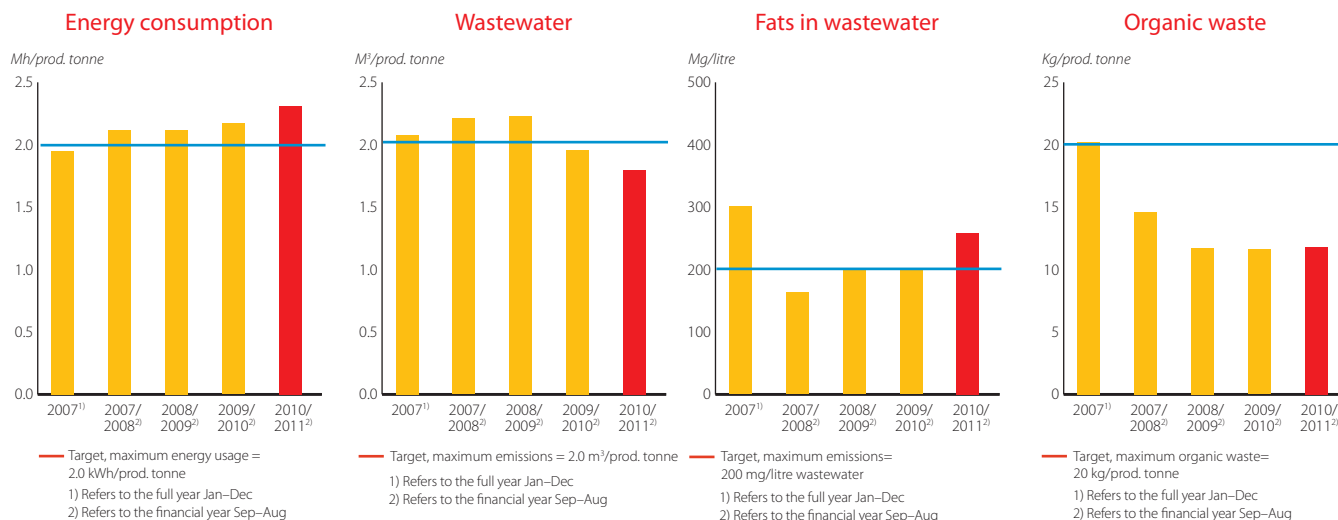
As a result of the energy mapping project carried out during 2010, opportunities to save energy were identified and an action plan drawn up. The project indicated a savings potential of 4,000 MWh, equal to 10% of Cloetta's total energy consumption.

Cloetta's goal is to develop more energy-efficient processes and choose energy types with a lower environmental impact. All electricity used in the Ljungsbro and Alingsås factories is wind power-certified. By using wind power, Cloetta has reduced its annual CO<sub>2</sub> emissions by around 2,400 tonnes.

The target for energy consumption per produced tonne was not met during the year due to the cold winter of 2010/2011. Additional measures to achieve this target in the future are being taken continuously.

## Environmental KPIs

	Jan-Dec 2007	Sep 2007 -Aug 2008	Sep 2008 -Aug 2009	Sep 2009 -Aug 2010	Sep 2010 -Aug 2011
Total production, tonnes	19,803	20,368	19,887	20,293	17,827
Total energy consumption, GWh	38.5	43.1	42.1	44.0	41.2
of which fossil fuels	9.7	11.0	10.5	3.9	3.8
Energy consumption per produced tonne, kWh	1.9	2.1	2.1	2.2	2.3
Water consumption per produced tonne, m <sup>3</sup>	3.7	3.5	3.4	3.5	3.8
Wastewater per produced tonne, m <sup>3</sup>	2.1	2.0	2.1	2.0	1.8
Fats in the wastewater, mg/litre wastewater	301	163	200	200	259
Degree of contamination in wastewater, BOD, mg/litre wastewater	4,900	3,917	4,272	4,062	5,210
Material recycling, tonnes	459	346	463	354	326
Energy recovery, tonnes	378	410	457	474	433
Organic waste, kg per produced tonne	20.2	14.6	11.7	11.6	11.8
Raw material purchasing, tonnes	19,706	21,941	21,152	21,844	19,083
Packaging purchasing, tonnes	2,810	1,973	1,864	1,935	1,755



### Examples of measures

Examples of measures taken during the year include investment in a control system for air compressors so that optimal use can be made of compressed air, replacement of refrigeration units in order to provide greater flexibility, replacement of steam traps which separate condensation and new switchgear. These four investments will reduce Cloetta's energy consumption by approximately SEK 300,000 per year. In addition the dragée line has been rebuilt in order to achieve a more efficient RPM, and some smaller investments have been made in new air locks in entrances as well as an insulation of pipes and roofs.

The new switchgear will enable measurements per product line in the future which will streamline follow-up and simplify the identification of any energy villains.

### WATER AND WASTEWATER

The Group's combined fresh water consumption between 1 September 2010 and 31 August 2011 was approximately 68,500 m³ (71,400). The single largest item of water consumption is cooling and is not contaminated, but is pumped to onsite wells and reused. As a result, the volume of water discharged into the municipal sewage system is lower than total water usage, and amounted to approximately 32,000 m³ (36,900) during the financial year. The target to reduce the volume of wastewater to a maximum of 2.0 m³ per tonne was met during the financial year.

### Examples of measures

Several of the measures taken in recent years have contributed to meeting the target for water consumption. More effective use of high-pressure washers and optimisation of the washing process are the two most important measures. A water meter was replaced during the financial year in order to be able to measure consumption at product line level. Water consumption per

hour can be measured continuously for the entire Ljungsbro factory. This will improve follow-up and simplify efforts to reduce water consumption.

### FATS IN WASTEWATER

The target for the level of fats in wastewater is a maximum of 200 mg per litre for the 2010/2011 financial year. In the financial year the target was exceeded on three measurement occasions which had an impact on the figure for the full year. These three measurements were performed after a thorough cleaning operation. New routines for such cleaning have now been drawn up. Fats in wastewater are primarily a problem for the municipal sewage treatment plant.

### Examples of measures

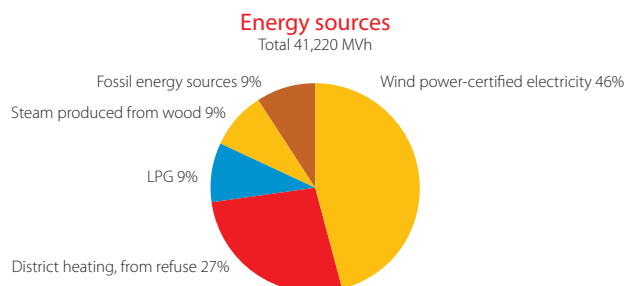
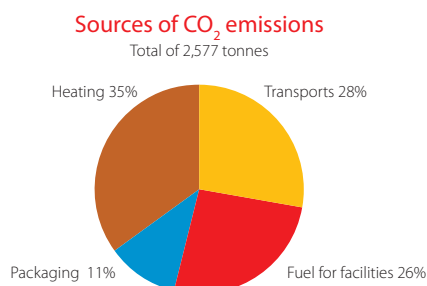
Measures taken to reduce the level of fats in wastewater include training in effective use of high-pressure washers, new cleaning schedules, information about fats in washing water and connecting several lines to the company's own treatment unit.

### WASTE MANAGEMENT

Cloetta's production units have effective systems for pre-sorting of waste. The goal is to continuously develop the company's waste management and reduce the total volume of production waste and other waste. A decrease in raw material wastage has a positive impact on both the environment and the Group's total costs. At present, 50% of the waste is recycled and the remaining 50% is used for energy production.

### Examples of measures

Training courses have been held to optimise production in connection with starts and stops, among other things to reduce raw material wastage. Various alternatives for management of organic waste are now being examined in order to increase the proportion of waste that can be converted into biofuel.





# Employees

*Cloetta innovates and develops within the framework of a tradition stretching back over many years. Endeavours to be the good company are driven by the conviction that involvement and participation create good workplaces. This facilitates efforts to recruit, develop and retain competent employees, which in turn strengthens Cloetta's competitiveness.*

## THE GOOD COMPANY

Cloetta makes consistent efforts to be the good company. Viewed from an employee perspective "the good company" is a company that is exemplary as a workplace and employer. The human resources (HR) initiatives currently conducted at Cloetta should be seen against the background of the company's 150-year history. Cloetta wants to develop and review its HR work within the framework of the company's long tradition as a responsible employer in Ljungsbro.

This work is long term and is conducted at several levels in the company, in several different projects and with different time perspectives and approaches.

## SKILLS DEVELOPMENT

Cloetta is characterised by a commitment to continuously renew and retain the company's aggregate expertise. Competent employees that are given scope to realise their full potential create the conditions to maintain Cloetta's position as an attractive and innovative partner not only for the employees but also for customers, suppliers and business partners.

A learning organisation that works in project form and the use of interdisciplinary teamwork in day-to-day activities are important components of Cloetta's skills development.

## MANAGEMENT AND LEADERSHIP DEVELOPMENT PROGRAMME

The company has had a consistent management and leadership training programme since 2004 that is aimed at maximising the personal potential of managers and leaders in relation to the company's current needs. The programme identifies and exploits the potential of each individual and leads to higher performance and a stronger focus that benefits Cloetta. So far, 60 people have completed the programme.

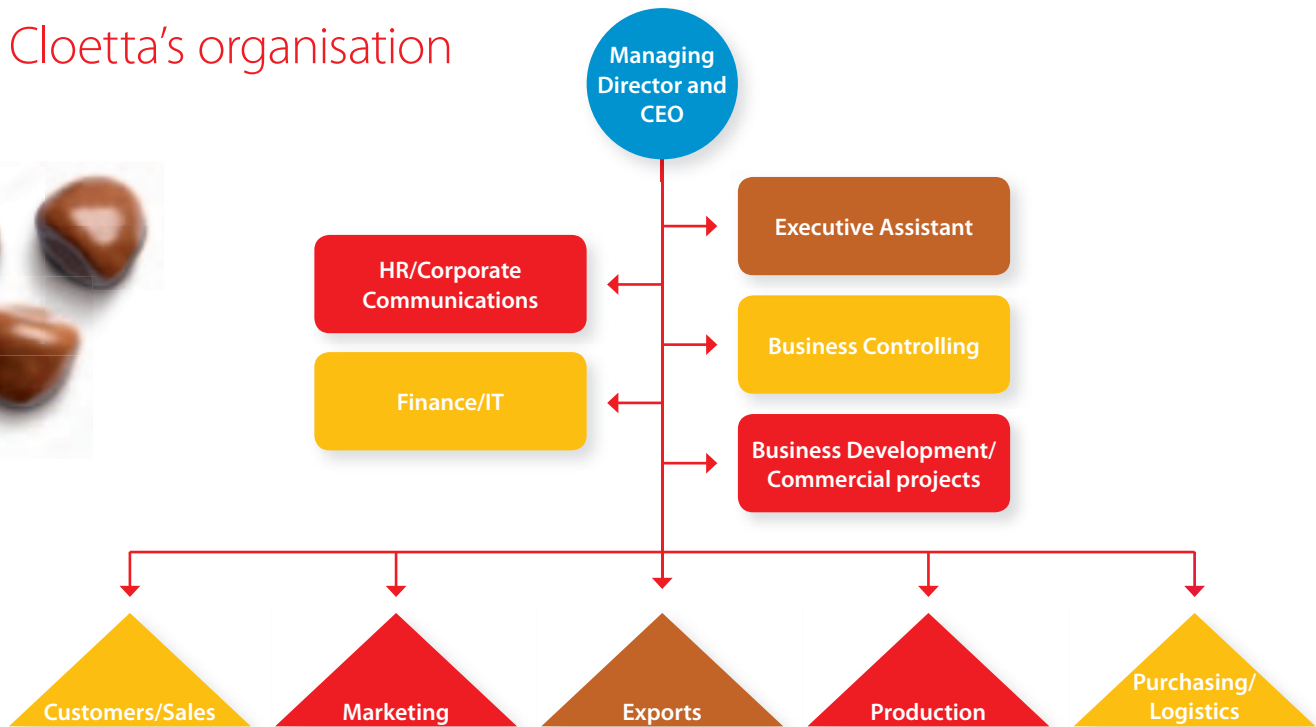
The skills development project within production is described in the section Flexible Production on page 28.

Cloetta's intensive skills development initiatives help to create an effective organisation at the same time as making the company an attractive employer.





## Cloetta's organisation



Cloetta's employees can enjoy a healthy, well-prepared lunch every day in the Tre Bröder restaurant. A hot health-food platter is also on offer here – a cooperation between the restaurant and Cloetta's HR department.

### HEALTH

Cloetta's management has an explicit focus on promoting and creating a healthy working climate and ensuring a safe and secure working environment for its employees. All aspects of the working environment are handled, targeted and monitored in Cloetta's Occupational Health and Safety Council, consisting of representatives from different parts of Cloetta's operations.

By working with health and wellness for many years, Cloetta continues to have a low level of both sickness absence and accidents.

### Incidents and risks

Systematic follow-up of all incidents and accidents has raised awareness of possible risks which benefits work on preventive measures.

Cloetta's HR department has developed tools for use together with managers with employee responsibility for early detection of signals that could be caused by illness and therefore a risk of long-term absence. Through a wide network of company suppliers of health services, health and fitness activities and other wellness disciplines, health issues can be taken care of quickly.

The HR department is further developing the offering of multi-faceted health and wellness activities so that all employees can receive support in efforts to invest proactively in their personal health.

### PERFORMANCE REVIEWS AND PSYCHOSOCIAL FACTORS

Performance reviews are a central tool in the relationship between employee and manager. These include discussions of all aspects of the work, in particular psychosocial factors. Cloetta is examining the feasibility of regularly and simply identifying and measuring employees' perception of the atmosphere at the workplace in order to more easily remedy any problems and evaluate measures.

### CHANGE PROGRAMME

Change programmes at Cloetta are largely about creating cooperation and a team affinity between employees regardless of position and working duties. Management makes efforts to tear down the barriers between departments, employee categories and individuals. The formation of segment and customer teams is one example of inter-disciplinary groups.

## Three recently employed Key Account Managers



*"I joined Cloetta in April. It is fun selling Cloetta's products since the company is perceived as genuine and credible by most customers. Furthermore, my colleagues are a cheerful bunch and we have our fantastic brands. It feels important to nurture a brand such as Kexchoklad."*

**Per Starck, KAM Service Trade**

*"I started at Cloetta in August. What struck me immediately when I came to Cloetta was the warmth that exists within the company. For me it feels as if I have landed up in the right place. You are allowed to be yourself. I feel that I can influence things and am not just a cog in the wheel. There is a history both in the company and in the brands that is truly moving. It is not just the fantastic aroma of chocolate that is in the walls, it is also respect for each other and good values."*

**Ulrika Wahlgren, KAM ICA**

*"I joined Cloetta in April. The work itself represents a major challenge which is exciting. When I started at Cloetta I had an image of a big company with a family feeling. Cloetta has met my expectations and it feels really positive to work at a company with such high ambitions, which listens to the individual and welcomes new ideas. Cloetta may be 150 years old but it is a modern company that is in tune with the market."*

**Jonas Tamm, KAM Axfood and Bergendahls**

### CORE VALUES

Cloetta has established four core values that guide our way of working and acting, both within and outside the company. These core values are Expertise, Responsibility, Innovation and Enjoyment.

#### Expertise

For Cloetta, expertise means fine-tuning our professional skills, building on our aggregate experience and enhancing our knowledge in all areas of operation. It is vital that we continuously improve the ability to realise our ideas as attractive products on the store shelf. Through a high level of expertise, we also strengthen our relationships with business contacts, partners and subcontractors. Learning from each other and working together are of central importance.

#### Responsibility

At Cloetta, one aspect of responsibility is to be accountable for the ways in which our operations and brands affect the environment, employees, suppliers and local community. For the individual employees, it means showing a commitment even outside their own areas of responsibility,

working for the good of the company at every level and being a good representative for Cloetta.

#### Innovation

Innovation means that we question ingrained habits and dare to try new paths. It is about challenging and taking new initiatives, but always with respect for others. Interdisciplinary cooperation and a desire to achieve objectives are success factors that we strive to utilise to the full.

#### Enjoyment

Enjoyment means that Cloetta cherishes and feels pride in the company's origins and that our many popular products are a source of enjoyment. By treating others as we wish to be treated ourselves, we create a working environment characterised by satisfaction and well-being. Together with our colleagues, we contribute to the company's future.





### CONVERTIBLE NOTE PROGRAMME

An extraordinary general meeting on 20 March 2009 approved the issue of a convertible debenture loan amounting to approximately SEK 30 million to all employees in the Cloetta Group. The convertible debenture loan was oversubscribed and the convertible notes can be converted to shares at a price of SEK 30.40 during the period from 25 February 2011 to 25 February 2012.

The motive for the convertible note programme was to achieve a personal and long-term ownership commitment among the employees, which is expected to stimulate a stronger interest in the company's business and earnings trend, boost motivation and increase the sense of solidarity throughout Cloetta.

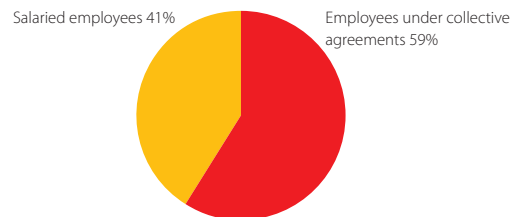
### NUMBER OF EMPLOYEES

The average number of employees at Cloetta during the financial year 1 September 2010 to 31 August 2011 was 437 (452).

Of the total number of employees, 59% are employed under collective agreements and 41% are salaried employees.

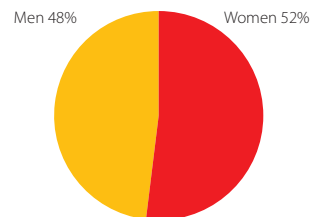
### Employee categories

31 August 2011



### Gender distribution

31 August 2011

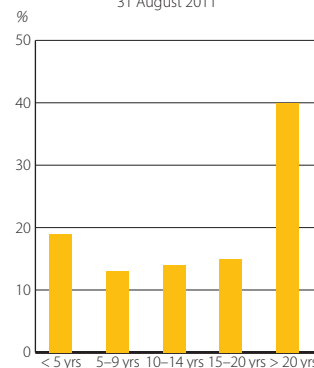


Employees	Sep 2010– Aug 2011	Sep 2009– Aug 2010
Average number of employees	437	452
– of whom, women	230	228
Employee turnover, %	6	14
Hiring rate, %	4	9
Job rotation, %	3	4
Number of people in management training	12	28
Sickness absence		
– salaried employees, %	2	3
– employees under collective agreements, %	7	5
Number of accidents <sup>1)</sup>	2	1

1) Industrial accidents and during business travel (>3 days of absence)

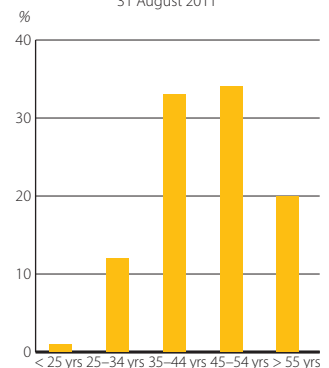
### Average term of employment

31 August 2011



### Age distribution

31 August 2011





# Responsibility for raw material producers

*In its Code of Conduct, Cloetta has collected together all the general principles that govern the company's commitments including raw material issues. Cloetta never purchases raw materials directly from growers. So compliance with the company's rules is based on all Cloetta's raw material suppliers being in agreement with Cloetta on these issues and that they in turn demand the same of their suppliers.*

## COCOA

Approximately 70% of the world's and most of Europe's cocoa comes from West Africa, mainly Côte d'Ivoire (Ivory Coast). Most cocoa farms are very small and there are some 700,000 growers in Ivory Coast. Local intermediaries distribute the raw material to international cocoa distributors, after which the cocoa is sent to Europe for processing into cocoa liquor, cocoa butter and cocoa powder. Every year Cloetta purchases some 3,000 tonnes of cocoa in the form of liquor, butter and powder from suppliers in Europe.

Poverty, a lack of education and weak economic development are major challenges for the West African cocoa farmers. For Cloetta, it is important to play a role in influencing development. For that reason, Cloetta and other players in the chocolate industry cooperate through their industry organisations to provide education in good farming practices and improve conditions for the cocoa plantations and communities. The goal is to achieve environmentally, socially and economically sustainable development.

Cloetta participates in the recently started Nordic Cocoa Initiative (NCI). This project is in its infancy so far and is being conducted by the United Nations Development Programme (UNDP). The intention is to work to achieve sustainable production of cocoa in Ivory Coast. The focus areas are improved living conditions for cocoa farmers and their families as well as improved quality and productivity from the cocoa plantations. The project's strength is its many members. In addition to Nordic chocolate producers and each country's industry organisation, development agencies from the Nordic countries and representatives from the Ivorian government are also involved. The World Cocoa Foundation and the International Cocoa Initiative are also involved in the project. These are non-profit organisations which have expertise in the challenges that exist in the cocoa industry in the countries of origin.

## Fairtrade and other certification

Cloetta launched the Fairtrade-labelled Good series of chocolate bars during 2010. The objective behind Good was to offer the market a Fairtrade-

labelled milk chocolate bar at an attractive price. Despite the fact that Good was the largest Fairtrade-labelled milk chocolate bar in the Swedish market, it failed to reach sales volumes of a level at which retail is willing to retain the product, so Good will be discontinued as a chocolate bar.

The cocoa used in Good is Fairtrade-certified and comes from the Kuapa Kokoo ([www.kuapakokoo.com](http://www.kuapakokoo.com)) cooperative in Ghana. Through Fairtrade, the producers are guaranteed a minimum price. In addition, Cloetta pays a Fairtrade premium of USD 150 per tonne for investments in the local community. Sugar and the nuts in Good are also Fairtrade.

In addition to participation in industry organisations, see next page, Cloetta is currently evaluating different alternatives for purchasing certified cocoa in a way that contributes to positive development. There are a large number of organisations but certification is often difficult to monitor in view of the large number of growers.

## PALM OIL

From a sustainability perspective there are a number of problems surrounding cultivation and production of palm oil and palm kernel oil. Malaysia and Indonesia account for approximately 80% of global production. In both countries there are major problems with rain forest deforestation, which among other things is having a negative impact on fauna.

Cloetta has chosen to actively support sustainable production of palm oil/palm kernel oil by purchasing a GreenPalm certificate. For every tonne of palm oil/palm kernel oil used in production, Cloetta pays a premium to a palm oil/palm kernel oil producer who operates in accordance with the rules on social and environmental responsibility defined by the Roundtable on Sustainable Palm Oil (RSPO). These rules prohibit deforestation of rain forests and also make demands on labour conditions, prohibition of child labour, etc., in the plantations.

GreenPalm is a platform for trade in certificates designed to manage the social and environmental problems that exist within production of palm oil/palm kernel oil.



Cloetta participates in a number of collaborative initiatives aimed at promoting more sustainable cultivation of raw materials and to improve the conditions for growers in developing countries. The following are the most important:

- > **World Cocoa Foundation (WCF)** manages a range of programmes aimed at increasing the cocoa farmers' yields and incomes and promoting sustainable cultivation. Examples of initiatives include teacher training programmes, training in cocoa processing, micro loans for cocoa growers and health-related issues.
- > **Caobisco (Chocolate, Biscuit & Confectionery Industries of the EU)** supports International Cocoa Initiatives, for example through the development of control and certification systems for cocoa production.
- > **Chokofa** is a Swedish industry association that contributes contacts, expertise and projects in which Cloetta takes part, such as a project in which 5,000 cocoa farmers in Ghana and Ivory Coast are being given practical training in ways to increase their profitability while at the same time preventing accidents.
- > **Round Table on Sustainable Palm Oil (RSPO)** is committed to promoting the growth and use of sustainable palm oil worldwide.
- > **Fairtrade** is an independent product certification body that contributes to better working and living conditions for producers and workers in developing countries. Fairtrade Sweden is the Swedish representative to Fairtrade Labelling Organisations International (FLO).
- > **FN Global Compact** where Cloetta is a member of the Swedish Ministry of Foreign Affairs' network.
- > **Nordic Cocoa Initiative, NCI** a project that works for more sustainable production of cocoa in Ivory Coast. The project is being conducted in cooperation with Nordic chocolate producers and each country's industry organisation, development organisations from the Nordic countries, and representatives from the Ivorian government, World Cocoa Foundation and International Cocoa Initiative.



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1) A detailed table of contents can be found at [www.cloetta.com](http://www.cloetta.com).

\* Global Reporting Initiative (GRI) is a network-based organisation whose founders include the UN. GRI has pioneered the development of a framework for the structure and content of sustainability reporting.

*Enjoyment*

*Pleasure*

Corporate governance and Share





# Corporate governance report

*The aims of good of corporate governance are to create the conditions for active shareholder participation, to uphold a transparent and sound balance of power between the company's governing bodies and to ensure the provision of correct information to the market.*

## APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

Cloetta AB (publ) operates under Swedish law and its corporate governance is also regulated by the Articles of Association, the listing agreement with the Stockholm Stock Exchange, other applicable rules and norms, the Code of Conduct and other instructions and policies. Since 1 July 2008, all companies whose shares are traded on NASDAQ OMX Stockholm AB are required to apply the Swedish Code of Corporate Governance regardless of their market capitalisation. For information about the Swedish Code of Corporate Governance, see [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

Cloetta is thus subject to compliance with the Swedish Code of Corporate Governance, which is based on the "comply or explain" principle. This means that a company can deviate from the Code's provisions without this entailing a breach of the Code. However, a company that deviates from a rule in the Code must explain the reason for doing so.

Cloetta complies with the provisions in the Code with the sole exception of simultaneous interpretation at general shareholder meetings, which is neither motivated by the ownership structure nor financially justifiable.

Complete information about Cloetta's application of the Swedish Code of Corporate Governance can be found at [www.cloetta.com](http://www.cloetta.com).

## SHAREHOLDERS

The class B shares in Cloetta AB (publ) have been traded on NASDAQ OMX Stockholm since 16 February 2009. The largest shareholder is AB Malfors Promotor. At 31 August 2011 Cloetta AB had 4,181 shareholders and the principal shareholder Malfors Promotor held 74.3% of the votes and 51.9% of the share capital. Other institutional investors held 12.7% of the votes and 23.8% of the share capital. The number of shares amounted to 24,319,186, consisting of 21,959,186 class B shares and 2,360,000 class A shares.

## GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the company's highest decision-making body. At a general meeting, all shareholders have the opportunity to exert an influence over the company by exercising the votes attached to their respective shareholdings. The powers and duties of the general meeting are regulated by the Swedish Companies Act and the Articles of

Association. Cloetta's financial year runs from 1 September to 31 August, which means that the company's Annual General Meeting (AGM) must be held during the months of November, December or January. Notice to attend must be given no more than six weeks and no fewer than four weeks prior to the AGM.

The AGM resolves on adoption of the year's balance sheet and profit and loss account, dividends, election of Board members and auditors, fees to Board members and auditors, and other items of business as prescribed by the Swedish Companies Act and the Articles of Association.

Each class B share corresponds to one vote and each class A share to ten votes, although all shares carry equal entitlement to the company's assets and profits. Every shareholder has the right to participate in the AGM, in person or by proxy. Every shareholder has the right to request that a matter be taken up at the AGM. A shareholder who wishes to have a matter addressed at the AGM must submit a written request to the Board. In order to be taken up at the AGM, the request must be submitted to the Board no later than one week before the earliest date on which the notice of meeting may be published (e.g. the request must be received no later than seven weeks before the AGM). In accordance with Chapter 7, 32§, of the Swedish Companies Act, all shareholders have the right, at a general meeting of shareholders, to pose questions to the company about the matters that are taken up at the meeting and the financial situation of the company and the Group.

For more information about the composition and work of the nominating committee, see under "Committees" on page 50.

## 2009/2010 Annual General Meeting

The latest AGM was held on 15 December 2010 in Linköping. The AGM re-elected Board members Olof Svenfelt (Chairman), Lennart Bohlin, Johan Hjertsonsson, Ulrika Stuart Hamilton, Mikael Svenfelt and Meg Tivéus. In addition, the union organisations appointed two employee representatives and two deputies to the Board. Olof Svenfelt was elected as Board Chairman. The AGM resolved that Board fees would be paid in a total amount of not more than SEK 1,205,000 including fees for work on the Board's committees. Of total Board fees, the AGM resolved that SEK 200,000 would be paid to the Board Chairman. The AGM adopted the balance



sheets and profit and loss accounts for the financial year 2009/2010 and, in accordance with the Board's proposal, resolved to pay a cash dividend of SEK 0.75 per share. The AGM also discharged the members of the Board of Directors and the Managing Director from liability for the financial year 2009/2010. The AGM approved the Board's proposed amendments to the Articles of Association. Furthermore, the AGM adopted the proposed rules for the nominating committee and the Board's proposed guidelines for remuneration to senior executives.

### 2010/2011 Annual General Meeting

The 2010/2011 AGM will be held at 2:00 p.m. on Monday, 19 December 2011 at Collegium in Linköping. Notice to attend the AGM was published in November 2011 and also included a description of the Board's proposed appropriation of earnings and other proposals. For additional information, see section on the Annual General Meeting on page 2 and [www.cloetta.com](http://www.cloetta.com).

### NOMINATING COMMITTEE

The task of the nominating committee is to prepare recommendations to be put before the AGM for decision regarding election of Board members by the AGM, fees to the Board of Directors, remuneration for committee work, election of the Board Chairman, election of a chairman of the AGM, and, election of auditors and auditing fees. Complete rules regarding Cloetta's nominating committee can be found at [www.cloetta.com](http://www.cloetta.com)

The AGM of Cloetta on 15 December 2010 adopted rules for the nominating committee essentially according to the following. The nominating committee shall consist of at least four and at most six members. Of these, one shall be appointed by the Board, and three shall be appointed by the major shareholders. The members thus appointed shall themselves appoint one additional member. The major shareholders are based on the ownership statistics provided to the company by Euroclear Sweden AB at 31 March of each year. In the event of changes in the ownership structure after 31 March, but before the date occurring 12 weeks before the upcoming AGM, the number of members may amount to six. The member appointed by the largest shareholder in terms of voting power shall be the chairman of the nominating committee. The composition of the nominating committee shall be announced at least six months prior to the AGM.

The nominating committee ahead of the AGM on 19 December 2011 has the following composition:

- > Lennart Bylock, chairman of the nominating committee, appointed by AB Malfors Promotor
- > Thomas Ehlin, appointed by Nordea Fonder
- > Eva Törnqvist, appointed by Ulla Håkanson
- > Johan Hjertonsson, appointed by the Board of Cloetta AB

### ARTICLES OF ASSOCIATION

The Articles of Association are adopted by the general meeting and contain obligatory information of a fundamental nature to the company.

These articles specify the object of the company's operations, the size of the share capital, the voting rights attached to the different classes of shares and the composition of the Board. The Articles of Association contain no special provisions regarding the appointment and dismissal of Board members or amendments to the Articles of Association.

The full Articles of Association can be viewed at [www.cloetta.com](http://www.cloetta.com).

### BOARD OF DIRECTORS

#### Board members

The current Board of Directors was re-elected at the AGM on 15 December 2010 and consists of six non-executive members: Olof Svenfelt (Chairman), Lennart Bohlin, Johan Hjertonsson, Ulrika Stuart Hamilton, Mikael Svenfelt and Meg Tivéus. For information about the Board members' significant assignments outside the Group and shareholdings in the company, see page 55.

Lena Grönedal and Birgitta Hillman have served on the Board as employee representatives, with Linus Ekegren and Birgitta Junland as deputies. Other than the employee representatives and their deputies, no Board member is employed by the company. Kent Sandin, the Group's CFO, has acted as Board Secretary during the year.

According to the decision of the AGM on 15 December 2010, the Board Chairman receives fees of SEK 200,000 and the other regular Board members receive fees of SEK 175,000 each. The members of the audit committee receive additional fees of SEK 30,000 and the members of the remuneration committee additional fees of SEK 20,000 each.

The average age of the Board members is 57 years and two of the six non-executive members are women.

	Year elected	Fees, SEK <sup>1)</sup>	Independent from the company	Independent from the shareholders	Attendance, total no. meetings: 14 <sup>4)</sup>	Of which, scheduled and statutory meetings: 6 <sup>4)</sup>	Of which, extra meetings: 8 <sup>4)</sup>	Audit committee <sup>2)</sup>	Remuneration committee <sup>3)</sup>
<b>Elected by the AGM:</b>									
<i>Chairman</i>									
Olof Svenfelt	2008	200,000	●		13	6	7	●	
<i>Members</i>									
Lennart Bohlin	2008	175,000	●	●	14	6	8		●
Ulrika Stuart Hamilton	2008	175,000	●	●	13	6	7		●
Johan Hjertonsson	2008	175,000	●	●	14	6	8		
Mikael Svenfelt	2008	175,000	●		14	6	8	●	
Meg Tivéus	2008	175,000	●	●	13	6	7	●	

1) The AGM on 15 December 2010 resolved that Board fees would be paid in an amount of not more than SEK 1,205,000, that fees to the members of the audit committee would be paid in an amount of not more than SEK 90,000 and that fees to the members of the remuneration committee would be paid in an amount of not more than SEK 40,000. Of total Board fees, it was resolved that SEK 200,000 would be paid to the Board Chairman and SEK 175,000 to each of the other Board members. For further details see Note 7.

2) The audit committee has held three meetings since the previous AGM. For attendance, see information about the audit committee on page 50.

3) The remuneration committee has held two meetings since the previous AGM. For attendance, see information about the remuneration committee on page 51.

4) Attendance at Board meetings since the AGM on 15 December 2010.

Of the Board's six members, all are independent in relation to the company and its management and four are independent in relation to the company's major shareholders.

### Work of the Board

The primary task of the Board is to serve the interests of the shareholders in the conduct of the company's business in such way as to ensure the best possible long-term return on investment for the shareholders. The Board is also responsible for making sure that the Group is suitably structured so that the Board can optimally exercise its governance over the subsidiaries. The Board's powers and duties are regulated by the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

In addition, the activities of the Board are governed by a work plan and instructions, as adopted by the Board, pertaining to the separation of responsibilities between the Board, the Managing Director and those company bodies set up by the Board. The Board's work plan contains and regulates the following points:

- > The Board's obligations pursuant to the Swedish Companies Act, etc.
- > Notice to attend general meetings
- > Structure and content of reporting to the market
- > Items of business to be taken up at Board meetings
- > Internal reports to be submitted to the Board
- > Notice to attend meetings
- > Presence of a quorum in the Board
- > Minutes from Board meetings
- > Disqualification due to impartiality
- > Liability of Board members

Furthermore, the Board issues instructions and policies for issues such as:

- > Financial targets/objectives for the Group
- > Financial limits and administrative routines for investments, etc.
- > Responsibility and principles for financial management
- > Responsibility and routines for safeguarding and strengthening the value of the brands
- > Basic principles for internal and external communication
- > Responsibilities and principles for purchasing of cocoa raw material

### Internal reports

The tasks of the Board are to oversee the Group's financial development, ensure the quality of the Group's financial reporting and internal control and regularly monitor and evaluate operations. Internal reports such as the consolidated accounts are compiled and delivered to the Board on a monthly basis. Prior to each regular Board meeting, a purchasing report is also drawn up for the most significant raw materials, a review of the Group's liquidity position and development and an overview of budgeted, decided and implemented investments. For every financial year, a profit, balance sheet and investment budget is prepared for the Group and is adopted at the scheduled Board meeting in August.

### Board meetings

The Board meets according to the following.

The *December* meeting, preferably held in connection with the AGM, deals with approval of the interim report for the period from September to November. The statutory meeting is held immediately following the AGM and handles matters such as appointment of minutes-keepers and minutes-checkers, decision on signatory authority, election of the remuneration committee and audit committee, as well as review and adoption of the instructions issued by the Board.

A meeting is held in *February* if needed.

The *March* meeting deals with approval of the interim report for the period from September to February. By this meeting at the latest, decisions are made regarding the time and place of the coming year's AGM, the publication dates for the coming year's financial reports to the market (see "Financial calendar" on page 2) and the dates and times of the coming year's scheduled Board meetings.

The *June* meeting deals with approval of the interim report for the period from September to May.

In *August*, the Board reviews and approves business plans and budgets for the coming year.

The *October* meeting deals with items such as the annual accounts, the proposed dividend, appropriations, the draft annual report and administration report, the year-end report and the upcoming AGM.

At the scheduled meetings, the Board also discusses the activities and financial results of the company and the subsidiaries, as well as other pertinent projects and matters. Extra meetings may be held in addition to the scheduled meetings and, in urgent cases, also by telephone.

From the date of the AGM until the publication of this corporate governance report on 19 December 2011, and aside from the statutory meeting, the Board has held five scheduled meetings. At these meetings the Board has dealt with the fixed items on the agenda of each Board meeting, such as the business and market situation, financial reporting, liquidity, investments and budgetary matters. In addition, overall strategic matters have been analysed with regard to the company's focus, external factors and growth opportunities. Aside from the regular Board meetings, eight extra meetings were held. During these meetings, the Board dealt with matters related to the brands, investments and other strategic business decisions.

### BOARD COMMITTEES

In order to increase the efficiency and depth of the Board's work the company has set up two committees, the remuneration committee and the audit committee, whose members are appointed by the Board. The main task of the committees is to prepare matters for decision by the Board.

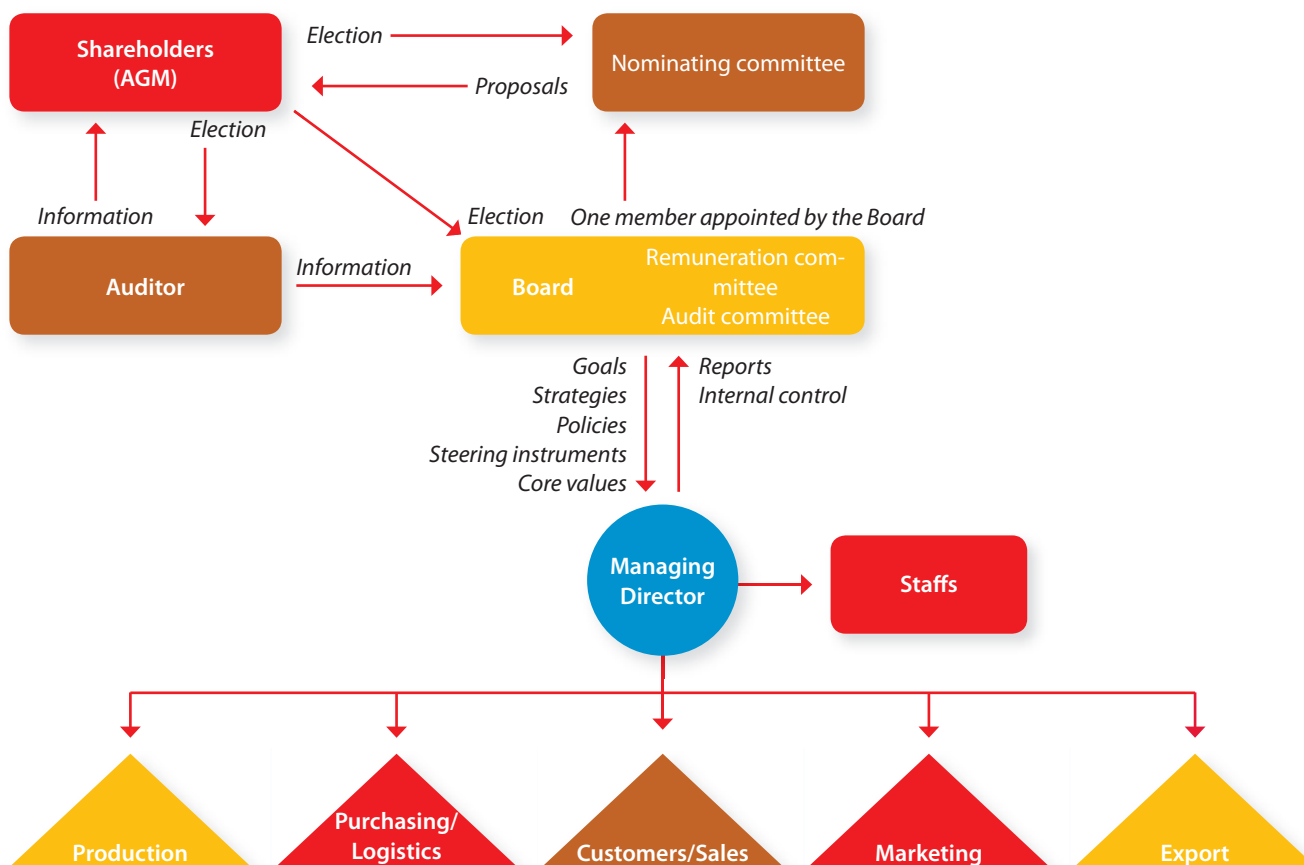
#### Audit committee

The Board has appointed an audit committee consisting of Olof Svenfelt, Mikael Svenfelt and Meg Tivéus. The main task of the committee is to support the Board in its efforts to ensure the quality of the company's financial reporting, to handle issues relating to internal control and to stay continuously informed about the focus and scope of the audit.

From the date of the previous AGM, the committee has held three meetings. The company's auditor, Helene Willberg, has participated in all meetings of the audit committee. On one occasion the auditor has also met with the committee without the presence of the Executive Management. Together with the Executive Management, the committee has evaluated the year's audit performance. Furthermore, the Board has met with the auditor in connection with the Board meeting on 18 October 2011 at which adoption of the annual accounts was dealt with.

Members	Attendance at a total of 3 meetings
Olof Svenfelt	3
Mikael Svenfelt	3
Meg Tivéus	3

## Governance structure



### Remuneration committee

The Board has appointed a remuneration committee consisting of Lennart Bohlin and Ulrika Stuart Hamilton, whose task is to prepare recommendations for remuneration and other terms of employment for the Group Management Team, as well as matters related to incentive programmes. The committee has held two meetings since the previous AGM. For remuneration to the Managing Director and other senior executives, see Note 7.

#### Members

#### Attendance at a total of 2 meetings

Lennart Bohlin	2
Ulrika Stuart Hamilton	2

### CHAIRMAN

The Chairman is responsible for ensuring that the Board carries out its duties in an organised and efficient manner and for monitoring the Group's development. The Chairman also ensures that the Board is continuously provided with the information required to carry out its duties with consistently high quality and in accordance with the Swedish Companies Act. The AGM on 15 December 2010 re-elected Olof Svenfelt as Board Chairman.

The Chairman oversees the effective implementation of the Board's decisions and is responsible for ensuring that the work of the Board's is evaluated yearly and that the nominating committee is informed about the results of this evaluation. The purpose of this evaluation is to gather the Board members' opinions about the Board's performance and what measures can be taken to improve the efficiency of the Board's work.

### MANAGING DIRECTOR AND EXECUTIVE MANAGEMENT

The Managing Director, who is also the CEO, supervises operations according to the instructions adopted by the Board and is responsible for day-to-day management of the company and the Group in accordance with the Swedish Companies Act. He is also responsible for ensuring that the Board members are supplied with the necessary information and decision data and is required to present reports and proposals at Board meetings regarding issues dealt with by the Executive Management. The Managing Director continuously informs the Board and Chairman about the financial position and development of the company and the Group. The performance of the Managing Director is continuously evaluated by the Board.

The Managing Director of Cloetta AB and CEO of the Cloetta Group since September 2008 is Curt Petri. For information about his significant assignments outside the Group and shareholding in the company, see page 57. The Executive Management consists of the Managing Director, who is also the CEO, and the CFO.

### GROUP MANAGEMENT TEAM

The Managing Director of Cloetta AB heads the Group Management Team. The members of the Group Management Team consist of the Group's CFO and individuals with overall responsibility for human resources, corporate communications, marketing, customers, sales, purchasing, financial control and production. The Group Management Team is a consultative body for the CEO and therefore has no autonomous executive authority. The Group Management Team meets as decided by the CEO.



## FINANCIAL REPORTING

The Board of Directors is responsible for ensuring that the company's organisation is structured in such a way that the company's financial circumstances can be controlled satisfactorily and that external financial information such as interim reports and annual reports to the market are prepared in accordance with the legal requirements, relevant accounting standards and other rules and directives applicable to listed companies. The task of the audit committee is to support the Board in ensuring the quality of the company's financial reporting. The interim reports are examined by the Board's audit committee and the Board as a whole and are issued by the CEO on behalf of the Board. The semi-annual report for the period from September to February, like the annual report, is issued by all members of the Board and the CEO. The CEO ensures that financial accounting in the group companies is carried out in compliance with legal requirements and that financial management is conducted in a satisfactory manner. Cloetta AB's Managing Director is a member of the boards of all operating subsidiaries. Every month, the Group prepares a closing of the books that is submitted to the Board and the Group Management Team.

The Board ensures the quality of the Group's financial reporting through the audit committee (see below). The audit committee deals not only with the company's financial reports and significant accounting matters, but also matters related to internal control, compliance with rules, reliability of reported values, events after the balance sheet date, changes in estimates and judgements and other conditions affecting the quality of the financial statements.

## AUDIT

The auditor is responsible for examining the company's annual accounts and accounting records and the administration of the Board of Directors and the Managing Director. After every financial year, the auditor shall present an audit report to the AGM.

The AGM on 15 December 2010 re-elected the certified auditing firm of KPMG AB as the company's auditor to serve until the end of the next AGM. Authorised Public Accountant Helene Willberg is Auditor in Charge.

# Internal control

## Introduction

In accordance with the Swedish Companies Act, the Board of Directors is responsible for ensuring that the company's organisation is structured in such a way that the company's financial accounting, financial management and financial conditions in general can be controlled in a satisfactory manner. This is clarified by the Swedish Code of Corporate Governance, which states that the Board of Directors is responsible for internal control.

The following description of Cloetta's internal control has thus been prepared in accordance with the Swedish Code of Corporate Governance. The guidelines issued by Svenskt Näringsliv (the Confederation of Swedish Enterprise) and FAR SRS (the Institute for the Accountancy Profession in Sweden) regarding the Board's report on internal control over financial reporting identify COSO (Committee of Sponsoring Organizations of the Treadway Commission<sup>1)</sup>) as the most widely used and internationally accepted framework and as having a special status in defining good internal control. Cloetta has therefore decided to implement the COSO framework for internal control over financial reporting and the framework has been adapted to the company's operations and conditions.

The Board has defined guidelines for the above work which include roles, responsibilities and processes that are vital in maintaining good internal control. Internal control over financial reporting is thus a process that involves the Board of Directors, the Executive Management and the employees and that is designed to provide reasonable assurance of the reliability of the external reporting. The following is a description of how internal control over financial reporting is currently organised.

## Description

### Control environment

Effective oversight by the Board of Directors is the basis for good internal control. The company's Board of Directors has established well defined processes and procedures for its work. One key task of the Board is to decide on the internal control framework to be applied in the Group and to formulate and approve a number of fundamental policies, guidelines and frameworks related to financial reporting. These include an accounting manual with instructions for financial accounting and reporting, a finance policy, instructions on decision-making powers and authorisation of business transactions and an ethical policy. In addition, the Board has ensured that the organisational structure is logical and transparent with clearly defined roles, responsibilities and processes that promote effective management of operating risks.

The audit committee assists the Board in continuous monitoring of internal control. The tasks of the audit committee include evaluation and discussion of significant accounting and reporting issues. Since the AGM on 15 December 2010, the audit committee has received reports from the company's management on development of the company's internal control. The audit committee has examined and evaluated the routines for financial accounting and reporting and has monitored and evaluated the external auditor's performance, qualifications and independence. The audit committee has received reports from the company's independent auditors and has held three reviews with the auditors since the last AGM.

The company's management has operating responsibility for internal control. The Group CFO has overall operating responsibility for internal control over the Group's financial reporting, and reports to the management and the Board. Those in charge of finance and accounting in each subsidiary have overall responsibility for internal control over financial reporting in their own units, and continuously report on the status of internal control to the Group CFO.

### Risk assessment

Cloetta has performed an analysis at the Group level of the risk for material misstatements in the consolidated profit and loss accounts, balance sheets and related notes, with respect to both quantitative and qualitative risk parameters. Based on this risk analysis, a number of significant accounts and underlying processes have been identified. Furthermore, the company has established a number of risk management processes that have a considerable influence on the company's ability to ensure complete and accurate financial reporting. These procedures cover the following main areas:

- > Risk assessments in which one aim is to quickly identify events in the market or in operations with a potential effect on the financial reporting.
- > Processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the company's financial reporting.

<sup>1)</sup> Originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting in the USA.

Cloetta continuously updates the risk analysis for assessment of the risks that can lead to material misstatements in the financial reporting. As a result of the yearly review, the company makes a decision on which risks are significant to take into account in order to ensure good internal control in the financial reporting. Following the year's review, the company's risk assessment is essentially unchanged from the previous year.

### Control activities

Connected to the significant processes identified in the risk assessment, there are control structures to handle and minimise the risk for material misstatements in the financial reporting. These control structures consist partly of an organisation with clearly defined roles, such as process and sub-process owners, that facilitate an effective, and from an internal control standpoint, appropriate separation of responsibilities. The control structures also consist of specific control activities aimed at detecting or preventing risks for material misstatements in the financial reporting. Critical control activities are thoroughly documented and linked to the inherent risks they are intended to minimise for every significant account in the profit and loss account and balance sheet and the related notes in the company's annual report. Examples of control activities include well defined decision-making processes and procedures for significant decisions (such as investments, agreements, approval of accounting transactions, etc.), profit analyses and other analytical procedures, reconciliations, inventories and automatic controls in IT systems.

### Information and communication

The company's normative documents in the form of policies, guidelines, manuals, etc., with relevance for financial reporting are continuously updated and communicated via appropriate channels, such as the intranet and internal meetings. Internal reporting on the effectiveness of internal control is carried out continuously. For communication with external parties, there is an explicit policy that contains guidelines for how this should be carried out. The purpose of the policy is to ensure that all information requirements are met in a complete and accurate manner.

### Monitoring

As in the previous year, the process owners have confirmed their responsibility. This confirmation means that the process owners confirm that they are aware of their roles regarding internal control at Cloetta. Furthermore, the process owners confirm that they have ensured that the sub-process owners and control owners work according to the existing flow and process descriptions and that updates have been carried out in each sub-process.

During the year, Cloetta has performed self-assessments and tests on selected parts of the control structure with the help of the independent party Ernst & Young. This work has been carried out together with the process owners. The results have been documented in a summary test report in which the process owners generally confirm the test and a detailed test report in which each control activity is described, among other things in terms of selection, interview and conclusion. These reviews of internal control include audits of compliance with certain policies and guidelines and evaluation of the effectiveness of significant control activities linked to risks for material deficiencies in the financial reporting. The outcome of these reviews has been reported to the Board's audit committee.

The Board continuously evaluates the information provided by the management and audit committee. One particularly important step in

monitoring of internal control is the work of the audit committee in evaluating the management's performance in this area. This includes ensuring that action is taken to address the deficiencies and recommendations identified in external audits. Furthermore, the Board of Directors and audit committee have an annual process to ensure that appropriate measures are taken to address the shortcomings identified and measures recommended by the independent auditors.

### Evaluation of the need for a separate internal audit function

At present, the Group has no separate internal audit function. The internal control structure is monitored through tests and self-assessments and the results of these are compiled and reported to the Board's audit committee. In view of this, the Board of Directors concludes that there is currently no need for a separate internal audit function in order to perform effective monitoring of internal control.

## The Board of Directors

## AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

*To the Annual General Meeting of Cloetta AB (publ.)*

*Corporate identification number 556308-8144*

### Roles and separation of responsibilities

We have examined the corporate governance report for the financial year from 1 September 2010 to 31 August 2011 on pages 48–53. The Board of Directors and the Managing Director are responsible for the preparation and presentation of the corporate governance report in accordance with the Annual Accounts Act. Our responsibility is to examine the corporate governance report so that we can provide a written statement on the basis of our audit.

### Focus and scope

We conducted our audit in accordance with RevU 16, Auditor's Review of the Corporate Governance Report. Those standards require that we plan and perform the audit to obtain reasonable assurance that the corporate governance report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

### Conclusion

In our opinion, the corporate governance report has been prepared in accordance with the Annual Accounts Act and that it is consistent with the other parts of the annual accounts and the consolidated accounts.

Ljungsbro, 25 November 2011  
KPMG AB

**Helene Willberg**  
*Authorised Public Accountant*





Standing from left: Ulrika Stuart Hamilton, Lennart Bohlin, Birgitta Hillman, Johan Hjertonsson, Birgitta Junland.  
Seated from left: Mikael Svenfelt, Meg Tiv  s, Lena Gr  nedal and standing at front, Olof Svenfelt.



# Board of Directors and Auditors

## Olof Svenfelt (Chairman)

**Born:** 1941, M.Sc.Eng. and LL.B.

**Chairman** since 2008.

**Elected to the Board:** 25 August 2008.

**Other assignments:** Board member of AB Malfors Promotor, AB Malfors Holding, Highland Group AB, Metoden Agenturer AB and Phlisa Metall AB. Board member of the Hjalmar Svenfelt Foundation, the Wilhelm Stenhammar Foundation, the Hagdahl Academy Foundation and the Georg Hultner Foundation.

**Previous assignments:** Board member and Deputy Chairman of Cloetta Fazer AB.

**Shareholding in Cloetta:** 6 class A shares and 469,460 class B shares.

**Related party shareholdings in Cloetta:** 2,358,868 class A shares and 10,286,455 class B shares.

**Independent from major shareholders:** No

**Independent from company and management:** Yes

## Lennart Bohlin

**Born:** 1942, MBA.

**Elected to the Board:** 5 November 2008.

**Other assignments:** Chairman of CMA Research AB, Bygg- & Villaservice AB, Norins Ost AB, Stjärnagg AB and Östgöta Kök AB. Deputy chairman of IHM Business School AB. Board member of Midsona AB (publ), Hamravik Group AB, Kuponginlösen AB, Löfbergs Lila AB, Sales Support Sweden AB and the Östergötland County Museum.

**Previous assignments:** Managing Director and CEO of Cloetta AB and Cloetta Fazer AB 1989–2002.

**Shareholding in Cloetta:** 10,000 class B shares.

**Independent from major shareholders:** Yes

**Independent from company and management:** Yes

## Ulrika Stuart Hamilton

**Born:** 1958, MBA.

**Elected to the Board:** 5 November 2008.

**Other assignments:** Deputy Managing Director of the Swedish Entrepreneurship Forum. Board member of MittMedia Förvaltnings AB. Board member and Chairman of Liberala Nyhetsbyrån AB and Stiftelsen Pressorganisation.

**Previous assignments:** Senior positions in the Federation of Private Enterprises (Företagarna), the Centre for Business and Policy Studies (SNS), Gullers Grupp Informationsrådgivare AB, the Swedish Liberal Party and the Swedish Ministry of Finance. Member of the Swedish Companies Act Committee and AB Vattenfall.

**Shareholding in Cloetta:** 550 class B shares.

**Independent from major shareholders:** Yes

**Independent from company and management:** Yes

## Johan Hjertsonsson

**Born:** 1968, MBA.

**Elected to the Board:** 5 November 2008.

**Other assignments:** Managing Director and CEO of AB Fagerhult. Board member of AB Fagerhult and NORD-LOCK International AB.

**Previous assignments:** Managing Director and CEO of Lammhults Design Group AB. Board member of Electrolux Filter AB and BRIO AB.

**Shareholding in Cloetta:** 0.

**Independent from major shareholders:** Yes

**Independent from company and management:** Yes

## Mikael Svenfelt

**Born:** 1966, Marketing and business economist and law studies.

**Elected to the Board:** 25 August 2008.

**Other assignments:** Managing Director and board member of AB Malfors Promotor, AB Malfors Holding and Phlisa Metall AB. Board member of Fjärilshuset Haga Trädgård AB, Sjöleden Hällevik AB and Rollox AB.

**Previous assignments:** Senior positions in Nicator, Dell Financial Services and GE Capital Equipment Finance AB.

**Shareholding in Cloetta:** 5 class A shares and 7,507 class B shares.

**Related party shareholdings in Cloetta:** 1,746 class B shares.

**Independent from major shareholders:** No

**Independent from company and management:** Yes

## Meg Tivéus

**Born:** 1943, MBA.

**Elected to the Board:** 5 November 2008.

**Other assignments:** Board member of Swedish Match AB, Nordea Fonder AB, Meg Tivéus AB and Paynova AB. Board member and chairman of Folktandvården Stockholms län AB and Arkitektkopia AB.

**Previous assignments:** Managing Director of Svenska Spel AB. Deputy Managing Director of Posten AB. Board member of Cloetta Fazer AB.

**Shareholding in Cloetta:** 204 class B shares.

**Independent from major shareholders:** Yes

**Independent from company and management:** Yes

## EMPLOYEE REPRESENTATIVES

### Lena Grönedal

**Born:** 1962

**Board member since:** 5 November 2008.

Employee representative, the Swedish Food Workers' Union (LIVS). Factory operative Cloetta Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding 5,032 class B shares.

**Related party shareholdings in Cloetta:** Convertibles corresponding to 5,032 class B shares.

### Birgitta Hillman

**Born:** 1947

**Board member since:** 5 November 2008.

Employee representative, the Negotiation Cartel for Salaried Employees (PTK). Salaried employee, Cloetta Sverige AB.

**Shareholding in Cloetta:** 19 class B shares and convertibles corresponding to 5,032 class B shares.

## EMPLOYEE REPRESENTATIVES, DEPUTIES

### Linus Ekegren

**Born:** 1975

**Board member since:** 5 November 2008.

Employee representative, the Swedish Food Workers' Union (LIVS). Factory operative, Cloetta Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 3,289 class B shares.

### Birgitta Junland

**Born:** 1962

**Board member since:** 5 November 2008.

Employee representative, the Negotiation Cartel for Salaried Employees (PTK). Salaried employee, Cloetta Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 5,032 class B shares.

## AUDITORS

### KPMG AB

### Auditor in Charge

### Helene Willberg

**Born:** 1967

Auditor for the company since 2007. Authorised Public Accountant, KPMG AB.

**Other auditing assignments:** Investor AB, Thule Investment AB, Nobia AB, Ortivus AB and Höganäs AB.

Shareholdings at 31 August 2011



Standing: Kent Sandin, Johan Torell, Tony Wiréhn, Anders Jendeberg, Christina Björck, Thomas Lundh, Johan Eriksson, Thomas Wiesgickl. Seated: Karin Svärth and Curt Petri.

# Group Management Team

## Curt Petri

**Born:** 1952

**Position:** Managing Director and CEO since 2008, employed in 1990.

**Education:** MBA.

**Other assignments:** Board assignments in the Group. Board member of the Swedish Food Federation (LI).

**Previous external assignments in the past five years:** CFO and Deputy Managing Director of Cloetta Fazer AB.

**Shareholding in Cloetta:** 30,086 class B shares.

## Christina Björck

**Born:** 1959

**Position:** Head of Human Resources and Communications since 2008, employed in 2001.

**Education:** Social services with a focus on personnel administration and Communication Executive Programme at the Stockholm School of Economics.

**Other assignments:** Chairman of Chokofa. Sole proprietorship of CB Communication. Member of the negotiation delegation in the Swedish Food Federation (LI).

**Previous external assignments in the past five years:** Head of Human Resources at Cloetta Fazer Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 31,405 class B shares.

## Johan Eriksson

**Born:** 1969

**Position:** Marketing Manager since 2010, employed in 2002.

**Education:** MBA.

**Other assignments:** Board assignments in the Group.

**Previous external assignments in the past five years:** Category Manager Chocolate and Key Account Manager at Cloetta Fazer Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 9,743 class B shares.

## Anders Jendeberg

**Born:** 1969

**Position:** Group Controller since 2008, employed in 2003.

**Education:** MBA.

**Other assignments:** Board assignments in the Group.

**Previous external assignments in the past five years:** Business Controller at Cloetta Fazer Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 9,743 class B shares.

## Thomas Lundh

**Born:** 1960

**Position:** Sales Director since 2010, employed in 2010.

**Education:** Corporate Management, Göteborg Management Institute (GMI), a number of courses on sales and leadership.

**Other assignments:** Board assignments in the Group, Chairman of Affärshögskolan and board member of Britta & Lennarts Nära Kött.

**Previous external assignments in the past five years:** Managing Director of Boxholm Mejeri AB.

**Shareholding in Cloetta:** 0

## Kent Sandin

**Born:** 1957

**Position:** CFO since 2008, employed in 2008.

**Education:** Stockholm School of Economics and a number of courses on finance and leadership.

**Other assignments:** Board assignments in the Group.

**Previous external assignments in the past five years:** Board assignments in the Midsona group. CFO of Midsona AB (publ) and Finance Director of Cloetta Fazer AB.

**Shareholding in Cloetta:** 28,405 class B shares.

## Karin Svärdh

**Born:** 1968

**Position:** Plant Manager since 2009, employed in 2009.

**Education:** MBA.

**Other assignments:** –

**Previous external assignments in the past five years:** Head of Arla's Administrative Service Center, Production and Logistics Manager for Arla's Linköping dairy.

**Shareholding in Cloetta:** Convertibles corresponding to 9,743 class B shares.

## Johan Torell

**Born:** 1969

**Position:** Export Director since 2010, employed in 2006.

**Education:** A number of courses on sales, marketing finance and leadership.

**Other assignments:** –

**Previous external assignments in the past five years:** Business Area Manager at Coca-Cola Drycker Sverige AB. Customer Service Director at Cloetta Fazer Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 9,743 class B shares.

## Thomas Wiesgickl

**Born:** 1977

**Position:** Purchasing and Supply Chain Manager since 2010, employed in 2002.

**Education:** M.Sc.Eng.

**Other assignments:** –

**Previous external assignments in the past five years:** Purchasing Director of Cloetta Fazer Sverige AB.

**Shareholding in Cloetta:** Convertibles corresponding to 9,743 class B shares.

**Related party shareholdings in Cloetta:** Convertibles corresponding to 3,289 class B shares.

## Tony Wiréhn

**Born:** 1960

**Position:** Business Development Manager since 2010, employed in 2008.

**Education:** IHM Executive Management School and a number of courses on leadership and sales management.

**Other assignments:** Board member of LHC Event AB.

Deputy board member of Linköping Hockey Club and CETRO Konsult AB.

**Previous external assignments in the past five years:** Secretary General of the Swedish Tennis Association. Partner and Senior Consultant in Identx.

**Shareholding in Cloetta:** Convertibles corresponding to 31,405 class B shares.





## Letter from the Chairman

Cloetta was founded in 1862, almost 150 years ago, by the three Cloetta brothers from Switzerland. The brothers were true entrepreneurs with the ability to combine their knowledge about chocolate with the opportunities offered by industrialisation. They had ideas, and through their powers of cooperation and initiative they were able to realise them. In 1901 they moved their operations to Ljungsbro, where my grandfather became a manager and in 1917 took over the company. Since then my family has been strongly associated with Cloetta. Trends have come and gone over the years, but Cloetta and our brands have stood strong and been continuously enhanced through ongoing initiatives and innovation.

For Cloetta and its Board of Directors, continued sustainable development of our company has consistently been a top priority. We strive to be a good company in every respect. Our products should taste good and give everyone the chance for everyday enjoyment. Cloetta should also be a good and environmentally aware company that safeguards its consumers, customers and employees.

### AIMS OF CORPORATE GOVERNANCE

Good corporate governance is about ensuring that companies are managed as efficiently as possible and in the best interests of the shareholders. For me as a representative of the majority shareholder, it has always been imperative that Cloetta complies with the corporate governance rules required by law and the stock exchange as part of our responsibility to all shareholders.

Corporate governance is also aimed at creating order and systems. I believe it is necessary to have a well defined framework in order to actualise the ideas that are found in the company. Cloetta is a relatively small company compared to our suppliers, customers and competitors, and it is vital that we act smartly and strategically in developing our products and business. Here, corporate governance plays an important role in ensuring that we have well designed rules and processes. Thus prepared, we will be able to continue our business for another 150 years – at least.

Ljungsbro, 25 November 2011

  
Olof Svenfelt  
Board Chairman



# Share and shareholders



*Cloetta's class B share has been listed on NASDAQ OMX Stockholm, Nordic List, since February 2009. The share is traded under the ticker symbol CLA B with ISIN code SE0002626861.*

## SHAREHOLDERS

At 31 August 2011 Cloetta had 4,181 shareholders, of whom 222 were institutional and 3,959 were private investors. Institutional investors held 87.0% of the votes and 75.7% of the share capital. There were 125 foreign shareholders, who accounted for 8.5% of the votes and 15.8% of the share capital. AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). AB Malfors Promotor is wholly owned by the Hjalmar Svenfelt Foundation. The ten largest shareholders held 87.5% of the votes and 76.7% of the share capital, see table below.

## SHARE PRICE AND TRADING

Between 1 September 2010 and 31 August 2011, Cloetta's share price fell by 25% from SEK 39.30 to SEK 29.40. The OMX Stockholm PI index dropped by 7.7% over the same period. The highest quoted bid price for the Cloetta share during the period was SEK 39.90 and the lowest was SEK 25.70. A total of 1,841,400 class B shares were traded during the period from 1 September 2010 to 31 August 2011 for a combined value of SEK 68 million.

## SHARE CAPITAL AND CAPITAL STRUCTURE

Cloetta's share capital at 31 August 2011 amounted to SEK 121,595,930. The total number of shares is 24,319,186, consisting of 2,360,000 class A shares and 21,959,186 class B shares, equal to a quota value of SEK 5 per share. Cloetta's Articles of Association contain a CSD provision and the company's shares are affiliated with Euroclear Sweden AB, which means that Euroclear Sweden AB administers the company's share register. Each A share grants the right to ten votes and each B share to one vote in shareholder meetings. All shares grant equal entitlement to participate in the company's profits and an equal share in any surplus arising on liquidation. The class A shares are subject to pre-emption, see also "Administration report" on page 66.

## SHAREHOLDER AGREEMENT

Fazer, Conclo Ab, Oy Cacava Ab and certain private individuals affiliated with Fazer have, in relation to Malfors Promotor, bound themselves not to directly or indirectly acquire shares in Cloetta during a 10-year period starting on the first date of trading for Cloetta's class B shares on NASDAQ

## Ten largest shareholders at 31 August 2011

Name	No. of class A shares	No. of class B shares	Total no. of shares	Total no. of votes	% of share capital	% of votes
AB Malfors Promotor	2,358,864	10,253,848	12,612,712	33,842,488	51.9	74.3
Nordea Investment Funds	–	2,410,711	2,410,711	2,410,711	9.9	5.3
Ulla Håkanson	–	1,000,000	1,000,000	1,000,000	4.1	2.2
BNP Paribas Securities Services SA	–	523,400	523,400	523,400	2.2	1.2
Olof Svenfelt	6	469,460	469,466	469,520	1.9	1.0
Novitus AB	–	440,000	440,000	440,000	1.8	1.0
Marianne Sjövall	–	346,045	346,045	346,045	1.4	0.7
Wilhelm Trotzig	8	316,000	316,008	316,080	1.3	0.7
Nordea Bank S.A. Nominee, Account	–	279,899	279,899	279,899	1.2	0.6
Lena Lundin	–	250,000	250,000	250,000	1.0	0.5
Others	1,122	5,669,823	5,670,945	5,681,043	23.3	12.5
<b>Total</b>	<b>2,360,000</b>	<b>21,959,186</b>	<b>24,319,186</b>	<b>45,559,186</b>	<b>100.0</b>	<b>100.0</b>

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2011

## Shareholder categories at 31 August 2011

	No. of share-holders	% of capital	% of votes
Swedish institutions	130	60.0%	78.6%
Swedish private investors	3,926	24.2%	12.9%
Foreign institutions	92	15.7%	8.4%
Foreign private investors	33	0.1%	0.1%
<b>Total</b>	<b>4,181</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2011

## Shareholder statistics at 31 August 2011

No. of shares	Shareholders		Holdings	
	Number	%	Number	%
1–1,000	3,762	90.0	830,964	3.4
1,001–5,000	290	6.9	656,680	2.7
5,001–50,000	91	2.2	1,327,613	5.5
50,001–	38	0.9	21,503,929	88.4
<b>Total</b>	<b>4,181</b>	<b>100.00</b>	<b>24,319,186</b>	<b>100.00</b>

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2011

## Development of the share capital

Year	Event	Increase in share capital	Total share capital	Increase in no. of shares	Total no. of shares
1998	Opening share capital, par value of share is SEK 100	–	100,000	–	1,000
2008	Non-cash issue in connection with demerger of Cloetta Fazer	99,900,000	100,000,000	999,000	1,000,000
2008	24-for-1 split, quota value of share changed from SEK 100 to SEK 4	–	100,000,000	23,119,196	24,119,196
2008	Bonus issue, quota value of share changed from SEK 4 to SEK 5	20,595,980	120,595,980	–	24,119,196
2011	Conversion of convertible debenture loan	999,950	121,595,930	199,990	24,319,186

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2011

OMX First North, i.e. 16 February 2009, provided that the Hjalmar Svenfelt Foundation does not reduce its direct or indirect holding during this period to a level of less than 30% of the votes in Cloetta.

### MARKET MAKER

Cloetta has commissioned E. Öhman J:or Fondkommission AB to act as market maker for Cloetta's class B shares. The goal is to enhance the liquidity of the share and reduce the spread between bid and ask prices in day-to-day trading. Under the agreement, E. Öhman J:or Fondkommission AB will post buy and sell volumes of at least SEK 30,000 each with a maximum bid-ask spread of 4% calculated on the offered bid price. The agreement is valid until further notice.

### CAPITAL MARKET DAY AND INVESTOR MEETINGS

Cloetta holds regular capital market days, lunch meetings for analysts and investors and participates in share investor meetings.

### CONVERTIBLE NOTE PROGRAMME

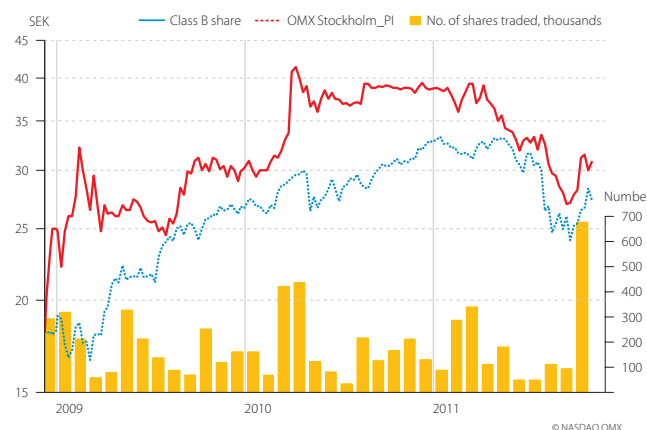
During the period from 27 March to 8 April 2009, all employees in Cloetta were offered the opportunity to subscribe for convertible notes in Cloetta. A total of 155 employees subscribed for convertible notes with an aggregate principal amount of more than SEK 39.5 million. In view of the maximum permitted capital dilution of 4% and with consideration to the established conversion rate of SEK 30.40, the convertible debenture loan may amount to no more than SEK 30.5 million. The employee convertible note offer was thus oversubscribed. The convertible notes run from 14 May 2009 until 30 March 2012 and will bear interest at a rate equal to STIBOR plus 2.5 percentage points. The convertible notes can be converted to class B shares in Cloetta during the period from 25 February 2011 to 25 February 2012 at a conversion rate of SEK 30.40, which will lead to an increase of 1,004,889 class B shares upon full conversion. After conversion during the period from 25 February to 31 August 2011, 199,990 new class B

shares have been issued. For additional information, see Cloetta's website, [www.cloetta.com](http://www.cloetta.com).

### DIVIDEND

The dividend is resolved on by the Annual General Meeting (AGM) and disbursement is handled by Euroclear Sweden AB. The right to dividends is granted to those persons who on the record date established by the Annual General Meeting are listed as shareholders in the share register maintained by Euroclear Sweden AB. The Board proposes to the AGM that an ordinary dividend of SEK 0.75 and an extraordinary dividend of SEK 0.50 per share be paid for the financial year 2010/2011. The proposed record date for dividends is 22 December 2011. If the AGM approves the proposal, the dividends are expected to be disbursed by Euroclear Sweden AB on 28 December 2011.

### CLOETTA'S SHARE PRICE PERFORMANCE







Financial information

*Enjoyment*





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# Administration report

*The Board of Directors and the Managing Director of Cloetta AB, corporate identification number 556308-8144, hereby submit the annual report and consolidated accounts for the financial year from 1 September 2010 to 31 August 2011.*

## INFORMATION ABOUT OPERATIONS

The Cloetta Group, whose parent company is Cloetta AB, was a sub-group of Cloetta Fazer AB at 31 August 2008. Cloetta Fazer was formed through a merger between Cloetta AB and the Fazer group's confectionery division, Fazer Confectionery, in 2000. In June 2008 a Separation Agreement was signed for the demerger of Cloetta Fazer. The demerger gave rise to the two freestanding companies Cloetta and Fazer Confectionery.

The Cloetta Group was formed in July–August 2008, when all of the subsidiaries belonging to Cloetta under the Separation Agreement for the demerger of Cloetta Fazer were transferred to Cloetta. The most significant operating companies in the Group after this restructuring are Cloetta Sverige AB and AB Karamellpojka. Cloetta Sverige AB was acquired by Cloetta through a non-cash issue on 25 July 2008 and AB Karamellpojka was acquired in cash on 29 August 2008. Both companies were acquired at their book value in Cloetta Fazer. As part of the restructuring, on 29 August 2008 Cloetta acquired among other things all of Cloetta Fazer's properties in Ljungsbro and the intellectual property rights to product brands under the umbrella brands Cloetta and Karamellpojka in exchange for cash consideration.

## CHANGED FINANCIAL YEAR

An extraordinary general meeting on 25 July 2008 adopted an amendment to the Articles of Association entailing a change in the company's financial year from the calendar year to a broken financial year from 1 September to 31 August. The first financial year was an abbreviated year covering the period from 1 January to 31 August 2008. All Swedish subsidiaries have changed financial year in the same manner as the Parent Company.

The Annual General Meeting on 19 December 2011 is proposed to resolve on an amendment to the Articles of Association regarding the company's financial year. It is proposed that the Articles of Association be changed so that the company's financial year, which now runs from 1 September to 31 August, instead covers the period from 1 January to 31 December, i.e. the calendar year.

## Market

Cloetta is active in the chocolate and sugar confectionery market, of which chocolate confectionery accounts for the bulk of sales. The geographic market is made up of Sweden, which is Cloetta's main market and accounts for around 85% of total sales, as well as Norway, Denmark and Finland. Additional markets are the Travel Retail and other exports.

Sales in Sweden are handled by Cloetta's own sales company. In other markets, sales are handled by distributors or representatives.

## Production

The Group has two production facilities in Sweden, one in Ljungsbro and one in Alingsås. The Ljungsbro factory mainly manufactures chocolate

products, while the Alingsås factory, which was included in Cloetta Fazer's acquisition of Karamellpojka in 2007, primarily manufactures throat lozenges and toffees. The aggregate annual production volume is approximately 18,000 tonnes.

Cloetta has a production agreement with Fazer Confectionery for the manufacture of Fazer products.

## Brands

Cloetta's greatest asset is its portfolio of well known brands and the associated product range. The brands have a very strong position in the Swedish home market. Product development and marketing investments are focused primarily on the prioritised brands, which are assessed to have the greatest growth potential and profitability. Cloetta has exclusive rights to the so-called umbrella brands Cloetta and Karamellpojka, with product brands such as Kexchoklad, Center, Plopp, Polly and Extra Starka.

## DEVELOPMENT IN 2010/2011

### Net sales and profit

The financial year runs from 1 September 2010 to 31 August 2011. The following comments are presented with comparative figures for the period from 1 September 2009 to 31 August 2010.

Sales of Cloetta's products amounted to SEK 874 million (914). Total net sales fell to SEK 987 million (1,061), of which SEK 113 million (147) referred to products manufactured on contract. Cumulative sales in the Swedish market, which accounts for around 85% of the total, were lower than in the previous year, partly due to the volumes of the Wedding Series that were delivered in the same period of last year. For the full year, sales of the two largest brands, Kexchoklad and Polly, were on par with or better than in the previous year. The autumn 2010 launch of Tarragona bars and the top-selling Christmas product Juleskum had a positive impact on sales. In the spring of 2011 Cloetta launched a new design for all Kexchoklad articles and the new blueberry-flavoured Kexchoklad was introduced as both a countline and a mini-bar in a bag. During the same period, a new bag concept was also launched for Cloetta's chocolate dragées in sizes adapted for the grocery and service trades. In connection with this, Pops Crunchy was launched on the Swedish market. Total cumulative sales in Cloetta's other markets were somewhat lower than in the previous year. Chocolate bags, led by Pops in Norway, noted increased sales that were further strengthened in August when the first volumes of Polly bags were delivered. In Norway Polly was launched under the name of Popsy. In Finland Polly Summer Berries was available during the summer and together with the new Center Salmiak roll contributed to higher sales. Sales within Travel Retail rose most markedly, mainly as a result of the new large-sized bags of Kexchoklad and Polly intended for passenger ferries, charter tour operators and airports.



Gross profit was SEK 304 million (329), which corresponds to a gross margin of 30.8%, compared to 31.0% the year before.

Overhead expenses fell by SEK 12 million and amounted to SEK 287 million (299). The decrease is mainly attributable to the marketing activities that were carried in the comparison period in connection with the launch of Cloetta's Good chocolate bar series and the Wedding Series. During the year, marketing activities were conducted among other things through the media and joint promotional campaigns with customers in preparation for the launch of large-sized Tarragona bars in the grocery retail trade in the autumn of 2010 and ahead of the Christmas sales, with products such as Juleskum. During the ski season, Kexchoklad was promoted through outdoor advertisements and activities at ski resorts. Other overhead expenses were on par with the previous year.

Operating profit was SEK 27 million (35) and operating margin was 2.7% (3.3). Operating profit before amortisation, depreciation and impairment was SEK 82 million (85), equal to an operating margin of 8.3% (8.0). In the fourth quarter, income of SEK 5 million was recognised following the Swedish Tax Agency's approval of a contractual item from the demerger of Cloetta Fazer relating to a deduction for group contributions to a Polish subsidiary. This amount was recognised together with other operating income. Operating profit was positively affected by foreign exchange differences of SEK 5 million (6) that are reported together with other operating income and expenses.

Profit before tax was SEK 26 million (31). Net financial items totalled SEK -1 million, compared to SEK -4 million the year before. The negative net financial items reported by the Group in spite of a net receivable are mainly explained by the fact that interest on the pension liability and the convertible note programme for the employees is higher than the yield on financial assets. Profit after tax is reported at SEK 18 million (22), which is equal to earnings per share of SEK 0.73 (0.90) before and SEK 0.73 (0.90) after dilution. The period's income tax expense was SEK -8 million (-9). The effective tax rate was 31.4%. The higher tax rate is mainly attributable to non-deductible expenses and imputed interest on tax allocation reserves.

#### Seasonal variations

Cloetta's business follows a seasonal cycle in which the first quarter, leading up to Christmas, is the strongest. To a large extent, the company's full-year profit is therefore dependent on sales during this period. The Easter holiday, which is the second peak season in the confectionery market, falls in Cloetta's third quarter and affects sales in both the second and third quarters to a varying degree from year to year depending on whether Easter falls in March or April. Cloetta's fourth quarter is the weakest of the year in relative terms, as consumption of confectionery is lower during the summer months.

#### Financing and liquidity

Cash and cash equivalents and short-term investments amounted to SEK 264 million (245).

Cloetta's working capital requirement is exposed to seasonal variations, partly resulting from a build-up of inventories in preparation for increased sales during the Christmas holiday. This means that the working capital requirement is normally highest during the autumn, i.e. in the first quarter, and lowest at year-end, i.e. in the second quarter.

Cash flow from operating activities was SEK 76 million (19), an improvement that is mainly explained by a decrease in working capital

compared to the same period of last year. Net cash of SEK 39 million (51) was utilised for investments in property, plant and equipment during the year. Other cash flow from investing activities consists of ongoing investments. The dividend approved by the Annual General Meeting (AGM) was charged to financing operations in an amount of SEK 18 million during the second quarter. Interest-bearing assets exceeded interest-bearing liabilities by a net amount (i.e. a net receivable) of SEK 167 million (144). The equity/assets ratio was 67.5% (65.7).

#### Investments

Investments in property plant and equipment during the period totalled SEK 39 million (51) and included both capacity and replacement investments in the existing production lines. Depreciation amounted to SEK 55 million (50).

#### EMPLOYEES

The average number of employees was 437 (452). The decrease is attributable partly to the previous year's workforce changes at the factory in Alingsås and partly to reductions in the production staff in Ljungsbro as announced in the first quarter. All are employed in Sweden.

#### General principles

Cloetta prioritises a long-term approach to value creation, primarily by building and nurturing profitable brands. Cloetta recognises and supports the ten principles in the UN's Global Compact and works to promote these in the communities and environments where the Group conducts business. To ensure compliance with these general principles, Cloetta has adopted a number of basic standards:

- Cloetta complies with the applicable laws, regulations and norms in the countries where the company operates.
- Cloetta conducts its operations with the highest standards of integrity and ethics and takes responsibility for its actions.
- Cloetta respects the UN's Declaration of Human Rights and accepts responsibility for protecting the rights of employees and society in its operations.
- Cloetta takes part in international collaborative efforts to improve the working conditions of those active in producing the company's raw materials, such as cocoa.

#### Employee relations

Employee relations are built on a foundation of mutual respect and trust. All terms of employment comply with the provisions in collective agreements, national laws and the relevant ILO conventions (International Labour Organization).

#### INFORMATION ABOUT RISKS AND UNCERTAINTIES

Cloetta works continuously to assess and evaluate the risks to which the company is, and may be, exposed. These risks are divided into operating risks, which are handled by the operating units, and financial risks, which are managed by the finance function.

#### Operating risks

The Swedish confectionery market is characterised by relatively few but comparatively strong grocery chains. Cloetta's four largest customers account for around 70% of the company's sales in the Swedish market. International discount chains have established a presence in Sweden in recent

years, leading to more aggressive competition in the trade. By launching products under their own private labels, the distributors have also been able to increase their share of the confectionery value chain. Together these factors are creating increased price pressure in the confectionery market, which has also impacted producers.

By serving as an active partner to its customers, delivering high quality products and launching innovative new products under strong brands, Cloetta has been able to fend off competition from other players. In 2009 a new chocolate moulding line was commissioned in Ljungsbro and is now in full-scale operation, which has boosted capacity and improved efficiency. Cloetta thus has a well functioning production system in which efficiency has risen in recent years, partly thanks to new and more flexible working methods, investments and a maintenance programme that is more integrated with production. However, the decreased volumes from contract manufacturing have led to lower capacity utilisation. Internally, Cloetta will optimise production for the current volumes and the contract levels that can be achieved.

Rising raw material costs have led to a sharp increase in manufacturing costs in recent years, particularly for chocolate products. To maintain prices at competitive levels, it is necessary to enhance efficiency in both production and other parts of the organisation. Cloetta has introduced certain price increases toward the retail trade that will be implemented during the coming year and starting in the autumn of 2011.

Of total manufacturing costs, raw materials and packaging make up approximately 60%. The most significant raw materials in terms of value are cocoa, sugar and milk products. The prices of many of the most important raw materials are influenced by factors such as political decisions, rising living standards, speculation on the commodities exchanges, etc. Environmental issues are also having a growing impact on prices in pace with increased alternative use of cultivated crops for energy supply purposes. Cloetta mainly purchases cocoa-based raw materials originating from West Africa, whose cocoa producers account for around 70% of total global production. The political situation in the region has been periodically unstable, which has affected prices. The processed raw materials used by the Group are cocoa powder, cocoa mass and cocoa butter. Demand for the individual components also varies over time, which is reflected in global market prices. By signing long-term delivery contracts, the Group ensures access to raw materials and counters the effects of short-term price fluctuations.

The Group's long-term goal is to achieve average organic growth of 3% annually over a five-year period. In addition, the Group aims to grow through partnerships and acquisitions.

Sensitivity analysis*	Change	Operating profit
Net sales	+/-1%	+/- SEK 10 M
Raw materials and packaging	+/-1%	+/- SEK 4 M
Energy price	+/-1%	+/- SEK 0 M
Salaries/wages incl. pensions	+/-1%	+/- SEK 2 M

\* Based on 2010/2011

### Financial risks

Cloetta has good liquidity and a high equity/assets ratio. The Group's financial risks consist primarily of foreign exchange risk, interest rate risk and credit risk. Cash and cash equivalents and short-term investments at 31 August 2011 amounted to SEK 264 million (245).

Cash flow from operating activities for 2010/2011 was SEK 76 million (19). The Group invests excess liquidity in various money market instruments where the risk may not exceed the levels specified in the finance policy issued by the Board.

The Group is exposed to different types of foreign exchange risk. The most significant exposure refers to anticipated or contracted cash flows from purchases and sales in different currencies, to the extent that these transactions are not hedged through forward contracts. The largest transaction volume is denominated in euros. The net outflow in euros in 2010/2011 amounted to EUR -13 million. According to the established finance policy, derivatives may be used to limit the risks to which the Group is exposed. In order to reduce the risk level and currency exposure, Cloetta hedges a minimum of 50% and a maximum of 100% of the forecasted transaction exposure for a period of nine to twelve months forward. The Group does not apply hedge accounting and all derivatives are stated at fair value with value changes through profit or loss. Exchange rate fluctuations also have an impact on translation of the net assets of foreign subsidiaries to the functional currency of the Parent Company. The Group's policy is to not hedge these net assets.

Credit risk in trade receivables in the Nordic market is limited with respect to the customer structure. In the other export markets where the customer structure and distribution differ from those in the Nordic market, risk exposure is greater. For a more detailed description of financial risks and risk management, see Note 29. In connection with acquisitions, a risk assessment of the acquired unit is carried out as part of the due diligence process preceding the transaction.

Sensitivity analysis	Change	Net financial items/ Operating profit
Interest rate, %-point	+/-1%	+/- SEK 2 M
Euro	+/-1%	+/- SEK 1 M

### Environmental risks

Cloetta works continuously to reduce the environmental impact of its operations through systematic environmental and quality management. Cloetta deems its operations to be in compliance with the statutory environmental requirements and the Group is not party to any environmental disputes. Cloetta conducts operations at the plants in Ljungsbro and Alingsås that are subject to reporting requirements according to the Swedish Environmental Code. These permits apply until further notice. There are no injunctions in respect of the Swedish Environmental Code.

Environmental impact in the confectionery industry arises through water and energy usage, wastewater emissions, raw material and packaging waste, production waste and transports. Furthermore, certain environmental effects are caused by coolants, chemicals and noise. The greatest environmental impact comes from emissions of nutrients and fats into the water and wastewater network.

The Group takes ongoing measures in all facilities to reduce the environmental impact of its operations. A structured and detailed process for measurement, monitoring and action increases awareness of about the effects of different manufacturing processes on the environment and quality, and thereby provides a basis for activities that improve quality and environmental management.

Cloetta is involved in various international organisations aimed at accelerating development towards sustainable production of raw materials such as cocoa and palm oil. Cloetta is also a member of the World Cocoa

Foundation, which promotes sustainable cocoa growing, and the RSPO (Roundtable on Sustainable Palm Oil), which is committed to improving the conditions for production of palm oil in Asia.

A more detailed presentation of the Group's environmental policy and environmental work is provided in the sustainability report under the heading "Environmental responsibility" on pages 38–40 of the printed version of the annual report.

## PRODUCT DEVELOPMENT

Product development is primarily focused on the creation of new packaging designs and brand varieties within the framework of the existing product range. No expenses for product development have been capitalised.

## PARENT COMPANY

Cloetta AB's activities consist primarily of head office functions such as group-wide management and administration.

Net sales in the Parent Company for the full year reached SEK 26 million (35) and referred mainly to intra-group services. Operating profit was SEK 6 million (3). In the fourth quarter, income of SEK 5 million was recognised following the Swedish Tax Agency's approval of a contractual item from the demerger of Cloetta Fazer relating to a deduction for group contributions to a Polish subsidiary. Cloetta's share amounts to 30%. The amount is recognised together with other operating income.

Net financial items totalled SEK –1 million (–2). Profit before tax was SEK 5 million (1) and profit after tax was SEK 2 million (0). Cash and cash equivalents and short-term investments amounted to SEK 53 million (72).

Cloetta's SEK 30 million convertible note programme for the employees runs from 14 May 2009 to 30 March 2012 and will bear interest at a rate equal to STIBOR plus 2.5 percentage points. The convertible notes can be converted to class B shares in Cloetta during the period from 25 February 2011 to 25 February 2012 at a conversion rate of SEK 30.40, which upon full conversion will increase the number of class B shares by 1,004,889. After conversion during the period 25 February – 31 August 2011, 199,990 new class B shares were issued. The interest rate for the period from 10 November 2010 to 10 November 2011 has been set at 4.48%.

### The Cloetta share

The total number of shares is 24,319,186, consisting of 2,360,000 class A shares and 21,959,186 class B shares. Each A share grants the right to ten votes and each B share to one vote in shareholder meetings. All shares grant equal entitlement to participate in the company's profits and an equal share in any surplus arising on liquidation.

Trading of the class B share of Cloetta AB (publ) on NASDAQ OMX Stockholm commenced on 16 February 2009. The share is traded under the ticker symbol CLA B with ISIN code SE0002626861. A round lot consists of one (1) share.

During the period from 1 September 2010 to 31 August 2011, 1,841,400 shares were traded, equal to around 8% of the total number of class B shares. The highest quoted bid price was SEK 39.90 and the lowest was SEK 25.70. The share price on 31 August 2011 was SEK 29.40 (last price paid).

### Shareholders

AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). At 31 August 2011, Cloetta AB had 4,181 shareholders and the principal shareholder Malfors Promotor held 74.3% of the votes and 51.9% of the share capital. Other institutional investors held 12.7% of the votes and 23.8% of the share capital.

### Preferential rights, pre-emption and conversion of shares

Should the company issue new shares of class A and class B through a cash or setoff issue, holders of class A and class B shares have the right to subscribe for new shares of the same class in proportion to the number of shares already held on the record date. If the issue includes shares of only class B, all holders of class A and class B shares have the right to subscribe for new B-shares of the same class in proportion to the number of shares already held on the record date. Corresponding rules of apportionment are applied in the event of a bonus issue or issue of convertibles and subscription warrants.

The transference of a class A share to a person who is not previously a holder of class A shares in the company is subject to a pre-emption procedure, except when the transfer is made through division of joint property, inheritance, testament or gift to the person who is the closest heir to the bequeather.

After receiving a written request from a holder of class A shares the company shall convert the specified class A shares to class B shares, unless one or more holders of class A shares that have declared their desire to convert B shares to A shares can be assigned. For additional information see the company's Articles of Association on Cloetta's website, [www.cloetta.com](http://www.cloetta.com).

### Significant agreements between the company and the Board and the Managing Director

Remuneration to the Board of Directors is determined by decision of the AGM. If a Board member discontinues his/her duties prematurely, no special remuneration is paid. In the event of dismissal by the company, the Managing Director is entitled to salary during the 12-month notice period in addition to termination benefits corresponding to one year's salary. For other information about fees to the Board of Directors and salaries and remuneration to senior executives, see Note 7.

### Election of the Board and its work plan

The Board of Directors of Cloetta AB is elected yearly by the AGM to serve for the period until the end of the next AGM. The Board of Directors has its registered office in Ljungsbro in the Municipality of Linköping.

The Board of Directors is made up of six members elected by the AGM and two members with two deputies appointed by the employee trade unions. The members elected by the AGM include individuals with connections to the principal shareholders, as well as individuals with no affiliation to these shareholders or the company. The Managing Director is not a member of the Board but normally attends all board meetings. The Managing Director participates in board meetings in the capacity of advisor and expert, and other executives are called upon to report on various matters.

Since the AGM on 15 December 2010, the Board has held five scheduled meetings, one statutory meeting and eight extra meetings. At the extra meetings the Board has dealt with matters related to the brand, investments and other strategic business decisions. The work of the Board is governed by the Board's adopted work plan and by instructions regarding the separation of responsibilities between the Board of Directors, the Chairman and the Managing Director. Internal reporting to the Board is carried out as specified in the work plan.

The AGM of Cloetta on 15 December 2010 adopted rules for the nominating committee. The nominating committee consists of four members, of whom Lennart Bylock, representing AB Malfors Promotor, is chairman in accordance with the adopted rules. The other members



are Johan Hjertönsson, appointed by the Board of Cloetta AB, Thomas Ehlin, appointed by Nordea Fonder, and Eva Törnqvist, appointed by Ulla Håkanson. The duties of the nominating committee are to prepare and present recommendations to the AGM regarding election of a chairman of the AGM, Board members and the Board Chairman, as well as Board fees and the apportionment of fees between the Chairman and other Board members and election of auditors and audit fees.

In addition, the Board has appointed a remuneration committee to prepare recommendations for remuneration and other terms of employment for the Executive Management, as well as matters related to incentive schemes. In accordance with the provisions in the Swedish Companies Act, the Board must submit proposed guidelines for remuneration to senior executives to the AGM for approval.

The Board has appointed an audit committee whose task is to support the Board in monitoring the financial accounts, internal control, financial reporting and the related auditing of the financial statements. The audit committee consists of Board Chairman Olof Svenfelt together with Board members Mikael Svenfelt and Meg Tivéus. The Board's report on internal control for the financial year 2010/2011 is presented in the corporate governance report on pages 52–53 of the printed version of the annual report.

With regard to the Board of Directors' activities and work plan, see the corporate governance report on pages 48–53 of the printed version of the annual report and the company's website [www.cloetta.com](http://www.cloetta.com).

#### The Board's proposed guidelines for remuneration to senior executives

Remuneration to the Managing Director, other members of the Group Management Team and other senior executives who report directly to the Managing Director shall consist of fixed salary, other benefits and pension benefits.

When deemed appropriate by the Board, the executives in question shall also be offered the opportunity to participate in long-term share-based incentive schemes, which shall be resolved on by the general meeting of shareholders. The total remuneration package shall be market-based and competitive, and shall be proportionate to the individual's responsibilities and powers.

In the event of dismissal on the part of the company, the term of notice shall be not longer than twelve months. Any termination benefits may amount to no more than one year's fixed salary. Defined contribution pension plans shall be strived for. The retirement age shall be not lower than 60 and not higher than 67 years of age.

The Board's proposed guidelines to be put before the AGM on 19 December 2011 correspond to those adopted at the latest AGM on 15 December 2010. Information about remuneration to the Board and senior executives is provided in Note 7.

#### Nominating committee

With regard to election of a new Board and auditor, Cloetta's nominating committee proposes that the AGM resolve to re-elect the Board.

Furthermore, the nominating committee proposes that the AGM resolve to re-elect KPMG AB as the company's auditing firm, with Helene Willberg as Auditor in Charge to serve for the period until the end of the next AGM.

#### Dividend

The Board proposes an ordinary dividend of SEK 0.75 per share (0.75) for the financial year 2010/2011. In light of the company's cash flow and strong balance sheet, the Board also proposes an extraordinary dividend of SEK 0.50 per share. Even after this dividend, the company will have good liquidity (net receivable) and a high equity/assets ratio.

#### Corporate governance report

The company prepares a corporate governance report that is separate from the annual report. See pages 48–53 of the printed annual report and the auditor's statement on page 53. The corporate governance report includes information about the Group's systems for internal control and risk management on page 52–53.

#### EVENTS AFTER THE BALANCE SHEET DATE

- Ahead of the Olympic Games in 2012 Cloetta is a new team sponsor of the Swedish Olympic Committee.
- Kexchoklad from Cloetta and the Swedish Alpine Ski Team have entered a sponsorship cooperation ahead of the coming season.

After the end of the reporting period, no additional significant events have taken place that could affect the company's operations.

#### FUTURE OUTLOOK

2010/2011 was a year of unusually large fluctuations. After a good autumn in 2010 and sustained strong sales growth in the first quarter, a trend break occurred in December 2010 with more aggressive competition and falling sales, partly due to weak development in the grocery retail trade. Profit for the year was also negatively affected by lower income from products manufactured on contract and continued high prices for raw materials, primarily cocoa. In autumn 2011 Cloetta introduced certain price increases toward the retail trade to be implemented during the coming year. At the same time, Cloetta is carrying out changes in its positioning, conducting discussions for new partnerships, pursuing a number of efficiency improvement projects and developing its business together with the customers.

To strengthen the company's focus and sales, Cloetta has started a collaboration with the sales company Sales Support to sell the brands that are not part of the confectionery category, i.e. Mums-Mums and Mandelbiskvier, in the Swedish retail trade starting on 1 September 2011. Cloetta is closely monitoring developments in the grocery retail trade and changes in consumer behaviour. Cloetta's plans for increased partnership in different areas will also enhance the company's future competitiveness.

Cloetta has a well functioning production system in which efficiency has risen in recent years. However, the decreased volumes from contract manufacturing have led to lower capacity utilisation. In view of this, Cloetta will internally optimise its production for the current volumes and the contract levels that can be achieved.

The restructuring that was carried out at the end of 2010 with a flatter organisation has boosted the level of creativity and energy in the company. Cloetta is planning exciting activities together with the retail trade and is preparing several innovative product launches. Thanks to this, there is excellent potential for Cloetta to strengthen its position and profitability in the coming financial year. Cash flow for the year significantly exceeded the year-earlier level and the company has a strong balance sheet, which creates greater freedom of action.

## Consolidated profit and loss accounts

SEK M	Note	Sep 2010– Aug 2011	Sep 2009– Aug 2010
Net sales	3	987	1,061
Cost of goods sold		–683	–732
<b>Gross profit</b>		<b>304</b>	<b>329</b>
Other operating income	3	10	6
Selling expenses		–202	–220
Administrative expenses		–85	–79
Other operating expenses		0	–1
<b>Operating profit</b>	4, 5, 6, 7, 8, 32	<b>27</b>	<b>35</b>
Financial income		6	3
Financial expenses		–7	–7
<b>Net financial items</b>	9	<b>–1</b>	<b>–4</b>
<b>Profit before tax</b>		<b>26</b>	<b>31</b>
Income tax expense	12	–8	–9
<b>Profit for the year</b>		<b>18</b>	<b>22</b>
<i>Profit for the year attributable to:</i>			
Owners of the Parent Company		18	22
Earnings per share, basic and diluted	21	0.73	0.90
Number of shares at end of period		24,319,186	24,119,196
Average number of shares		24,280,284	24,119,196

## Consolidated statements of comprehensive income

SEK M	Sep 2010– Aug 2011	Sep 2009– Aug 2010
<b>Profit for the year</b>	<b>18</b>	<b>22</b>
<i>Other comprehensive income</i>		
Translation differences	0	0
<b>Other comprehensive income for the year</b>	<b>0</b>	<b>0</b>
<b>Total comprehensive income for the year</b>	<b>18</b>	<b>22</b>
<i>Comprehensive income for the year attributable to:</i>		
Owners of the Parent Company	18	22

## Quarterly data

	2010/2011 Sep 2010– Aug 2011	Q4 2011 Jun–Aug	Q3 2011 Mar–May	Q2 Dec 2010– Feb 2011	Q1 2010 Sep–Nov	2009/2010 Sep 2009– Aug 2010	Q4 2010 Jun–Aug	Q3 2010 Mar–May	Q2 Dec 2009– Feb 2010	Q1 2009 Sep–Nov
Net sales, SEK M	987	193	237	224	333	1,061	213	267	249	332
Operating profit/loss, SEK M	27	0	5	–23	45	35	–6	4	–7	44
Operating margin, %	2.7	0.0	2.1	neg	13.5	3.3	neg	1.5	neg	13.3

# Comments on the consolidated profit and loss accounts

## NET SALES

Sales of Cloetta's products amounted to SEK 874 million (914). Total net sales reached SEK 987 million (1,061), of which products manufactured on contract accounted for SEK 113 million (147). Cumulative sales in the Swedish market, which accounts for around 85% of the total, were lower than in the year before, partly due to the volumes of the Wedding Series that were delivered in the same period of last year. Sales of the two largest brands, Kexchoklad and Polly, for the full year were on par with or better than in the previous year. The autumn's launch of Tarragona bars and the top-selling Christmas product Juleskum had a positive impact on sales.

Total cumulative sales in Cloetta's other markets were somewhat lower than in the previous year. Chocolate bags, led by Pops in Norway, noted increased sales that were further strengthened in August when the first volumes of Polly bags were delivered. In Norway Polly was launched under the name of Popsy. In Finland Polly Summer Berries was available during the summer and together with the new Center Salmiak roll contributed to higher sales. Sales to Travel Retail rose most markedly, mainly as a result of the new large-sized bags of Kexchoklad and Polly intended for passenger ferries, charter tour operators and airports.

## GROSS PROFIT

Gross profit for the period was SEK 304 million (329), which is equal to a gross margin of 30.8% (31.0).

## OPERATING PROFIT

Selling and administrative expenses fell by SEK 12 million and amounted to SEK 287 million (299). The decrease is mainly attributable to the marketing activities that were carried in the comparison period in connection with the launch of Cloetta's Good chocolate bar series and the Wedding Series. During the year, marketing activities were conducted among other things through the media and joint promotional campaigns with customers in preparation for the launch of large-sized Tarragona bars in the grocery retail trade in the autumn of 2010 and ahead of the Christmas sales, with products such as Juleskum. During the ski season, Kexchoklad was promoted through outdoor advertisements and activities at ski resorts. Other overhead expenses were on par with the previous year.

Operating profit was SEK 27 million (35) and operating margin was 2.7% (3.3). Operating profit before amortisation, depreciation and impairment was SEK 82 million (85), equal to an operating margin of 8.3% (8.0).

Other operating income rose by SEK 4 million to SEK 10 million (6). Other operating expenses amounted to SEK 0 million (1).

Amortisation/depreciation totalled SEK 55 million (50), of which SEK 1 million (2) referred to amortisation of intangible assets.

In the fourth quarter, income of SEK 5 million was recognised following the Swedish Tax Agency's approval of a contractual item from the demerger of Cloetta Fazer relating to a deduction for group contributions to a Polish subsidiary. Cloetta's share amounts to 30%. The amount is recognised together with other operating income. Operating profit was positively affected by foreign exchange differences of SEK 5 million (6) that are reported together with other operating income and expenses.

## PROFIT BEFORE TAX

Profit before tax was SEK 26 million (31). Net financial items totalled SEK -1 million, compared to SEK -4 million the year before. The negative net financial items reported by the Group in spite of a net receivable are mainly explained by the fact that interest on the pension liability and the convertible note programme for the employees is higher than the yield on financial assets. Most of the Group's cash and cash equivalents and short-term investments are placed in fixed income listed instruments such as commercial paper and bank accounts. The average interest rate on outstanding investments during the financial year was 2.0% (1.2).

## TAX

The year's income tax expense was SEK 8 million (9). The effective tax rate was 31.4% (30.9). The higher tax rate is mainly attributable to non-deductible expenses and imputed interest on tax allocation reserves.

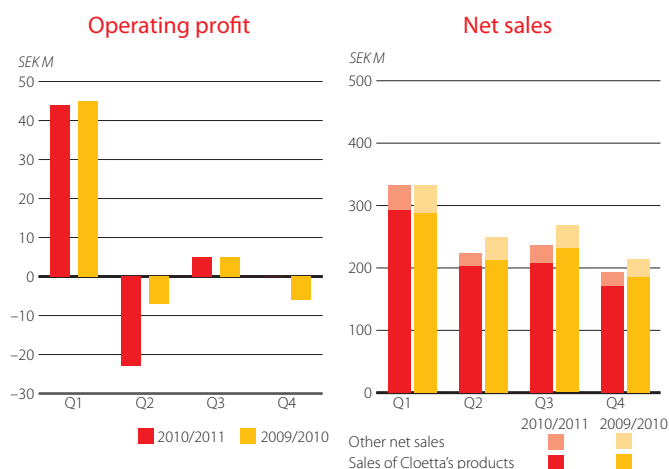
## PROFIT FOR THE YEAR

Profit for the year was SEK 18 million (22), which is equal to earnings per share of SEK 0.73 (0.90) before and after dilution.

## KEY RATIOS

%	Sep 2010 –Aug 2011	Sep 2009 –Aug 2010
Gross margin	30.8	31.0
Operating margin	2.7	3.3
Return on capital employed	3.9	4.7
Return on equity	2.4	3.0

For definitions, see page 105.





# Consolidated balance sheets

SEK M	Note	2011 31 Aug	2010 31 Aug
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	143	144
Property, plant and equipment	14	445	460
Financial investments	15	6	1
<b>Total non-current assets</b>		<b>594</b>	<b>605</b>
<b>Current assets</b>			
Inventories	17	111	145
Trade receivables		102	107
Tax assets		9	3
Other current receivables		3	1
Prepaid expenses and accrued income	18	11	10
Short-term investments	15	–	50
Cash and cash equivalents	19	264	195
<b>Total current assets</b>		<b>500</b>	<b>511</b>
<b>TOTAL ASSETS</b>		<b>1,094</b>	<b>1,116</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
	20, 21		
Share capital		122	121
Other contributed capital		410	405
Reserves		0	0
Retained earnings incl. profit for the year		207	207
<b>Total equity</b>		<b>739</b>	<b>733</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar commitments	22	79	74
Deferred tax liability	12	103	103
Convertible debenture loan	24	24	28
<b>Total non-current liabilities</b>		<b>206</b>	<b>205</b>
<b>Current liabilities</b>			
Trade payables		62	70
Other current liabilities	25	8	10
Accrued expenses and deferred income	26	77	92
Provisions	23	2	6
<b>Total current liabilities</b>		<b>149</b>	<b>178</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,094</b>	<b>1,116</b>
Pledged assets	30	0	1
Contingent liabilities	30	2	2

# Comments on the consolidated balance sheets

## ASSETS

Total assets at 31 August 2011 amounted to SEK 1,094 million, a decrease of SEK 22 million compared to the previous year.

Intangible assets totalled SEK 143 million (144). The year's investments amounted to SEK 0 million (3). Amortisation is reported at SEK 1 million (2). Of total intangible assets, SEK 141 million pertained to consolidated goodwill and brands connected to the acquisition of Candelia in 1998. Other intangible assets referred mainly to software, which is capitalised when the expenses are expected to generate future economic benefits. Internally generated costs for brands are not capitalised. Neither goodwill nor brands are amortised, but are instead tested for impairment at least yearly. See also Note 13. On the balance sheet date at 31 August 2011, there was no indication of impairment.

Property, plant and equipment amounted to SEK 445 million (460). The year's investments totalled SEK 39 million, of which SEK 1 million referred to buildings, SEK 34 million to machinery and SEK 4 million to equipment. Depreciation is reported at SEK 54 million. The previous year's investments totalled SEK 49 million, comprising SEK 2 million for buildings, SEK 46 million for machinery and SEK 1 million for equipment, with depreciation of SEK 48 million. These investments included both capacity enhancement and replacement investments on the existing production lines.

Financial assets amounted to SEK 6 million (1) and consisted primarily of a receivable from Fazer Services AB relating to a contractual item from the demerger and endowment insurances for direct pension obligations.

Current assets amounted to SEK 500 million, down by SEK 11 million (511) compared to the previous year. Trade payables fell by SEK 5 million to SEK 102 million (107) and the average credit period decreased from 40 to 37 days.

## EQUITY AND LIABILITIES

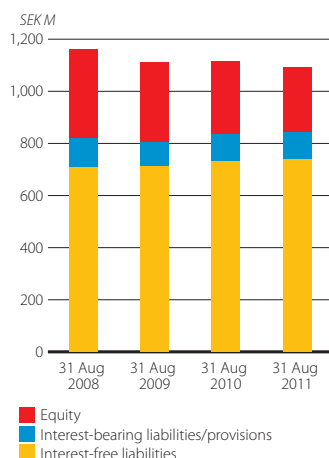
Equity in the Group rose during the year from SEK 733 million to SEK 739 million. On the balance sheet date, the share capital amounted to SEK 122 million. The equity/assets ratio on the same date was 67.5% (65.7).

Interest-bearing non-current liabilities, consisting mainly of pensions and a convertible debenture loan, amounted to SEK 103 million (102), which corresponds to an increase of SEK 1 million compared to the previous year. The convertible debenture loan was raised in the third quarter of 2008/2009 and amounted to SEK 24 million on the balance sheet date.

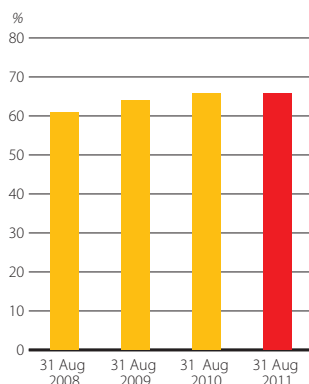
Interest-free non-current liabilities totalled SEK 103 million (103), of which deferred tax liabilities accounted for SEK 103 million (103). Deferred tax liabilities consist mainly of tax on untaxed reserves.

Current (interest-free) liabilities are reported at SEK 149 million (178), of which SEK 62 million (70) referred to trade payables and SEK 87 million (108) to other liabilities.

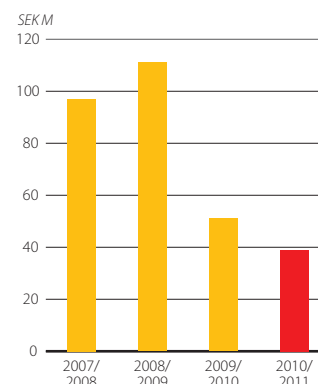
Financial structure



Equity/assets ratio



Investments in property, plant and equipment



\* 2007/2008 refers to the period September 2007–August 2008 pro forma

## Consolidated cash flow statements

SEK M	Note	Sep 2010– Aug 2011	Sep 2009– Aug 2010
<b>Profit before tax</b>	28	<b>26</b>	<b>31</b>
Adjustments for non-cash items	27	54	43
Income tax paid		–14	–3
<b>Cash flow from operating activities before changes in working capital</b>		<b>66</b>	<b>71</b>
<b>Cash flow from changes in working capital</b>			
Change in inventories		34	–29
Change in operating receivables		3	–20
Change in operating liabilities		–27	–3
<b>Cash flow from operating activities</b>		<b>76</b>	<b>19</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		–39	–51
Acquisition/sale of short-term investments		50	–29
Sale of long-term investments		–	0
<b>Cash flow from investing activities</b>		<b>11</b>	<b>–80</b>
<b>Financing activities</b>			
Dividends to shareholders		–18	–
<b>Cash flow from financing activities</b>		<b>–18</b>	<b>0</b>
<b>Cash flow for the year</b>		<b>69</b>	<b>–61</b>
Cash and cash equivalents at beginning of year		195	256
Cash and cash equivalents at end of year	19	264	195
Cash, cash equivalents and short-term investments < 3 months		264	195
Short-term investments > 3 months		–	50
		<b>264</b>	<b>245</b>



# Comments on the consolidated cash flow statements

## CASH FLOW

Cash flow from operating activities before changes in working capital was SEK 66 million (71). Cash flow from operating activities was SEK 76 million (19), where the improvement compared to the previous year is explained mainly by a decrease in working capital.

Cash flow from investing activities totalled SEK 11 million (–80). Net cash of SEK 39 million (51) was utilised for investments in property, plant and equipment.

Investing activities also include the acquisition and sale of short-term investments. Most of the Group's cash and cash equivalents are invested in fixed-income instruments such as bank deposits and bonds. If the remaining time to maturity is less than three months on the date of acquisition, these are recognised as cash and cash equivalents. Investments with a maturity of more than three months are recognised as short-term investments. During the year, investments with a maturity of more than three months decreased by SEK 50 million to SEK 0 million. The choice of investment horizon is determined primarily by the expected interest rate trend, which has a corresponding effect on the underlying cash flow.

Cash flow from financing activities amounted to SEK –18 million (0) and consisted of dividends to the shareholders.

The net cash flow was SEK 69 million (–61), which increased cash and cash equivalents to SEK 264 million, compared to SEK 195 million in the previous year.

Cash and cash equivalents consisted of the following items:

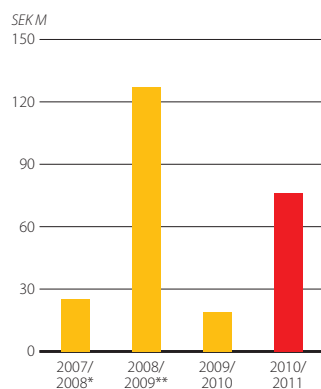
SEK M	2011 31 Aug	2010 31 Aug
Short-term investments, maturity < 3 months	–	35
Cash and bank balances	264	160
<b>Closing balance at end of year</b>	<b>264</b>	<b>195</b>

## NET RECEIVABLE

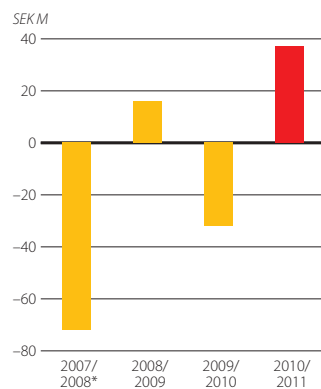
Cash and cash equivalents and other interest-bearing assets exceeded interest-bearing liabilities by SEK 167 million (144).

Change in net receivable, SEK M	2011 31 Aug	2010 31 Aug
Net receivable at beginning of year	144	183
Change in interest-bearing liabilities	–1	–6
Change in interest-bearing assets	24	–33
<b>Net receivable at end of year</b>	<b>167</b>	<b>144</b>

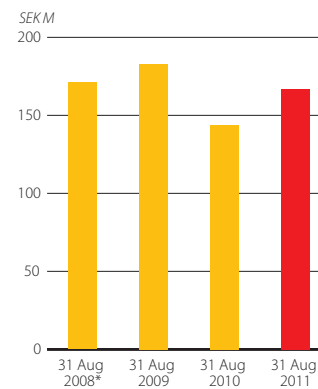
Cash flow from operating activities



Cash flow from investing activities



Net receivable



\* 2007/2008 refers to the period September 2007–August 2008 pro forma. \*\* The effects of the demerger of Cloetta Fazer had a positive effect on cash flow.

## Consolidated statements of changes in equity

SEK M	Share capital	Other contributed capital	Retained earnings incl. profit for the year	Total equity
<b>Equity at 1 September 2009</b>	<b>121</b>	<b>405</b>	<b>185</b>	<b>711</b>
Profit for the year	–	–	22	22
Other comprehensive income for the year	–	–	0	0
<b>Comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>22</b>	<b>22</b>
<b>Equity at 31 August 2010</b>	<b>121</b>	<b>405</b>	<b>207</b>	<b>733</b>
Profit for the year	–	–	18	18
Other comprehensive income for the year	–	–	0	0
<b>Comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>18</b>	<b>18</b>
Dividend	–	–	–18	–18
Conversion	1	5	–	6
<b>Equity at 31 August 2011</b>	<b>122</b>	<b>410</b>	<b>207</b>	<b>739</b>

## Parent Company profit and loss accounts

SEKM	Note	Sep 2010– Aug 2011	Sep 2009– Aug 2010
Net sales	3	26	35
Costs for property management and sold services		–1	–1
<b>Gross profit</b>		<b>25</b>	<b>34</b>
Other operating income	3	5	0
Administrative expenses		–24	–31
Other operating expenses		0	0
<b>Operating profit</b>	4, 5, 6, 7, 8	<b>6</b>	<b>3</b>
Financial income		2	0
Financial expenses		–3	–2
<b>Total result from financial investments</b>	10	<b>–1</b>	<b>–2</b>
<b>Profit before tax</b>		<b>5</b>	<b>1</b>
Appropriations	11	–2	–1
Income tax expense	12	–1	0
<b>Profit for the year</b>		<b>2</b>	<b>0</b>

*Profit for the year corresponds to Comprehensive income for the year.*



# Parent Company balance sheets

SEK M	Note	2011 31 Aug	2010 31 Aug
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	0	0
Property, plant and equipment	14	4	4
Financial assets			
Shareholdings in group companies	16	538	538
Deferred tax asset	12	3	2
Other financial assets	15	5	-
<b>Total non-current assets</b>		<b>550</b>	<b>544</b>
<b>Current assets</b>			
Trade receivables		0	0
Receivables from group companies	31	27	28
Other current receivables		1	0
Prepaid expenses and accrued income	18	1	1
Cash and bank balances	19	53	72
<b>Total current assets</b>		<b>82</b>	<b>101</b>
<b>TOTAL ASSETS</b>		<b>632</b>	<b>645</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		122	121
<b>Non-restricted equity</b>			
Share premium reserve		410	405
Retained earnings		58	76
Profit for the year		2	0
<b>Total equity</b>		<b>592</b>	<b>602</b>
Untaxed reserves	35	4	2
<b>Provisions</b>			
Provisions for pensions and similar commitments		1	1
<b>Total provisions</b>		<b>1</b>	<b>1</b>
<b>Non-current liabilities</b>			
Convertible debenture loan	24	24	28
<b>Total non-current liabilities</b>		<b>24</b>	<b>28</b>
<b>Current liabilities</b>			
Trade payables		2	1
Income tax expense		1	1
Other current liabilities	25	1	1
Accrued expenses and deferred income	26	7	9
<b>Total current liabilities</b>		<b>11</b>	<b>12</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>632</b>	<b>645</b>
Pledged assets		None	None
Contingent liabilities	30	84	75

## Parent Company cash flow statements

SEKM	Note	Sep 2010– Aug 2011	Sep 2009– Aug 2010
<b>Profit before tax</b>	28	<b>5</b>	<b>1</b>
Adjustments for non-cash items	27	–3	3
Income tax paid		–2	0
<b>Cash flow from operating activities before changes in working capital</b>		<b>0</b>	<b>4</b>
<b>Cash flow from changes in working capital</b>			
Change in operating receivables		–1	2
Change in operating liabilities		0	0
<b>Cash flow from operating activities</b>		<b>–1</b>	<b>6</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		–	–
Change in other interest-bearing receivables		–	10
Acquisition/sale of long-term investments		0	0
<b>Cash flow from investing activities</b>		<b>0</b>	<b>10</b>
<b>Financing activities</b>			
Dividends to shareholders		–18	–
<b>Cash flow from financing activities</b>		<b>–18</b>	<b>0</b>
<b>Cash flow for the year</b>		<b>–19</b>	<b>16</b>
Cash and cash equivalents at beginning of year		72	56
Cash and cash equivalents at end of year	19	53	72
Cash, bank balances and short-term investments < 3 months		53	72

## Parent Company statements of changes in equity

SEK M	Restricted	Free		Total equity
	Share capital	Share premium reserve	Retained earnings	
Equity at 1 September 2009	121	405	76	602
Total income and expense recognised directly in equity, excl. transactions with owners of the Parent Company	–	–	–	–
Profit for the year 2009/2010	–	–	0	0
Equity at 31 August 2010	121	405	76	602
Total income and expense recognised directly in equity, excl. transactions with owners of the Parent Company	–	–	–	–
Profit for the year 2010/2011	–	–	2	2
Dividend	–	–	–18	–18
Conversion	1	5	–	6
Equity at 31 August 2011	122	410	60	592

Profit for the year corresponds to Comprehensive income for the year.



# Notes to the financial statements

## NOTE 1 Accounting and valuation policies of the Group

### GENERAL INFORMATION

Cloetta AB, corporate identification number 556308-8144, is a Swedish-registered limited liability company domiciled in Linköping, Sweden. The company's address is Hjalmar Svenfelts väg, SE-590 69 Ljungsbro, Sweden. The consolidated financial statements for the financial year from 1 September 2010 to 31 August 2011 include the accounts of the Parent Company and its subsidiaries, together forming the Group.

The annual report and consolidated financial statements were approved for publication by the Board of Directors on 23 November 2011. The profit and loss accounts and balance sheets of the Group and the Parent Company will be put before the Annual General Meeting on 19 December 2011 for adoption.

### COMPLIANCE WITH NORMS AND LAWS

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) which have been endorsed by the European Commission for application in the EU. The applied standards and interpretations are those that were in force and had been endorsed by the EU at 1 September 2010. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied.

The annual report of the Parent Company has been prepared in accordance with the Swedish Companies Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

The Parent Company applies the same accounting standards as the Group except for in those cases specified below in Note 2, Accounting and valuation policies of the Parent Company.

### BASIS OF PRESENTATION

Assets and liabilities are recognised at historical cost, except for certain financial assets and liabilities that are stated at fair value according to the accounting policies described below.

The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. The consolidated financial statements are thus presented in SEK. Unless otherwise stated, all amounts are rounded off to the nearest million.

The preparation of financial statements in conformity with IFRS requires the management to use certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on past experience and a number of other factors that are considered reasonable under the given circumstances. The results of these estimates and assumptions are then used to make judgements about the carrying value of assets and liabilities that cannot be readily determined from other sources. Actual results may differ from these estimates and assumptions.

The estimates and assumptions are reviewed on an ongoing basis. Changes in estimates are reported in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Note 33 provides a description of judgements made by the company's management in the application of IFRS that have a significant impact on the financial statements, and estimates that can lead to significant adjustments in the financial statements of later years.

Unless otherwise stated below, the following accounting standards for the Group have been consistently applied in periods presented in the consolidated financial statements. The accounting standards for the Group have been consistently applied in reporting and consolidation of the Parent Company and the subsidiaries.

### CHANGED ACCOUNTING STANDARDS

New standards and interpretations have been published and are mandatory for annual reporting periods beginning on or after 1 January 2011.

The following changed standards and new interpretations have not had any significant impact on the consolidated financial statements:

Amendment to IFRS 2, Share-Based Payment, for vesting conditions and cancellations, IAS 32, Financial Instruments: Presentation, regarding classification of rights issues, IFRIC 17, Distributions of Non-cash Assets to Owners, IFRIC 18, Transfers of Assets from Customers, and IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments.

The IASB's Annual Improvements to IFRS contain improvements in a number of IFRSs to make necessary, but non-urgent, amendments that will not be included as part of another major project. Most of the amendments are effective for annual reporting periods beginning on or after 1 January 2010, although entities are permitted to adopt them earlier. In general, the amendments to the IFRSs that are relevant for Cloetta will affect the Group's profit and financial position not at all or to a very limited extent.

### NEW IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new, revised or amended standards and interpretations are effective for annual reporting periods beginning on or after the start of the coming financial year and have not been adopted in advance in the preparation of these financial statements. To the extent that the anticipated effects arising on application of the following new or changed standards and interpretations are not described below, Cloetta has not yet assessed these. The following changes in standards are not expected to have any significant impact on the financial statements of the Group:

- IAS 24, Related Party Disclosures, changed definition of related party.
- Amendment to IFRS 7, Financial Instruments: Disclosures, enhanced disclosures about transfers of financial assets.

The IASB's Annual Improvements to IFRS contain improvements in a number of IFRSs to make necessary, but non-urgent, amendments that will not be included as part of another major project. Most of the amendments are effective for annual reporting periods beginning on or after 1 January 2011; with earlier application permitted. In general, the amendments to the IFRSs that are relevant for Cloetta will affect the Group's profit and financial position not at all or to a very limited extent.

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Cloetta has not yet assessed the anticipated effects of the following new or changed accounting standards and interpretations on the financial statements:

**- Amendments to IAS 1, Presentation of Financial Statements**

The changes refer to the way other comprehensive income is presented. Items of OCI should be grouped into two categories on the basis of whether they will eventually be recycled (reclassified) into the profit or loss section of the statement of comprehensive income. Items that may be recycled include translation differences and gains/losses on cash flow hedges. Items that will not be recycled include actuarial gains/losses and revaluations according to the revaluation method for intangible and tangible assets. The amendments are mandatory for annual reporting periods beginning on or after 1 July 2012, with retrospective effect. Earlier application is permitted. The amendments are expected to be approved by the EU in the first quarter of 2012.

**- Amendments to IAS 19, Employee Benefits**

Among other things, the changes mean that the "corridor method" no longer applies and actuarial gains/losses are recognised in other comprehensive income. The amendment is mandatory for annual reporting periods beginning on or after 1 January 2013, with retrospective effect. Earlier application is permitted. The amendment is expected to be approved by the EU in the first quarter of 2012.

**- IFRS 9, Financial Instruments**

IFRS 9, Financial Instruments, is intended to replace IAS 39, Financial Instruments: Recognition and Measurement, by 2015 at the latest. The IASB has published the first two of at least three parts that will together make up IFRS 9.

**- IFRS 10, Consolidated Financial Statements\***

A new standard for consolidated financial statements.

**- IFRS 12, Disclosure of Interest in Other Entities\***

A new standard for disclosure of interests in subsidiaries, joint arrangements, associates and unconsolidated SPEs/structured entities.

**- IFRS 11, Joint Arrangements\*\***

A new standard of accounting for joint ventures and joint operations.

**- Amendment to IAS 27, Consolidated and Separate Financial Statements\*\***

The amended standard includes only rules for separate legal entities. There are essentially no changes in the accounting and disclosures rules for separate financial statements. Accounting and disclosures for associates and joint ventures have been included in IAS 27.

**- Amendments to IAS 28, Investments in Associates and Joint Ventures\*\***

The changed standard essentially corresponds to the earlier IAS 28. The amendments refer to accounting for changes in ownership interests in which significant influence or joint control is retained or lost.

\* The standard is mandatory for annual reporting periods beginning on or after 1 January 2013, with retrospective application. Earlier application is permitted. The amendment is expected to be approved by the EU in the third quarter of 2012.

\*\* The standard/amendment is mandatory for annual reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The amendment is expected to be approved by the EU in the third quarter of 2012.

**- IFRS 13, Fair Value Measurement**

A new uniform standard for fair value measurement with enhanced disclosure requirements.

**- Amendment to IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

**SEGMENT REPORTING**

An operating segment is an identified part of a group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available. An operating segment's results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

Segment information is reported according to the management approach, which means that it is presented in a manner consistent with the Group's own internal reporting. The Group manufactures homogenous products and conducts operations divided into three functions: purchasing, production and sales. One critical success factor is to produce goods with the lowest possible cost per unit through centralised manufacturing. The management monitors the Group's entire operations in its internal reporting, and the financial statements therefore contain no reporting by segment. The financial statements are presented in conformity with this reporting to the management. For information about the Group's sales and earnings development and financial position, see the consolidated profit and loss accounts, balance statements and cash flow statements.

**CLASSIFICATION, ETC.**

Non-current assets and non-current liabilities essentially consist of amounts that are expected to be recovered or settled more than 12 months after the balance sheet date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or settled within 12 months from the balance sheet date.

**BASIS OF CONSOLIDATION**

**Subsidiaries**

Subsidiaries are all entities in which Cloetta AB has a controlling influence. Control is achieved when the company directly or indirectly has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing whether a controlling influence exists, potential voting equity interests that can be immediately exercised or converted are taken into account.

**Acquisitions on or after 1 September 2009**

Business combinations are reported according to the acquisition method of accounting, whereby the acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. A purchase price allocation (PPA) is used to determine the acquisition date fair value of the identifiable assets acquired and liabilities assumed, as well as any non-controlling interest in the acquiree. Transaction costs, with the exception of transaction costs attributable to the issue of an equity or debt instrument, are recognised in profit or loss as incurred.

In business combinations where the fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree (in a business combination achieved in stages) exceeds the Group's share in

the fair value of net identifiable assets acquired and liabilities assumed, the difference is recorded as goodwill. When the difference is negative, the resulting gain is recognised as a bargain purchase directly in profit or loss.

The consideration transferred for the acquisition of a subsidiary does not include amounts related to the settlement of pre-existing business relationships. Such amounts are recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as an equity instrument, it is not remeasured and settlement is accounted for within equity. Other contingent considerations are remeasured at each reporting date and the change is recognised in profit or loss.

#### **Acquisitions prior to 1 September 2009**

For business combinations prior to 1 September 2009 where the cost of acquisition exceeds the fair value of identifiable assets acquired and liabilities and contingent liabilities assumed, the difference is recorded as goodwill. When the difference is negative, it is recognised directly in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Because the group formation refers to companies under the same controlling influence, the rules in IFRS 3, Business Combinations, have not been applicable in this regard. Consolidation has instead been carried out according to the principles for predecessor accounting as of 1 January 2005. This means that all of the companies transferred to Cloetta from Cloetta Fazer in 2008 are reported with combined comparatives from the transferred companies based on the consolidated values at which they were reported in the Cloetta Fazer Group. However, AB Karamellpojarna is included as of 1 October 2007 when the company was acquired by Cloetta Fazer.

The intellectual property rights to brands under the so-called umbrella brand Cloetta are included in the historical financial statements as of 1 January 2005. In Cloetta Fazer, goodwill attributable to operations in the Cloetta Group has been reported in the historical financial statements of the Group as it had been included as of 1 January 2005.

#### **TRANSACTIONS ELIMINATED ON CONSOLIDATION**

All intra-group balances and transactions, including unrealised gains or losses arising from intra-group transactions, are eliminated in full on consolidation. Unrealised losses are similarly eliminated unless there is evidence of impairment.

#### **FOREIGN CURRENCY**

##### **Transactions in foreign currency**

Transactions in foreign currencies are translated to the functional currency at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rates ruling at the reporting date. Foreign exchange gains/losses arising on translation are recognised in profit or loss.

The functional currency is the currency of the primary economic environment in which the group companies operate. The functional and presentation currency of Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Group.

Gains and losses on hedge instruments which are recognised in the profit and loss account are reported on the lines "Other operating income" and "Other operating expenses".

#### **Financial statements of foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to SEK at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to SEK at an average rate that is a reasonable approximation of the actual rates on the respective transaction dates. Translation differences arising on translation of foreign operations are recognised directly in consolidated equity as a translation reserve. When a foreign operation is disposed of, the cumulative amount of exchange gains/losses attributable to the operation is realised in consolidated profit or loss after deduction of any currency hedges.

#### **REVENUE**

##### **Sale of goods**

Income arising from the sale of goods to a customer is recognised upon delivery in accordance with the agreed delivery terms. In general, this means that the significant risks and rewards of ownership have been transferred to the customer. In cases where there is considerable uncertainty regarding payment, associated costs or a risk for returns, and if the seller retains continuing managerial involvement to the degree usually associated with ownership, no revenue is recognised. The sale is reported net after deduction of VAT and discounts.

##### **Other operating income**

Other income consists primarily of foreign exchange gains arising in operations and capital gains on the sale of property, plant and equipment.

##### **Government grants**

A government grant is taken up in the balance sheet when there is reasonable assurance that the Group will comply with any conditions attached to the grant and that the grant will be received. No government grants were received during the financial year or the comparison year.

#### **Financial income and expense**

Financial income consists of interest income on invested funds (where applicable including available-for-sale financial assets), dividend income, gains on the sale of available-for-sale financial assets, revaluation gains on financial assets at fair value through profit or loss.

Interest income on financial instruments is calculated using the effective interest method (see below). Dividend income is recognised when the right to payment has been established. Gains on the sale of financial instruments are recognised when the significant risks and rewards of ownership of the instrument have been transferred to the buyer and the Group no longer has control over the instrument.

Financial expenses consist of interest expenses on loans, interest effects arising on reversal of the present value of provisions, revaluation losses on financial assets at fair value through profit or loss and impairment losses on financial assets. Interest expenses on loans are calculated according to the effective interest rate method.

Gains and losses on hedge instruments which are recognised in the profit and loss account are reported on the lines "Other operating income" and "Other operating expenses".

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument to the net carrying amount of the financial asset or liability. The effective interest rate is calculated including all fees paid or received

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by the contractual parties that are part of the effective interest rate, transaction costs and all other discounts and premiums.

## INCOME TAXES

Income taxes consist of current tax and deferred tax. Income taxes are included in the profit and loss account except when the underlying transaction is recognised in other comprehensive income or in equity, in which case the resulting tax effect is recognised in other comprehensive income or in equity.

Current tax refers to the tax payable or receivable with respect to the year's profit or loss. This also includes adjustments in current tax for prior periods.

Deferred tax is calculated according to the balance sheet method on the basis of temporary differences between the carrying amount of an asset or liability and its tax base. The measurement of deferred tax reflects the manner in which the carrying amounts of assets or liabilities are expected to be realised or settled. Deferred tax is computed with the application of the rates/laws that have been enacted or substantively enacted by the balance sheet date. Temporary differences are not recognised in consolidated goodwill, nor in temporary differences attributable to participations in subsidiaries and associated companies where the Group can control the date for recovery of these and it is probable that these will not be recovered in the foreseeable future. Deferred tax assets for deductible temporary differences and unused tax loss carryforwards are recognised to the extent that it is probable that these can be utilised. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilised.

## FINANCIAL INSTRUMENTS

Financial assets recognised in the balance sheet include cash and cash equivalents, trade receivables, derivatives, shares and other equity instruments. Financial liabilities in the balance sheet include trade payables, derivatives and loans.

Financial instruments are initially measured at historical cost, corresponding to the fair value of the instrument (including transaction costs for assets and liabilities not measured at fair value through profit or loss). Subsequent measurement depends on how the instruments have been classified according to the criteria stated below.

A financial asset or liability is recognised in the balance sheet when the company initially becomes party to the contractual provisions of the instrument. A financial asset (or part thereof) is derecognised from the balance sheet when the risks and rights to receive cash flows under the agreement are realised, expire or the company has relinquished control of the asset. A financial liability (or part thereof) is derecognised from the balance sheet when the obligation specified in the agreement is discharged or otherwise extinguished. The purchase or sale of a financial asset is recognised on the trade date, except in the case of listed securities, for which settlement date accounting is applied.

At every reporting date, the company assesses whether there is any objective evidence of impairment of a financial asset or group of financial assets. After individual assessment, trade receivables are reported in the amount in which they are expected to be received after deduction of doubtful debts. Testing for impairment is performed on a regular basis and a provision for doubtful debts is recognised when the bad debt loss is anticipated. When a loss is confirmed the receivable is derecognised.

Cash and cash equivalents comprise cash on hand and demand deposits with banks or other similar institutions.

IAS 39 establishes a classification of financial investments based on categories. The classification is determined by the intent for acquisition of the financial instrument. The company's management determines the classification on the original acquisition date.

### Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities designated to this category consist of assets and liabilities held for trading. A financial asset or liability is classified as held for trading when it is acquired for the purpose of selling in the short term. Derivatives are classified as held for trading except for those designated as hedge accounting. Assets and liabilities in this category are subsequently measured at fair value with fair value changes through profit or loss.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Assets in this category are recognised at amortised cost. Amortised cost is calculated using the effective interest rate on the acquisition date. After individual assessment, trade receivables are reported in the amount in which they are expected to be received after deduction of doubtful debts.

### Other financial liabilities

Financial liabilities not held for trading are measured at amortised cost. Liabilities with an expected maturity longer than 12 months are recognised as non-current liabilities, while current liabilities have a maturity shorter than 12 months. Trade payables are classified as other financial liabilities. Trade payables have short expected maturities and are recognised at the nominal amount without discounting.

## DERIVATIVES AND HEDGE ACCOUNTING

### Transaction exposure

To reduce the risk for foreign exchange effects, the Group's forecasted net flows in the respective currencies are hedged for a maximum period of nine to 12 months forward. Matching of forward exchange contracts to the underlying flows does not meet the criteria for hedge accounting. Changes in the fair value of a derivative are therefore recognised directly in profit or loss as income/expenses within operating profit (below the lines "Other operating income" and "Other operating expenses) or in net financial items, depending on whether its use is related to an operating item or a financial item.

### Net investments

At present, the Group has no hedges of investments in foreign subsidiaries (net assets including goodwill).

## PROPERTY, PLANT AND EQUIPMENT

### Owned assets

Items of property, plant and equipment in the Group are measured at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the costs of purchase and any other costs directly attributable to bringing the assets to a working condition for their intended use. Borrowing costs are included in historical cost. The accounting policies for impairment are presented below.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The carrying amount of an item of property, plant and equipment is derecognised in the balance sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising on disposal of an item of property, plant and equipment consists of the difference between the proceeds from disposal and the carrying amount of the asset less direct costs to sell and is recognised in other operating income/expenses.

### Leased assets

Leased assets are reported in accordance with IAS 17. In the consolidated financial statements, leases are classified as either finance or operating leases. A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incident to ownership to the lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Assets held under finance leases represent a relatively marginal value in the Group, and are therefore recorded as operating leases. For operating leases, the lease payments are recognised in the profit and loss account over the lease term according to the pattern of benefit, which may differ from the de facto amount of lease payments during the year.

### Subsequent expenditure

Subsequent expenditure is included in the carrying amount of an asset or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other subsequent expenditure is expensed in the profit and loss account for the period in which it arises.

The decisive factor in determining if subsequent expenditure should be capitalised as a component of the asset is whether the expenditure refers to replacement of an identified component, or parts thereof, in which case it is capitalised. In cases where a new component is created, the resulting expenditure is added to historical cost. Any residual value of a replaced component, or parts thereof, is recognised as an expense in connection with replacement. Repairs are expensed as incurred.

### Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful life of the asset. Land is not depreciated. The Group applies component depreciation, whereby depreciation is based on the estimated useful life of the components.

Estimated useful lives	2010/2011
Buildings, operating properties	20–40 years
Plant and machinery	5–20 years
Equipment, tools, fixtures and fittings	3–10 years

The residual value and useful life of an asset are reviewed at least annually.

## INTANGIBLE ASSETS

### Goodwill

Goodwill is measured at historical cost less accumulated impairment losses. Goodwill represents the difference between the purchase consideration given in connection with a business combination and the fair value of net assets acquired and liabilities assumed. Goodwill is allocated to cash-generating units and is tested for impairment annually and when there is an indication of impairment.

### Brands

Brands refer mainly to brands acquired indirectly by the Group as part of a business combination. Like goodwill, these are tested for impairment annually or when there is evidence of a decline in value.

Many of the brands owned by Cloetta have been used for many years. The assessment is that the acquired brands will also be used for many years, although it is not possible to make a reasonable estimate of the length of this time period. These brands have no definite useful life.

### Research and development

Expenses for research and development (R&D) are expensed as incurred, since these do not meet the criteria for capitalisation. The development work carried out in the Group refers mainly to products within the prioritised brands. This work primarily involves extension of the product range through modernisation of package designs and development of new size and taste varieties. This development constitutes a continuous process and the values of the individual activities are difficult to assess.

### Other intangible assets

Other intangible assets that are acquired by the Group are measured at historical cost less accumulated amortisation and impairment losses. Expenses incurred for internally generated goodwill and internally generated brands are recognised in the profit and loss account for the period in which they arise.

### Subsequent expenditure

Subsequent expenditure for capitalised intangible assets is recognised as an asset in the balance sheet only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the asset, unless the useful life is indefinite. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, or more frequently if circumstances indicate a possible impairment. Amortisable intangible assets are amortised from the date on which they become available for use. The estimated useful life of licenses is 3–5 years.

## INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Inventories are valued at cost using the First-In, First-Out (FIFO) method and include all costs of purchase, costs of conversion and other costs incurred in bringing the goods to their existing condition and location. Self-produced finished and semi-finished goods are valued at direct production cost including a reasonable share of indirect production overheads, based on normal operating capacity.

## IMPAIRMENT

The carrying amounts of the Group's assets – with the exception of non-current assets held for sale and disposal groups reported according to IFRS 5, inventories and deferred tax assets – are tested for impairment at each balance sheet date, or earlier if changes in circumstances indicate

that the carrying amount may not be recoverable. If there is an indication of impairment, the asset's recoverable amount is calculated. IAS 36 is applied for impairment testing of assets other than financial assets, which are tested according to IAS 39. For the excepted assets above, the carrying amount is reviewed according to the respective standard.

For an asset that does not generate any cash flow independently from other assets, recoverable value is calculated for the smallest identifiable cash-generating unit to which the asset belongs. Where impairment is identified, a write-down of the carrying value to the recoverable amount is charged as an immediate expense in the profit and loss account. In the event of impairment, the carrying amount of any goodwill allocated to the cash-generating unit (group of units) is first reduced, and then the carrying amounts of the other assets of the unit (group of units) on a pro rata basis.

The recoverable amount is the higher of fair value less costs to sell and value in use. In measuring value in use, the discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment testing of financial assets refers to loans and receivables.

### Reversal of impairment

Impairment losses are reversed when both an impairment test indicates that there has been a recovery of value and there has been a change in the estimates used to determine the asset's recoverable amount. Reversal of impairment losses on goodwill is prohibited. An impairment loss is reversed only when the increased carrying amount due to reversal is not more than what the depreciated historical cost would have been if the impairment had not been recognised.

## EMPLOYEE BENEFITS

### Defined contribution plans

A defined contribution plan is classified as a plan where the company's legal or constructive obligation is limited to the amount that it agrees to contribute. The amount of the post-employment benefits received by the employee is thus determined by the amount of contributions paid by the company to the pension plan or to an insurance company, together with investment returns arising from the contributions. Consequently, it is the employee who bears both the actuarial risk (that the amount of benefits will be lower than anticipated) and the investment risk (that the invested assets will not be adequate to provide the anticipated benefits). For defined contribution plans, the expense to be recognised in the profit loss account for the period is the contribution payable in exchange for service rendered by employees during the period.

### Defined benefit plans

The Group's net obligation under defined benefit plans is determined separately for each plan through a reliable estimate of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The calculation is carried out by a qualified actuary using the Projected Unit Credit Method in order to establish the present value of obligations under each plan. These calculations are based on the assumptions established on the balance sheet date. The obligations are measured at the present value of expected future payments with consideration to inflation, the expected rate of salary increase and with the use of a discount rate corresponding to the market yield on high quality corporate or government bonds with a term

to maturity corresponding to the pension obligations in question. For funded plans, the present value of the defined benefit pension obligation is reduced by the fair value of plan assets.

Actuarial gains and losses can arise when determining the present value of defined benefit obligations and the fair value of plan assets. These arise either due to experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) or the effects of changes in actuarial assumptions. These gains and losses are recognised according to the corridor method, which means that the portion of unrecognised accumulated actuarial gains and losses which exceeds 10% of the greater of the defined benefit obligation or the fair value of plan assets is recognised in profit or loss over the expected average remaining working lives of the participating employees covered by the plan. In other case, actuarial gains and losses are not recognised.

When valuation leads to a benefit to the Group, the recognised asset is limited to the total of any unrecognised actuarial losses and past service costs and the present value of future economic benefits from the plan or reductions in future contributions to the plan. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

When there is a difference between how the pension expense is determined in a legal entity and in the Group, a provision or asset for special payroll tax is recognised on the basis of this difference. The provision or asset is not discounted. The net of interest on pension liabilities and the expected return on the related plan assets is recognised in net financial items. Other components are recognised in operating profit.

Defined benefit pension plans in Sweden refer mainly to the ITP plan for salaried employees, most of which is financed through allocation to an account (provision) that is secured through credit insurance in and administered by Försäkringsbolaget PRI Pensionsgaranti, Mutual. A certain portion is administered by Alecta. This portion covers multiple employers and is reported as a defined contribution plan, since it is not possible to obtain sufficient information to calculate Cloetta's share of the plan.

### Termination benefits

A provision is recognised on the termination of employees only if the company is demonstrably committed to terminate an employee or group of employees before the normal retirement date. When termination benefits are provided as a result of an offer made to encourage voluntary redundancy, the expense is recognised if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

### Short-term employee benefits

For short-term employee benefits, the undiscounted amount of benefits expected to be paid in respect of service rendered by employees in a period is recognised in that period.

A provision is recognised for the anticipated cost of profit-sharing and bonus payments when the Group has a legal or constructive obligation to make such payments in respect of service rendered by employees and the obligation can be reliably estimated.



## PROVISIONS

A provision is recognised in the balance sheet when the Group has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. When the timing effect of payment is significant, provisions are measured at discounted present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### Restructurings

Restructuring provisions are recognised when the Group has adopted a detailed and formal restructuring plan and the restructuring process has either been started or publicly announced. No provisions are made for future operating expenses.

## ISSUED CONVERTIBLE NOTES

Convertible notes that can be converted into shares at the option of the holder are accounted for as compound financial instruments that are split between a liability and an equity component. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The value of the equity instrument is calculated as the difference between the proceeds when the convertible notes were issued and the fair value of the financial liability at the issue date. Any deferred tax attributable to the liability at the issue date is deducted from the carrying amount of the equity instrument. Directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of the proceeds. The interest expense is recognised in profit or loss and is calculated using the effective interest rate method.

## CONTINGENT LIABILITIES

A contingent liability is recognised where there is a possible obligation depending on the occurrence of some uncertain future event, or whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or when an obligation is not recognised as a liability or provision because the possibility of an outflow of economic resources is remote.

### NOTE 2

#### Accounting and valuation policies of the Parent Company

The annual financial statements of the Parent Company are presented in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The statements issued by the Board with respect to listed companies are also applied. RFR 2 states that in the report for the legal entity, the Parent Company shall apply all EU-endorsed IFRSs and statements as far as possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared to IFRS.

## CHANGED ACCOUNTING STANDARDS

The new IFRIC interpretations effective from 1 January 2008 and RFR 2 have not entailed any change of accounting standard.

## DIFFERENCES BETWEEN THE ACCOUNTING POLICIES OF THE GROUP AND THE PARENT COMPANY

The differences between the accounting principles applied by the Group and the Parent Company are described below. The following accounting standards for the Parent Company have been applied consistently for all periods presented in the Parent Company financial statements.

## CLASSIFICATION AND PRESENTATION

The profit and loss account and balance sheet of the Parent Company are presented in accordance with the Swedish Annual Accounts Act. The differences compared to IAS 1, Presentation of Financial Statements, refer mainly to financial income and expenses, equity and the presence of provisions as a separate item in the balance sheet.

## SUBSIDIARIES

In the Parent Company, shareholdings in subsidiaries are accounted for in accordance with the cost method of accounting. This means that transaction costs are included in the carrying amount of shareholdings in subsidiaries. In the consolidated financial statements, transaction costs are expensed as incurred. The value of a contingent consideration is measured based on the probability that the consideration will be paid. Any changes in the provision/ receivable are added to/reduce the historical cost. In the consolidated financial statements, contingent consideration is measured at fair value with changes through profit or loss.

## GROUP CONTRIBUTIONS FOR LEGAL ENTITIES

The Parent Company reports group contributions in accordance with a statement from the Swedish Financial Reporting Board. Group contributions are reported in accordance with their financial significance. This means that Group contributions paid to minimise the Group's overall tax burden are recognised directly in retained earnings less the current tax effect.

Group contributions equated with dividends from subsidiaries are reported as dividends, whereby Group contributions received and their current tax effects are recognised through the profit and loss account. Group contributions equated with shareholder contributions to subsidiaries are reported by the recipient, with consideration to their current tax effects, directly against retained earnings. The Parent Company recognises the group contribution and its current tax effect as an investment in participations in group companies, to the extent that impairment is not indicated.

The Swedish Financial Reporting Boards' withdrawal of UFR2, Group Contributions and Shareholders' Contributions, has not been applied early.

## INCOME TAXES

In the Parent Company balance sheet, untaxed reserves are recognised with no division between equity and deferred tax liabilities, in contrast to the Group. Correspondingly, no portion of appropriations is allocated to deferred tax expense in the Parent Company profit and loss account.

## EMPLOYEE BENEFITS

The Parent Company has pension plans of two types:

- Defined contribution pension plans in which the Parent Company pays fixed premiums to different insurance companies.
- Defined benefit pension plans that refer primarily to the ITP plan for salaried employees. The company expenses the pension obligation, which is secured through credit insurance with and administered by

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Försäkringsbolaget PRI Pensionsgaranti, Mutual. Calculation of the defined benefit obligation differs from the assumptions used by the Group in accordance with IFRS mainly in the following ways:

- The calculation does not take into account future salary increases
- The applied discount rate is established by the Swedish Financial Supervisory Authority
- Changes in the discount rate and other actuarial assumptions are recognised immediately in the balance sheet.

## ANTICIPATED DIVIDENDS

Anticipated dividends from subsidiaries are recognised in cases where the Parent Company has full control over the size of the dividend and has decided on the size of the dividend before the Parent Company publishes its financial reports.

## BORROWING COSTS

In the Parent Company, borrowing costs are expensed in the period in which they are incurred. No borrowing costs are capitalised as part of the cost of an asset.

## FINANCIAL GUARANTEES

The Parent Company's financial guarantee contracts consist primarily of guarantees issued on behalf of subsidiaries, joint ventures and associated companies. A financial guarantee contract mean that the company has an obligation to reimburse the holder of a debt instrument for losses it incurs because a specified debtor fails to make payment when due. For reporting of financial guarantee contracts, the Parent Company applies a voluntary exemption that is permitted by the Swedish Financial Reporting Board compared to the rules in IAS 39. The voluntary exemption refers to financial guarantees issued on behalf subsidiaries, joint ventures and associated companies. The Parent Company recognises financial guarantee contracts as provisions in the balance sheet when it is probable that an outflow of resources will be required to settle the obligation.

### NOTE 3 Breakdown of operating income

SEK M	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<b>Net sales<sup>4)</sup></b>				
Sale of goods	987	1,061	–	–
Service contracts	–	–	26	35
<b>Other operating income</b>				
Other	10 <sup>1,2)</sup>	6 <sup>3)</sup>	5 <sup>1)</sup>	0
<b>Total operating income</b>	<b>997</b>	<b>1,067</b>	<b>31</b>	<b>35</b>

1) SEK 5 million refers to contractual item from the demerger of Cloetta Fazer regarding deduction of group contributions to a Polish subsidiary which has now been approved by the Swedish Tax Agency.

2) SEK 5 million refers to foreign exchange differences, of which SEK 2 million relates to change in value of forward contracts.

3) Refers to foreign exchange differences in its entirety, of which SEK 0 million relates to change in value of forward contracts.

4) 84% refers to sales to external customers in Sweden and 16% refers to other countries and Travel Retail.

Note 3, cont'd

### Breakdown of operating income by customer in Sweden<sup>1)</sup>

SEK M	Group	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
Customer A	29%	29%
Customer B	23%	23%
Customer C	13%	14%
Customer D	3%	2%
Other customers	32%	32%
<b>Total operating income</b>	<b>100%</b>	<b>100%</b>

1) Refers to the retail chains' share.

### NOTE 4 Amortisation/depreciation

SEK M	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
Intellectual property rights	1	2	–	–
Buildings	4	3	0	0
Machinery	47	43	–	–
Equipment	3	2	0	0
<b>Total amortisation/depreciation</b>	<b>55</b>	<b>50</b>	<b>0</b>	<b>0</b>
<b>Amortisation/depreciation has been allocated by function as follows</b>				
Cost of goods sold	51	46	–	–
Administrative expenses	4	4	0	0
<b>Total</b>	<b>55</b>	<b>50</b>	<b>0</b>	<b>0</b>

### NOTE 5 Operating expenses by cost type

SEK M	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
Raw materials and consumables	485	454	–	–
Change in inventories of finished goods and work in progress	–35	25	–	–
Personnel expenses	239	243	14	17
Amortisation/depreciation	55	50	0	0
Other operating expenses	226	260	11	15
<b>Total expenses</b>	<b>970</b>	<b>1,032</b>	<b>25</b>	<b>32</b>

**NOTE 6** Personnel expenses and number of employees

	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
SEK M				
<b>Salaries and remuneration</b>				
Senior executives				
– Sweden	15	12	7	7
Of which, bonuses	–	–	–	–
Other employees				
– Sweden	142	148	1	2
<b>Total salaries and remuneration</b>	<b>157</b>	<b>160</b>	<b>8</b>	<b>9</b>
<b>Pension costs</b>				
Senior executives				
– Defined contribution plans	4	5	3	3
– Defined benefit plans	0	0	0	0
Other employees				
– Defined contribution plans	10	11	0	0
– Defined benefit plans	2	2	–	–
<b>Total pension costs</b>	<b>16</b>	<b>18</b>	<b>3</b>	<b>3</b>
Other social security expenses, all	56	55	3	4
<b>Total personnel expenses</b>	<b>229</b>	<b>233</b>	<b>14</b>	<b>16</b>

Note 6, cont'd.

	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<b>Average number of employees</b>				
Sweden	437	452	4	6
Of whom, women	230	228	2	2

**Specification of gender distribution in company managements**

	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<b>Percentage of women</b>				
Board of Directors	33%	33%	50%	50%
Other senior executives <sup>1)</sup>	17%	17%	33%	33%

<sup>1)</sup> Refers to the Group Management Team and the local management teams.**NOTE 7** Remuneration to senior executives

Remuneration and benefits in 2010/2011 (SEK 000s)	Basic salary, board fees	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total	Pension obligations
<b>Board Chairman</b>							
Olof Svenfelt	200	–	–	–	30	230	–
<b>Board members</b>							
Mikael Svenfelt	175	–	–	–	30	205	–
Lennart Bohlin	175	–	–	–	20	195	–
Ulrika Stuart Hamilton	175	–	–	–	20	195	–
Johan Hjertonsson	175	–	–	–	–	175	–
Meg Tivéus	175	–	–	–	30	205	–
<b>Managing Director</b>							
Curt Petri	2,985	–	131	1,496	–	4,612	8,725
Other senior executives (10 persons)	9,848	–	677	2,547	–	13,072	1,016
<b>Total</b>	<b>13,908</b>	<b>–</b>	<b>808</b>	<b>4,043</b>	<b>130</b>	<b>18,889</b>	<b>9,741</b>
Of which, Parent Company	6,935	–	309	2,445	130	9,819	9,015



Note 7, cont'd.

Remuneration and benefits in 2009/2010 (SEK 000s)	Basic salary, board fees	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total	Pension obligations
Board Chairman	175	–	–	–	20	195	–
Other Board members	750	–	–	–	70	820	–
Managing Director, incl. former MDs	2,624	–	132	1,502	–	4,258	7,642
Other senior executives (10 persons)	7,777	–	377	2,801	–	10,955	1,397
<b>Total</b>	<b>11,326</b>	<b>–</b>	<b>509</b>	<b>4,303</b>	<b>90</b>	<b>16,228</b>	<b>9,039</b>
Of which, Parent Company	6,661	–	376	2,857	90	9,984	8,023

#### Comments on the table for 2010/2011

- The figures in the table refer to costs for the financial year from 1 September 2010 to 31 August 2011.
- The figures in the table and text refer to the most recently adopted guidelines for remuneration to the Board and senior executives decided at the Annual General Meeting (AGM) on 15 December 2010.
- Other benefits refer mainly to company car benefits.
- Other remuneration refers to compensation for work on the audit and remuneration committees.

#### Board of Directors

Remuneration to the Board of Directors is determined by decision of the Annual General Meeting (AGM). The AGM on 15 December 2010 resolved that the Board would be paid fees in a total amount of not more than SEK 1,205,000 including fees for work on the Board's committees, of which fees to the audit committee would be paid in a total amount of not more than SEK 90,000 and fees to the remuneration committee in a total amount of not more than SEK 40,000. Of total Board fees, the AGM resolved that SEK 200,000 would be paid the Board Chairman, SEK 175,000 to each of the other Board members and SEK 20,000 to each of the employee representatives. Aside from board fees, the Board is entitled to compensation for travel and accommodation.

#### Group Management Team

Remuneration to the Managing Director and other senior executives consists of basic salary, other benefits and pension benefits. The total remuneration package should be market-based, competitive and proportionate to the individual's responsibilities and powers.

#### Managing Director and CEO

During the year, the Managing Director and CEO Curt Petri received salary of SEK 2,985,000 and other benefits of SEK 131,000. No variable remuneration has been paid.

The retirement age is 60 years. Pension benefits consist of a defined contribution plan for which annual premiums up to the age of retirement are paid in an amount equivalent to 55% of pensionable salary, comprising fixed monthly salary. Bonuses and benefits are not pensionable.

The mutual term of notice between the company and the Managing Director is 12 months. In the event of dismissal by the company, the Managing Director is also entitled to termination benefits corresponding to one year's salary and corresponding pension provisions.

#### Other senior executives

The other members of the Group Management Team include the CFO and individuals with responsibility for human resources, corporate communications, marketing, customers, sales, purchasing, financial control and production issues. During the financial year these individuals received total salaries of SEK 9,848,000 and other benefits of SEK 677,000. No variable remuneration has been paid.

The retirement age for other senior executives is 65 years, in accordance with the national pension plans. All defined contribution pension benefits are vested, i.e. they are not conditional on future employment.

The terms of notice for other senior executives amount to six months on the part of the employee and vary between nine and twelve months on the part of the company.

#### Preparatory and decision-making process

The Board of Directors has set up a remuneration committee consisting of two members. The remuneration committee has prepared recommendations for the Board's decision on issues relating to remuneration principles, the amount of remuneration and the terms of employment for the Executive Management. These recommendations have included the proportional relationship between fixed and variable remuneration and the size of any salary increases. The remuneration committee has also discussed pension terms and termination benefits.

Remuneration to the Managing Director for the financial year 2010/2011 has been determined by the Board. Remuneration to other senior executives has been decided by the Managing Director. Since the AGM on 15 December 2010, the remuneration committee has met on two occasions. The proposed guidelines for remuneration to senior executives will be presented to the AGM on 19 December 2011 for approval.

#### NOTE 8 Audit fees

	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
SEKM				
<b>Fees for auditing services</b>				
KPMG	1	2	1	0
<b>Total auditing services</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>
<b>Fees for other services</b>				
KPMG				
– Tax advice	0	0	0	0
– Audit-related advice	1	0	1	0
– Other	0	0	0	0
<b>Total other services</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>
<b>Total audit fees</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>0</b>

Auditing services refer to the auditing of the annual financial statements, the accounts and the company's administration by the Board of Directors and the Managing Director and advice or other assistance prompted by observations from such audits or the performance of other such tasks.

**NOTE 9 Financial income and expense**

	Group	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<i>SEK M</i>		
Interest income on financial assets held for trading (incl. investments with a remaining maturity of < 3 months)	0	1
Net gain on financial assets/liabilities held for trading <sup>1)</sup>	–	0
Net foreign exchange gains	1	0
Interest income on bank balances	5	2
<b>Financial income</b>	<b>6</b>	<b>3</b>
Interest income on liabilities measured at amortised cost	–3	–2
Interest expenses on financial assets/liabilities held for trading	–	–1
Interest expenses on defined benefit pension obligations	–4	–4
Other interest expenses	0	0
<b>Financial expenses</b>	<b>–7</b>	<b>–7</b>
<b>Net financial items</b>	<b>–1</b>	<b>–4</b>

1) The net gain is reported here in full including the interest component.

**NOTE 10 Result from financial investments**

	Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<i>SEK M</i>		
<b>Result from shareholdings in group companies</b>		
Dividends from subsidiaries	–	–
<b>Other interest income and similar profit/loss items</b>		
Interest income, group companies	1	0
Interest income on bank balances	1	0
<b>Financial income</b>	<b>2</b>	<b>0</b>
<b>Interest expense and similar profit/loss items</b>		
Interest expenses, group companies	–	–
Net foreign exchange losses	0	0
Interest expenses on defined benefit pension obligations	0	0
Interest expenses on financial liabilities measured at amortised cost	–3	–2
Other interest expenses	0	0
<b>Financial expenses</b>	<b>–3</b>	<b>–2</b>
<b>Net financial items</b>	<b>–1</b>	<b>–2</b>

**NOTE 11 Appropriations**

	Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<i>SEK M</i>		
Change in tax allocation reserve	–2	–1
Difference between planned depreciation and book depreciation	0	0
<b>Total</b>	<b>–2</b>	<b>–1</b>

**NOTE 12 Income taxes**

	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<i>SEK M</i>				
<b>Tax on profit for the year is broken down as follows:</b>				
<b>Current tax</b>				
Swedish income tax	–8	–14	–2	–1
<b>Deferred tax</b>				
Sweden	0	5	1	1
<b>Total</b>	<b>–8</b>	<b>–9</b>	<b>–1</b>	<b>0</b>
The year's income tax expense corresponds to an effective tax rate of, %	31.4	30.9	28.7	40.9
<b>The difference between the effective tax rate and the statutory tax rate in Sweden is attributable to the following items:</b>				
Tax rate in Sweden, %	26.3	26.3	26.3	26.3
Non-taxable income, %	–0.3	–1.0	0	0
Non-deductible expenses and other items, %	5.2	5.6	1.7	13.5
Effect of reported tax from prior periods	0.2	0	0.7	1.1
<b>Reported effective tax rate, %</b>	<b>31.4</b>	<b>30.9</b>	<b>28.7</b>	<b>40.9</b>
<b>Deferred tax liabilities (+)/assets (–) are broken down as follows:</b>				
Intangible assets	13	12	–	–
Property, plant and equipment	65	63	0	0
Other untaxed reserves	26	29	–	–
Loss carryforwards	–1	–1	–	–
Other temporary differences	0	0	–3	–2
<b>Closing balance at end of year</b>	<b>103</b>	<b>103</b>	<b>–3</b>	<b>–2</b>

Deferred tax pertaining to untaxed reserves in the Parent Company is reported only in the Group. See Note 35. There are no non-capitalised loss carryforwards or material non-capitalised temporary differences.

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Note 12, cont'd.

	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
SEK M				
<b>Deferred tax liabilities (+)/assets (–), change between years:</b>				
Opening value at beginning of year	103	108	–2	–1
Change through profit or loss	0	–5	–1	–1
<b>Closing balance at end of year</b>	<b>103</b>	<b>103</b>	<b>–3</b>	<b>–2</b>

### NOTE 13 Intangible assets, Group

SEK M	Good- will <sup>1)</sup>	Brands <sup>2)</sup>	Licen- ses <sup>3)</sup>	Total
<b>Historical cost</b>				
Opening balance, 1 September 2009	181	50	21	252
Acquisitions	–	–	3	3
<b>Closing balance, 31 August 2010</b>	<b>181</b>	<b>50</b>	<b>24</b>	<b>255</b>
<b>Accumulated amortisation and impairment<sup>4)</sup></b>				
Opening balance, 1 September 2009	–90	–	–19	–109
The year's amortisation	–	–	–2	–2
<b>Closing balance, 31 August 2010</b>	<b>–90</b>	<b>–</b>	<b>–21</b>	<b>–111</b>
<b>Carrying amounts</b>				
1 September 2009	91	50	2	143
31 August 2010	91	50	3	144
<b>Historical cost</b>				
Opening balance, 1 September 2010	181	50	24	255
Acquisitions	–	–	0	0
Sales and disposals	–	–	0	0
<b>Closing balance, 31 August 2011</b>	<b>181</b>	<b>50</b>	<b>24</b>	<b>255</b>
<b>Accumulated amortisation and impairment<sup>4)</sup></b>				
Opening balance, 1 September 2010	–90	–	–21	–111
The year's amortisation	–	–	–1	–1
Sales and disposals	–	–	0	0
<b>Closing balance, 31 August 2011</b>	<b>–90</b>	<b>–</b>	<b>–22</b>	<b>–112</b>
<b>Carrying amounts</b>				
1 September 2010	91	50	3	144
31 August 2011	91	50	2	143

1) Refers to consolidated goodwill attributable to the acquisition of Candelia AB in 1998.

2) Refers to brands attributable to the acquisition of Candelia AB in 1998.

3) Refers to capitalised expenses for software.

4) Impairment refers to goodwill and amortisation refers to licences.

## IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL AND BRANDS

Goodwill and the carrying amount of brands in the Group are attributable to the acquisition of Candelia AB in 1998. These brands were transferred and goodwill was assigned to the Cloetta Group in connection with the formation of the group prior to 31 August 2008. Through the acquisition in 1998, the then group gained a number of important brands and a wider range of products that strengthened the group's market share primarily in Sweden. The products are sold mainly in the Swedish and Norwegian markets, but also to a certain extent in Denmark. The goodwill that arose on the acquisition is attributable to the at that time expected value of future synergies, market position and enhanced competitiveness.

An operating segment is a part of an entity whose operating profit is regularly reviewed by the entity's chief operating decision maker. At Cloetta, the chief operating decision maker does not review operating profit at any level other than for Cloetta as a whole. The information that is provided by country is presented based on expressed requirements and is not based on internal monitoring of operating profit. The Group manufactures homogenous products and conducts operations divided into three functions: purchasing, production and sales. Cloetta thus has only one group of homogenous products. The lowest level (cash-generating unit) to which goodwill and brands can be attributed is therefore the Group.

The estimated recoverable amounts of brands and goodwill, which consist of value in use for the respective category, are based on a five-year cash flow forecast, which is based on a budget adopted by management. Cash flows after five years are extrapolated using an estimated growth rate of 2.5 per cent (2.5). At 31 August 2011, the recoverable amount of net assets in the Group was estimated to exceed the carrying amount, for which reason no impairment loss was recognised on goodwill. At 30 June 2008 the carrying amount was exceeded the recoverable amount by SEK 90 million and a corresponding impairment loss was recognised.

The most important assumptions in the calculations are based on anticipated sales growth, profit margins and investment requirements. The assumptions are based on prior experience and external information sources. Historically, the industry's general growth in the geographical markets where Cloetta's products are sold has been around 2% annually. The assumed growth targets, which are somewhat higher, are in line with the Group's long-term goal for organic growth and the management's judgement. The pre-tax discount rate has been estimated at 7.3% (8.5).

## INTANGIBLE ASSETS

### Parent Company

Intangible assets in the Parent Company consist of brands acquired from Cloetta Fazer AB at 29 August 2008. The historical cost amounts to SEK 300.



**NOTE 14** Property, plant and equipment, Group

SEK M	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
<b>Historical cost</b>					
Opening balance, 1 September 2009	124	587	20	112	843
Acquisitions	2	4	1	42	49
Reclassification	–	22	–	–22	–
Sales and disposals	–	–6	0	–	–6
<b>Closing balance, 31 August 2010</b>	<b>126</b>	<b>607</b>	<b>21</b>	<b>132</b>	<b>886</b>
<b>Accumulated depreciation and impairment</b>					
Opening balance, 1 September 2009	–6	–365	–11	–	–382
The year's depreciation	–3	–43	–2	–	–48
Sales and disposals	–	4	–	–	4
<b>Closing balance, 31 August 2010</b>	<b>–9</b>	<b>–404</b>	<b>–13</b>	<b>–</b>	<b>–426</b>
<b>Carrying amounts</b>					
At 1 September 2009	118	222	9	112	461
At 31 August 2010	117	203	8	132	460
<b>Historical cost</b>					
Opening balance, 1 September 2010	126	607	21	132	886
Acquisitions	1	15	4	19	39
Reclassification	7	122	0	–129	–
Sales and disposals	–	–1	–2	–	–3
<b>Closing balance, 31 August 2011</b>	<b>134</b>	<b>743</b>	<b>23</b>	<b>22</b>	<b>922</b>
<b>Accumulated depreciation and impairment</b>					
Opening balance, 1 September 2010	–9	–404	–13	–	–426
The year's depreciation	–4	–47	–3	–	–54
Sales and disposals	–	1	2	–	3
<b>Closing balance, 31 August 2011</b>	<b>–13</b>	<b>–450</b>	<b>–14</b>	<b>0</b>	<b>–477</b>
<b>Carrying amounts</b>					
At 1 September 2010	117	203	8	132	460
At 31 August 2011	121	293	9	22	445

All property, plant and equipment is located in Sweden.

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Note 14, cont'd

**NOTE 14** Property, plant and equipment, Parent Company

SEK M	Buildings and land	Equipment, tools, fixtures and fittings	Total
<b>Historical cost</b>			
Opening balance, 1 September 2009	4	0	4
<b>Closing balance, 31 August 2010</b>	<b>4</b>	<b>0</b>	<b>4</b>
<b>Accumulated depreciation and impairment</b>			
Opening balance, 1 September 2009	0	0	0
The year's depreciation	0	0	0
The year's impairment	–	–	–
<b>Closing balance, 31 August 2010</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Carrying amounts</b>			
1 September 2009	4	0	4
31 August 2010	4	0	4
<b>Historical cost</b>			
Opening balance, 1 September 2010	4	0	4
<b>Closing balance, 31 August 2011</b>	<b>4</b>	<b>0</b>	<b>4</b>
<b>Accumulated depreciation and impairment</b>			
Opening balance, 1 September 2010	0	0	0
The year's depreciation	0	0	0
The year's impairment	–	–	–
<b>Closing balance, 31 August 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Carrying amounts</b>			
1 September 2010	4	0	4
31 August 2011	4	0	4

**NOTE 15** Financial investments

SEK M	Group		Parent Company	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
<b>Financial assets</b>				
Non-current receivable relating to the demerger, see Note 3	5	–	5	–
Other	1	0	–	–
<b>Employee benefit assets measured at fair value in accordance with IAS 19</b>				
Endowment insurances	0	1	–	–
<b>Closing balance at end of year</b>	<b>6</b>	<b>1</b>	<b>5</b>	<b>–</b>
<b>Financial assets at fair value through profit or loss</b>				
Fixed-income securities	–	50	–	–
<b>Closing balance at end of year</b>	<b>–</b>	<b>50</b>	<b>–</b>	<b>–</b>

**NOTE 16** Shareholdings in group companies

SEK M	Corp. ID no.	Domicile	No. of shares	% of capital		Carrying amount	
				2011	2010	2011	2010
Cloetta Sverige AB	556226-4514	1)	267,200	100	100	528	528
Cloetta International AB	556189-9641	1)		100	100	–	–
Candelia Polly AB	556282-6957	1)		100	100	–	–
Gig AB	556373-6130	1)		100	100	–	–
Cloetta International AS	911 167 271	3)		100	100	–	–
Cloetta A/S	967 897 167	3)		100	100	–	–
AB Karamellpojarna	556063-3223	2)	15,000	100	100	4	4
Karamellpojarna Sälj AB	556238-0609	2)		100	100	–	–
Cloetta Development AB	556377-3182	1)	1,000	100	100	2	2
Albisol Education & Conference Ltd	–	4)		100	100	–	–
Cloetta Invest AB	556010-3839	1)	42,000	100	100	3	3
Prosilio AB	556243-2103	1)		100	100	–	–
Kavalleristen AB	556185-7110	1)	5,000	100	100	1	1
Choklad-Thule AB	556308-8193	1)	1,000	100	100	0	0
AB Jaeger Peps Candy Co	556369-5146	1)	2,000	100	100	0	0
						<b>538</b>	<b>538</b>

1) Linköping 2) Alingsås 3) Askim/Norway 4) Gibraltar/Spain

No changes relating to shareholdings in group companies took place during the year.

**NOTE 17** Inventories

SEK M	Group	
	2011 31 Aug	2010 31 Aug
Raw materials and consumables	31	30
Work in progress	8	9
Finished goods and goods for resale	72	106
<b>Closing balance at end of year</b>	<b>111</b>	<b>145</b>

**NOTE 19** Cash and cash equivalents

SEK M	Group		Parent Company	
	2011 31 Aug	2010 31 Aug	2011 31 Aug	2010 31 Aug
<i>Specification of cash and cash equivalents</i>				
Cash and bank balances	264	160	53	72
Short-term investments, equated with cash and cash equivalents	–	35	–	–
<b>Closing balance at end of year</b>	<b>264</b>	<b>195</b>	<b>53</b>	<b>72</b>

**NOTE 18** Prepaid expenses and accrued income

SEK M	Group		Parent Company	
	2011 31 Aug	2010 31 Aug	2011 31 Aug	2010 31 Aug
Prepaid personnel-related expenses	1	1	0	0
Prepaid rents, insurance and lease charges	1	2	0	0
Other prepaid expenses	6	5	0	1
Accrued interest	2	2	1	0
Other accrued income	1	0	–	–
<b>Closing balance at end of year</b>	<b>11</b>	<b>10</b>	<b>1</b>	<b>1</b>



**NOTE 20** Equity

	Group	
	2011	2010
SEK M	31 Aug	31 Aug
Equity	739	733
Profit for the year	18	22
Equity/assets ratio, %	67.5	65.7
Cash flow from operating activities	76	19
Cash flow from investing activities	87	-61

**THE GROUP'S LONG-TERM TARGETS****Growth**

Cloetta's target is achieve average organic growth of 3% annually over a five-year period. In addition, Cloetta aims to grow through partnerships and acquisitions. Growth in sales of Cloetta's products during financial year was negative (8%).

**Operating margin**

The long-term operating margin should be 8%. During the financial year, the operating margin was 2.7% (3.3).

**Equity/assets ratio**

The equity/assets ratio should be at least 35%. A lower ratio can be accepted temporarily in connection with acquisitions. At 31 August 2011, the equity/assets ratio was 67.5% (65.7).

**Dividend**

Cloetta strives to maintain an even dividend payout ratio. The target is to distribute at least 40% of the Group's net profit. The Board proposes to the Annual General Meeting an ordinary dividend of SEK 0.75 (0.75) per share and an extraordinary dividend of SEK 0.50 per share (-). The ordinary dividend is equal to 100% of the Group's net profit. Even after this dividend, the company has good liquidity (net receivable) and a high equity/assets ratio.

**The breakdown of dividends is as follows:**

	Parent Company	
	2011	2010
SEK M	31 Aug	31 Aug
Reported dividend	18	-
Proposed dividend	30	18
Dividend per share, SEK		
Reported	0,75	-
Proposed	1.25 <sup>1)</sup>	0.75

1) SEK 0.75 refers to the ordinary dividend and SEK 0.5 to the extraordinary dividend.

**PARENT COMPANY****Share capital**

The number of shares at 31 August 2011 was 24,319,186, consisting of 2,360,000 class A shares and 21,959,186 class B shares. All shares grant equal entitlement to participate in the company's assets and profits. The quota value of the share is SEK 5.00. Should the company issue new shares of class A and class B through a cash or setoff issue, holders of class A and class B shares have the right to subscribe for new shares of the same class in proportion to the number of shares already held on the record date. If the issue includes share of only class B, all holders of class A and class B shares have the right to subscribe for new shares of the same class in proportion to the number of shares already held on the record date. Corresponding rules of apportionment are applied in the event of a bonus issue or issue of convertibles and subscription warrants. The transference of a class A share to a person who is not previously a holder of class A shares in the company is subject to a pre-emption procedure, except when the transfer is made through division of joint property, inheritance, testament or gift to the person who is the closest heir to the bequeather. After receiving a written request from a holder of class A shares, the company shall convert the class A shares specified in the request to class B shares.

**Non-restricted equity****Share premium reserve**

The acquisition of the subsidiary Cloetta Sverige AB was carried out through a non-cash issue on 25 July 2008. The share premium reserve refers to the premium on the newly issued shares. In 2009 Cloetta issued a convertible note programme for the employees. A total of 199,990 shares have been converted, which is equal to an increase of SEK 5 million in the share premium reserve.

**Retained earnings**

Retained earnings comprise the sum of profit for the year and retained earnings from previous years. Retained earnings including the share premium reserve represent the amount of non-restricted equity available for distribution to the shareholders.

**GROUP****Other contributed capital**

The acquisition of the subsidiary Cloetta Sverige AB was carried out through a non-cash issue on 25 July 2008. Other contributed capital refers to the premium on the newly issued shares. In 2009 Cloetta issued a convertible note programme for the employees. A total of 199,990 shares have been converted, which is equal to an increase of SEK 5 million in the share premium reserve.

**Reserves**

Reserves consist of all exchange gain/losses arising on translation of the financial statements of foreign operations which present their financial statements in a currency other than that used by the Group. The amounts on the balance sheet dates in 2010–2011 have been insignificant.

**Changes in equity**

For disclosures about changes in equity in the Group, see the consolidated statements of changes in equity on page 74.

**NOTE 21 Earnings per share**

Basic earnings per share are calculated by dividing profit for the year attributable to owners of the Parent Company by the weighted average number of shares outstanding. Diluted earnings per share are calculated by dividing profit for the year attributable to owners of the Parent Company by the weighted average number of shares outstanding adjusted for the dilutive effect of potential shares.

	<b>Group</b>	
SEK M	<b>2011</b> 1 Sep– 31 Aug	<b>2010</b> 1 Sep– 31 Aug
<b>Basic earnings per share</b>		
Profit for the year	18	22
Weighted average number of ordinary shares during the year before dilution	24,280,284	24,119,196
<b>Basic earnings per share, SEK</b>	<b>0.73</b>	<b>0.90</b>
<b>Diluted earnings per share</b>		
Profit for the year	18	22
Interest expense on convertible notes	2	3
Tax attributable to interest expense	–1	–1
Adjusted profit	19	24
Weighted average number of ordinary shares during the year after dilution	25,124,085	25,124,085
<b>Diluted earnings per share, SEK</b>	<b>0.73</b>	<b>0.90</b>

**NOTE 22 Provisions for pensions and similar commitments**

The employees in the Group are covered by both defined contribution and defined benefit pension plans. Defined benefit pension plans in Sweden refer mainly to the ITP plan for salaried employees, most of which is financed through allocation to an account (provision) that is secured through credit insurance in and administered by Försäkringsbolaget PRI Pensionsgaranti Mutual. A certain portion is administered by Alecta. This portion covers multiple employers and is reported as a defined contribution plan, since it is not possible to obtain sufficient information to calculate Cloetta's share of the plan.

Note 22, cont'd

	<b>Group</b>	
SEK M	<b>2011</b> 31 Aug	<b>2010</b> 31 Aug
Defined benefit pension plans	79	74
<i>The amounts recognised in the balance sheet have been calculated as follows:</i>		
Present value of unfunded obligations	120	101
Unrecognised actuarial gains (+) and losses (–)	–41	–27
<b>Total</b>	<b>79</b>	<b>74</b>
<i>Amounts recognised in the balance sheet</i>		
Provisions for pensions and similar commitments	79	74
Pensions not regulated by the Occupational Pension Act	0	0
<b>Total</b>	<b>79</b>	<b>74</b>
<i>The amounts recognised in the profit and loss account for defined benefit pensions plans are as follows:</i>		
Current service costs	2	3
Interest expenses	4	4
Net actuarial losses (+) and gains (–) recognised for the year	1	0
<b>Total</b>	<b>7</b>	<b>7</b>
<i>The net expense with respect to defined benefit pension plans is recognised on the following lines in the profit and loss account</i>		
Cost of goods sold	1	1
Selling expenses	1	1
Administrative expenses	1	1
Financial expenses	4	4
<b>Net expense for defined benefit pension plans</b>	<b>7</b>	<b>7</b>
<i>Specification of changes in the net liability recognised in the balance sheet</i>		
Net liability at beginning of year according to the adopted balance sheet	74	69
Net expense (+)/net income (–) recognised in the profit and loss account	7	7
Benefits paid	–2	–2
<b>Net liability at end of year</b>	<b>79</b>	<b>74</b>
<i>Unrecognised actuarial losses</i>		
Opening balance	–27	–16
The year's actuarial gain/loss	–15	–11
Less recognised loss	1	–
<b>Total</b>	<b>–41</b>	<b>–27</b>

Note 22, cont'd

### Key actuarial assumptions on the balance sheet date

The actuarial computation of pension obligations and pension expenses is based on the following assumptions:

The **discount rate** reflects the risk-free interest rate for the period covered by the obligation. The average remaining maturity is 30.4 years. The discount rate is based on the yield for a 30-year government bond, which is the most long-term government bond available on the market with an outstanding maturity of approximately 28 years, as well as interpolation of the yield curve to 30.4 years.

The **annual long-term rate of salary increase** reflects the anticipated percentage increase in average salary based on historical data and expectations for future inflation, age at retirement, and promotion.

The **long-term increase in income base amount** reflects wage/salary growth across the entire labour market.

The **income base amount** is established yearly by the Swedish government and is used, among other things, to determine the pensionable salary in the national pension system.

**Long-term inflationary assumptions** reflect development in recent years and the Swedish central bank's (Riksbanken) long-term expectations.

The **employee turnover rate** reflects average long-term employee turnover.

	Group	
	2011	2010
	31 Aug	31 Aug
<i>Expressed as a weighted average, %</i>		
Discount rate	3.3	3.5
Annual long-term rate of salary increase	3.0	3.0
Long-term increase in income base amount	3.0	3.0
Long-term inflationary assumptions	1.5	1.5
Employee turnover rate	5.0	5.0
<b>Historical information</b>	<b>2011</b>	<b>2010</b>
<b>Defined benefit pension plans</b>		
Present value of obligations	120	101
<b>Present value of net obligation</b>	<b>120</b>	<b>101</b>
Unrecognised actuarial gains (+) and losses (-)	-41	-27
<b>Net liability in the balance sheet</b>	<b>79</b>	<b>74</b>

### NOTE 23 Other provisions

	Group	
	2011	2010
	1 Sep– 31 Aug	1 Sep– 31 Aug
<i>SEK M</i>		
<b>Provisions that are non-current liabilities</b>		
Termination benefits, layoff benefits and other personnel-related expenses	2	6
<b>Total</b>	<b>2</b>	<b>6</b>
<b>Cost arising from staff reductions</b>		
Reported value at beginning of period	6	20
Provisions made during the period	–	0
Amount utilised during the period	-4	-14
<b>Closing balance at end of year</b>	<b>2</b>	<b>6</b>
<b>Payments</b>		
Amount by which the provision is expected to be settled after more than 12 months	–	–

### NOTE 24 Convertible debenture loan

	Group/ Parent Company	
	2011	2010
<i>SEK M</i>		
Carrying amount of liability component on the balance sheet date (SEK M)	24	28
Nominal amount of liability component (SEK M)	24	30
Conversion rate (SEK)	30.4	30.4

The equity component of the convertible debenture loan amounts to SEK 2.1 million. The amount is recognised after deduction of transaction costs of SEK 0.1 million that are attributable to the equity component.

At 25 February 2011, the holders had the right to exercise their option to receive one share in exchange for each convertible note held. The convertible notes that were not converted to ordinary shares may be redeemed at the nominal amount before 25 February 2012. The convertible notes carry a nominal interest rate of 4.48% for the period from 10 November 2010 to 10 November 2011.

A total of 199,990 shares have been converted, which is equal to an increase in the share capital of SEK 1 million and an increase in the share premium reserve of SEK 5 million.



**NOTE 25 Other current liabilities**

	Group		Parent Company	
	2011	2010	2011	2010
SEK M	31 Aug	31 Aug	31 Aug	31 Aug
Derivatives	–	1	–	–
Value added tax	4	3	1	1
Employee withholding taxes	4	5	0	0
Other	0	1	–	–
<b>Closing balance at end of year</b>	<b>8</b>	<b>10</b>	<b>1</b>	<b>1</b>

**NOTE 26 Accrued expenses and deferred income**

	Group		Parent Company	
	2011	2010	2011	2010
SEK M	31 Aug	31 Aug	31 Aug	31 Aug
Accrued personnel-related expenses	46	49	4	5
Accrued bonuses and discounts	21	23	–	–
Other accrued expenses	10	19	3	4
Deferred income	–	1	–	–
<b>Closing balance at end of year</b>	<b>77</b>	<b>92</b>	<b>7</b>	<b>9</b>

**NOTE 27 Cash flow statement**

	Group		Parent Company	
	2011	2010	2011	2010
SEK M	1 Sep– 31 Aug	1 Sep– 31 Aug	1 Sep– 31 Aug	1 Sep– 31 Aug
<b>Specification of non-cash items</b>				
Amortisation/depreciation and impairment of assets	55	50	0	0
Capital gains/losses on the sale of non-current assets	0	1	–	–
Unrealised foreign exchange gains/losses	2	–3	–	–
Provisions for pensions	5	5	0	0
Other provisions	–3	–14	–	–
Other non-cash items	–5	4	–3	3
<b>Total</b>	<b>54</b>	<b>43</b>	<b>–3</b>	<b>3</b>

**NOTE 28 Interest and dividends**

	Group		Parent Company	
	2011	2010	2011	2010
SEK M	31 Aug	31 Aug	31 Aug	31 Aug
Interest paid	–1	–1	–1	–1
Interest received	4	2	1	0
Dividends paid	–18	–	–18	–
Dividends received	–	–	–	–
<b>Total</b>	<b>–15</b>	<b>1</b>	<b>–18</b>	<b>–1</b>

**NOTE 29 Financial risks and financial risk management**

Cloetta's finance operations are responsible for supporting the Group's commercial activities, and are conducted in Cloetta Sverige AB's finance function. The objective is to identify the Group's risk exposure and, with a certain degree of foresight, to attain predictability in the financial outcome. Financial risks are managed in accordance with the financial policy adopted by the Board of Directors. The Board has also adopted a policy for purchasing of raw materials within the framework of the central purchasing function. The Group is particularly sensitive to price fluctuations for cocoa-based products, since these make up a significant portion of total raw material costs.

The primary risks to which the Group is exposed are financing risk, interest rate risk, foreign exchange risk, credit risk and raw material risk.

**Financing risk**

Financing risk is the risk that the Group will be unable to obtain financing, or only at a significantly higher cost. According to the established finance policy, the Group must always maintain adequate cash and committed credits to cover the coming month's payments. At present, financing risk is limited due to the Group's high liquidity. Added to this are unutilised overdraft facilities which amounted to SEK 50 million (50) at 31 August 2011.

Cash and cash equivalents and short-term investments at 31 August 2011 totalled SEK 264 million (245).

Information about the maturity structure and effective interest on these investments is provided in a table under the heading "Interest rate risk". The maturity structure of the company's financial liabilities is shown in the table below.

SEK M	Within 1 mth	1–3 mths	3 mths –1 yr	1–5 yrs	Total
Convertible notes	–	–	24	–	24
Trade payables	62	0	–	–	62
Other accrued expenses and Other liabilities	1	20	7	–	28
Interest	–	1	0	–	1
<b>Total</b>	<b>63</b>	<b>21</b>	<b>31</b>	<b>–</b>	<b>115</b>

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Note 29, cont'd.

**Interest rate risk**

The Group's profit is affected by movements in market interest rates, just as the underlying values of financial instruments are affected by interest rate fluctuations. The Group's interest-bearing financial assets consist mainly of cash and cash equivalents and short-term investments. Net financial items have also been affected by discounting effects arising on present value calculation of outstanding pension obligations and other long-term employee benefits.

According to the Board's established finance policy, the interest rate risk to which cash and cash equivalents and short-term investments are exposed may not exceed the forecasted net financial items for the, at any given time, current financial year.

This risk expresses the impact of a 1% upward shift in the yield curve (corresponding to a 1% increase in market interest rates across all maturities) on the underlying value of the interest-bearing assets in question. The forecasted future cash flow must always be weighed into the finance function's decisions regarding the maturities and amounts of the investments.

The mandatory liquidity buffer stipulated in the finance policy may not be invested in instruments with remaining maturities of longer than three months at the date of purchase. Interest rate risk on cash and cash equivalents and short-term investments at 31 August 2011 was estimated at approximately SEK 0 million (0.1) and the average fixed duration at the same date was approximately 0 months (2).

SEK M	Fair value	Average interest rate, %	Within 3 mths	3 mths –1 yr	1–5 yrs	Total
<b>Assets</b>						
Cash and cash equivalents	264	2.62	264	–	–	264
Short-term investments	–	–	–	–	–	–
<b>Total assets</b>	<b>264</b>		<b>264</b>	<b>–</b>	<b>–</b>	<b>264</b>
<b>Liabilities</b>						
Convertible debenture loan	24	4.48	–	24	–	24
<b>Total liabilities</b>	<b>24</b>		<b>–</b>	<b>24</b>	<b>–</b>	<b>24</b>

**Foreign exchange risk**

The Group is exposed to different types of foreign exchange risk. The most significant exposure refers to purchases and sales in foreign currencies, where the risks are related to exchange rate fluctuations in the currency of the financial instrument or customer/supplier invoice, as well as currency risk in anticipated or contracted payment flows. These risks are known as transaction exposure. Exchange rate fluctuations also have an impact on translation of the assets and liabilities of foreign subsidiaries to the functional currency of the Parent Company, so-called translation exposure. For the financial year 2010–2011, translation exposure amounted to SEK 0 (0).

According to the established finance policy, derivatives such as forward contracts, options and swaps may be used to limit the risks to which the Group is exposed. The Group does not apply hedge accounting (according to IAS 39) and all derivatives are stated at fair value with value changes through the profit and loss account.

Foreign exchange differences had an effect of SEK 5 million (6) on operating profit and SEK 1 million (–0.1) on net financial items.

**Transaction exposure**

The Group's transaction exposure arises in that income is primarily generated in the Swedish home market, while certain raw materials, finished products and equipment are purchased from other countries and in foreign currencies. However, this outflow is offset to a certain degree by exports to the other Nordic countries and markets outside the Nordic region. In order to reduce the risk and foreign exchange effects, the forecasted net flows in the respective currencies are hedged for a maximum period of 12 months forward. The hedged portion – according to the established finance policy – should amount to between 50% and 100% of the total net flow at any given time.

The Group's currency inflow consists mainly of NOK and EUR, whereas the currency outflow consists mainly of EUR, DKK, PLN, GBP and USD. For 2010/2011 these currency flows were as shown in the table below. Forward contracts are stated at fair value in compliance with IAS 39. Fair value on the balance sheet date was SEK 0.8 million (–1.2).

**Transaction exposure and exposure hedge**

Currency	Actual 2010/2011*	Forecast 2011/2012*	Hedged share of 2011/2012 forecast, %
EUR M	–13	–11	68
NOK M	49	51	50
DKK M	–8	–6	0
PLN M	0	0	0
GBP M	0	0	0
USD M	0	0	0

\* A negative figure represents a net outflow and a positive figure a net inflow to the Group.

**Sensitivity analysis, transaction exposure**

Currency	Net exposure forecast 2011/2012	1% change in SEK value, SEK M
EUR M	–11	+/-1
NOK M	51	+/-1
DKK M	–6	+/-0
PLN M	0	+/-0
GBP M	0	+/-0
USD M	0	+/-0
<b>Total</b>		<b>+/-2</b>

**Credit risks****Credit risks in financing operations**

These credit risks consist primarily of counterparty risk in connection with receivables arising on the purchase of fixed-income instruments. The finance policy contains special counterparty rules stating the maximum credit exposure for different counterparties. At present, investments in fixed-income securities may not be transacted with counterparties having rating of less than BBB– (Standard & Poor's) or an equivalent rating from a similar rating agency.

Note 29, cont'd.

**Credit risks in trade receivables**

Distribution in the Nordic countries is conducted through the major grocery retail chains, which account for a large share of invoiced sales. Credit risks attributable to the Group's trade receivables in Sweden are therefore spread between relatively few but large customers. The Group's established policy for managing customer credits includes decision-making levels for granting of credit limits. Risk assessments are carried out for individual customers, customer groups and markets. In order to minimise risk, credit insurance has been taken out for sales outside the Nordic region.

Trade receivable losses have been low for both the financial year 2010/2011 and in a historical perspective, and at each monthly closing the Group reviews overdue trade receivables to assess these for evidence of impairment.

**Specification of credit risks**

	Group	
	2011 31 Aug	2010 31 Aug
SEK M		
<b>Credit risk exposure</b>		
Cash and cash equivalents	264	195
Fixed-income securities	–	50
Trade receivables	102	107
<b>Total</b>	<b>366</b>	<b>352</b>
<b>Geographic spread of credit risk exposure</b>		
Sweden	89	141
Other Nordic countries	13	15
Other markets	0	1
<b>Total</b>	<b>102</b>	<b>157</b>
<b>Age analysis of overdue trade receivables, not written down</b>		
Trade receivables not yet due	100	104
Overdue trade receivables, 0–30 days	2	3
Overdue trade receivables, 31–60 days	0	0
Overdue trade receivables, 61–90 days	0	0
Overdue trade receivables, > 90 days	0	0
<b>Total</b>	<b>102</b>	<b>107</b>

On the balance sheet date, credit insurance had been taken out for the majority of receivables attributable to markets outside Sweden.

**Raw material risk**

Cocoa products account for a significant portion of the Group's total raw material costs. Prices for cocoa-based products are determined by market prices for cocoa beans. These vary over time, and thus have a corresponding effect on the Group's profit. The central purchasing function is responsible for identifying the Group's risk exposure in this area and, with a certain degree of foresight, attaining predictability in the financial outcome.

In order to minimise the effect of price fluctuations, contracts for future delivery are signed continuously in accordance with the Board's established policy.

**Sensitivity analysis**

In order to manage interest rate and currency risks, the Group strives to reduce the impact of short-term fluctuations on consolidated profit. In a longer perspective, however, consolidated profit will be affected by more lasting changes in currency and interest rates. At 31 August 2011, a general change in the interest rate by  $\pm 1$  percentage point, calculated with an unchanged net receivable, was estimated to affect the Group's profit before tax and equity by approximately  $\pm$  SEK 2 million. A general change of  $\pm 1\%$  in the value of the Swedish krona against other foreign currencies would have an effect of approximately SEK  $\pm 2$  million on profit and equity based on the Group's forecasted transaction exposure for 2011/2012. The sensitivity analysis is performed on the basis of the scenario Cloetta assesses as reasonably likely to occur during the next 12-month period.

Equity is affected by translation gains/losses from foreign subsidiaries, which for the past financial year amounted to SEK 0 (0). With a 1% change in foreign exchange rates, these would still amount to SEK 0.

**Risk management**

Risk management in the Group is achieved partly through claims prevention measures and partly through the establishment of group-wide insurance solutions, making it possible to achieve synergies and minimise the Group's total claims risks.

**Measurement of financial assets and liabilities at fair value**

	2011 31 Aug		2010 31 Aug	
	Carrying amount	Fair value	Carrying amount	Fair value
SEK M				
<b>Employee benefit assets measured at fair value in accordance with IAS 19</b>				
Endowment insurances	0	0	1	1
<b>Financial assets held for trading measured at fair value through profit or loss</b>				
Derivatives	1	1	–	–
Fixed-income securities	–	–	50	50
<b>Loans and receivables</b>				
Cash and cash equivalents	264	264	195	195
Trade receivables	102	102	107	107
<b>Total financial assets</b>	<b>367</b>	<b>367</b>	<b>353</b>	<b>353</b>
<b>Financial liabilities measured at fair value through profit or loss</b>				
Derivatives	–	–	1	1
<b>Financial liabilities measured at amortised cost</b>				
Convertible debenture loan	24	24	28	28
Trade payables	62	62	70	70
<b>Total financial liabilities</b>	<b>86</b>	<b>86</b>	<b>99</b>	<b>99</b>



Note 29, cont'd.

Fixed-income securities and derivatives refer to items for the entire Group. The following is a summary of the methods and assumptions used to determine the fair value of the financial instruments reported in the table on the previous page.

#### Endowment insurances

Fair value is measured as the surrender value.

#### Financial instruments measured at fair value

The Group has financial instruments in the form of forward exchange contracts and securities that are measured at fair value. The fair value of all contracts has been measured on the basis of directly or indirectly observable market inputs. According to the fair value hierarchy in IFRS7, such valuation methods are classified as Level 2\*. Unlisted securities consist of items lesser value for which the change in value during the year is deemed insignificant.

#### Trade receivables and payables

All trade receivables and payables have a remaining maturity of less than one year. The carrying amount thus corresponds to fair value.

#### Convertible debenture loan

The fair value of the liability component of the convertible notes is calculated through discounting of future cash flows of the principal amount and interest discounted by a market rate of interest for similar liabilities without an equity conversion option.

*\* In IFRS 7, financial instruments are classified in a three-level fair value hierarchy that reflects the significance of the inputs used for measurement. At Level 1, fair value is determined based on quoted prices for identical financial assets and liabilities in active markets. At Level 2, fair value is determined based on observable information other than quoted prices included in Level 1. At Level 3, fair value is determined through valuation techniques in which significant inputs are not based on observable market data.*

### NOTE 30 Pledged assets and contingent liabilities

	Group		Parent Company	
	2011 31 Aug	2010 31 Aug	2011 31 Aug	2010 31 Aug
SEK M				
<b>Assets pledged to secure pension obligations</b>				
Endowment insurances	0	1	–	–
<b>Total pledged assets</b>	<b>0</b>	<b>1</b>	<b>–</b>	<b>–</b>
<b>Contingent liabilities</b>				
Guarantees on behalf of subsidiaries	–	–	84	75
Guarantees, PRI	1	1	–	–
Other guarantee commitments	1	1	–	–
<b>Total contingent liabilities</b>	<b>2</b>	<b>2</b>	<b>84</b>	<b>75</b>

A lawsuit has been filed against Aktiebolaget Karamellpojarna by the Alingsås district court regarding the copyright to certain illustrations. In light of the circumstances referred to thus far, the company's opinion is that these claims lack substance and that a possible court case does not represent any risk for negative effects on the company's earnings.

### NOTE 31 Related party transactions

#### GROUP

The definition of related party transactions has changed as a result of the demerger of Cloetta Fazer. After the demerger, Cloetta AB is a separate and autonomous company. The principal shareholder is AB Malfors Promotor and transactions between Cloetta and the principal shareholder are considered related party transactions. In addition to the dividend approved by the AGM, the Parent Company's purchases from related parties during the period from 1 September 2010 to 31 August 2011 amounted to SEK 0 million (1), equal to 0% (0.1) of the Group's total purchases. The prices of goods and services sold to and purchased from related parties are set on market-based terms.

#### Transactions with key management personnel

For information about salaries and remuneration to the Board of Directors and other senior executives, see Note 7. The Group has no receivables from key management personnel. Liabilities to key management personnel consist of customary personnel-related liabilities.

#### PARENT COMPANY

The Parent Company's holdings of shares and participations in subsidiaries are specified in Note 16. Receivables from and liabilities to subsidiaries are broken down as follows:

	Parent Company	
	2011 31 Aug	2010 31 Aug
SEK M		
Current interest-bearing receivables	24	24
Current interest-free receivables	3	4
<b>Total</b>	<b>27</b>	<b>28</b>

For the Parent Company, SEK 26 million (35), equal to 100% (100) of the year's sales, and SEK 0 million (0), equal to 2% (2) of the year's purchases, refer to subsidiaries in the Cloetta Group. The prices of goods and services sold to and purchased from related parties are set on market-based terms.

### NOTE 32 Operating leases

Recognised expenses for operating leases amount to

	Group	
	2011 1 Sep– 31 Aug	2010 1 Sep– 31 Aug
SEK M		
Lease charges	11	13
<b>Future annual payment obligations for leased assets in the Group are broken down as follows</b>		
Within one year	8	8
Between one and five years	12	12
<b>Total</b>	<b>20</b>	<b>20</b>

Operating leases refer primarily to rents for a storage facility. No lease has a term of more than five years. A new lease agreement was signed for the storage facility during the past financial year.

**NOTE 33** Critical accounting estimates and judgements

The company's management and audit committee have discussed the development, selection and disclosures regarding the Group's critical accounting principles and estimates. The estimates and judgments made in the application of the Group's accounting policies are described below.

**Impairment testing**

Note 13 provides a more detailed description of the assumptions applied in determining the recoverable amount of goodwill. Changed assumptions about the discount rate or future sales development can lead to impairment.

**Pension assumptions**

Key actuarial assumptions are described in Note 22. Large negative differences (experience adjustments) can lead to the recognition of actuarial losses.

**NOTE 34** Events after the balance sheet date

After the end of the reporting period, no significant events have taken place that could affect the company's operations.

**NOTE 35** Untaxed reserves

<b>Accumulated excess depreciation</b> <i>SEK M</i>	<b>Parent Company</b>	
	<b>2011</b>	<b>2010</b>
<b>Equipment</b>		
Opening balance at 1 September	0	0
The year's excess depreciation	0	0
Sales and disposals	–	–
<b>Closing balance at end of year</b>	<b>0</b>	<b>0</b>
<b>Tax allocation reserves</b>		
Provision for 2010 tax assessment	1	1
Provision for 2011 tax assessment	1	1
Provision for 2012 tax assessment	2	–
<b>Closing balance at end of year</b>	<b>4</b>	<b>2</b>
<b>Total untaxed reserves</b>	<b>4</b>	<b>2</b>

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# Proposed appropriation of earnings

## Earnings in the Parent Company at the disposal of the Annual General Meeting:

Retained earnings	SEK 468,268,757
Profit for the year	SEK 2,103,687
<b>Total</b>	<b>SEK 470,372,444</b>

The Board of Directors proposes that dividends be paid in an total amount of SEK 30,399 thousand, equal to a dividend of SEK 1.25 per share. The Board of Directors proposes that the earnings be disposed of as follows:

To be distributed to the shareholders	SEK 30,398,982
To be carried forward to new account	SEK 439,973,462
<b>Total</b>	<b>SEK 470,372,444</b>

The number of shares at 31 August 2011 was 24,319,186.

The Board of Directors and the Managing Director give their assurance that the consolidated financial statements and annual report have been prepared in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, on the Application of International Accounting Standards and Generally Accepted Accounting Standards, and give a true and fair view of the financial position and results of operations of the Group and the Parent Company. The administration report for the Group and the Parent Company gives a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Ljungsbro, 23 November 2011

Olof Svenfelt  
Chairman

Lennart Bohlin  
Board member

Johan Hjertonsson  
Board member

Ulrika Stuart Hamilton  
Board member

Mikael Svenfelt  
Board member

Meg Tivéus  
Board member

Lena Grönedal  
Employee representative

Birgitta Hillman  
Employee representative

Curt Petri  
Managing Director and CEO

Our audit report was issued on 25 November 2011.

KPMG AB

Helene Willberg  
Authorised Public Accountant

The profit and loss accounts and balance sheets of the Group and the Parent Company are subject to approval by the Annual General Meeting on 19 December 2011. The information in this report is subject to the disclosure requirements of Cloetta AB (publ) under the provisions in the Swedish Securities Market Act. The information was submitted to the media for publication on 28 November 2011, at 08.00 CET.

# Audit report

To the Annual General Meeting of Cloetta AB (publ)

Corporate identification number 556308-8144

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of Cloetta AB (publ) for the financial year from 1 September 2010 to 31 August 2011. The company's annual accounts and the consolidated accounts are included in the printed version of this document on pages 63–102. The Board of Directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director and significant estimates made by the Board of Directors and the Managing Director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Ljungsbro, 25 November 2011

KPMG AB

Helene Willberg

*Authorised Public Accountant*



## Five-year overview

SEK M	Sep 2010 –Aug 2011	Sep 2009 –Aug 2010	Sep 2008 –Aug 2009	2008 Jan–Aug	Pro forma Sep 2007 –Aug 2008
<b>Profit and loss account in summary</b>					
Net sales	987	1,061	1,184	838	1,387
Operating expenses	–970	–1,031	–1,213	–928	–1,450
Other operating income	10	6	37	6	6
Other operating expenses	0	–1	–8	0	0
<b>Operating profit/loss</b>	<b>27</b>	<b>35</b>	<b>0</b>	<b>–84</b>	<b>–57</b>
Financial items	–1	–4	–1	3	5
<b>Profit/loss before tax</b>	<b>26</b>	<b>31</b>	<b>–1</b>	<b>–81</b>	<b>–52</b>
Income tax expense	–8	–9	7	–4	–11
<b>Profit/loss for the year</b>	<b>18</b>	<b>22</b>	<b>6</b>	<b>–85</b>	<b>–63</b>
<i>Attributable to</i>					
Owners of the Parent Company	18	22	6	–85	–63
<b>Balance sheet in summary</b>					
Intangible assets	143	144	143	144	144
Property, plant and equipment	445	460	461	397	397
Financial assets	6	1	2	4	4
Inventories	111	145	117	153	153
Current receivables	125	121	113	185	185
Cash and cash equivalents	264	245	277	279	279
<b>Total assets</b>	<b>1,094</b>	<b>1,116</b>	<b>1,113</b>	<b>1,162</b>	<b>1,162</b>
Equity	739	733	711	707	707
Non-current liabilities					
Interest-bearing liabilities	24	28	26	–	–
Interest-bearing provisions	79	74	69	65	65
Interest-free provisions	103	103	112	133	133
Current liabilities					
Interest-bearing liabilities	–	–	–	47	47
Interest-free liabilities	149	178	195	210	210
<b>Total equity and liabilities</b>	<b>1,094</b>	<b>1,116</b>	<b>1,113</b>	<b>1,162</b>	<b>1,162</b>
<b>KEY RATIOS</b>					
Items affecting comparability	–	–	–8	–92	–114
Operating profit excl. items affecting comparability	27	35	8	8	57
Operating margin excl. items affecting comparability, %	2.7	3.3	0.7	1.0	4.1
Profit margin, %	2.6	2.9	neg	neg	neg
Net receivable	167	144	183	171	171
Capital employed	842	835	806	819	819
Equity/assets ratio, %	67.5	65.7	63.9	60.9	60.9
Return on capital employed excl. items affecting comparability, % <sup>1)</sup>	3.9	4.7	1.2	3.8	3.8
Return on equity after tax excl. items affecting comparability, % <sup>1)</sup>	2.4	3.0	1.3	5.9	5.9
Cash flow from operating activities	76	19	127	–35	25
Cash flow after investments in property, plant and equipment	37	–32	16	–121	–72
Investments in property, plant and equipment	39	51	111	85	97
Average number of employees	437	452	464	503	512
Payroll expenses	157	160	170	111	151

1) ) Refers to rolling 12-month period

## Key ratios per share

SEK M		Sep 2010 –Aug 2011	Sep 2009 –Aug 2010	Sep 2008 –Aug 2009	2008 Jan–Aug	Pro forma Sep 2007 –Aug 2008
Earnings per share, basic and diluted	SEK	0.73	0.90	0.23	–3.50	–2.63
Earnings per share, basic and diluted excl. items affecting comparability	SEK	0.73	0.90	0.35	0.31	1.84
Cash flow from operating activities	SEK	3.11	0.78	5.27	–1.45	1.04
Equity, basic and diluted	SEK	30.34	30.38	29.47	29.34	29.34
Dividend <sup>1)</sup>	SEK	1.25	0.75	–	–	–
Share price at 31 August	SEK	29.40	39.10	28.50	–	–
P/E ratio	Times	40	43	124	–	–
Price/equity ratio	%	97	129	97	–	–
Dividend yield	%	4.3	1.9	–	–	–
Average weighted number of shares, basic <sup>2)</sup>		24,280,284	24,119,196	24,119,196	24,119,196	24,119,196
Average weighted number of shares, diluted <sup>2)</sup>		25,124,085	25,124,085	24,412,624	24,119,196	24,119,196
Number of shares at end of period, basic <sup>2)</sup>		24,319,186	24,119,196	24,119,196	24,119,196	24,119,196
Number of shares at end of period, diluted <sup>2)</sup>		25,124,085	25,124,085	25,124,085	24,119,196	24,119,196

1) The dividend in 2010–2011 consists of an ordinary dividend of SEK 0.75 and an extraordinary dividend of SEK 0.50.

2) Dilution in 2008–2009, 2009–2010 and 2010–2011 refers to the convertible note programme.

## Definitions and glossary

### Capital employed

Total assets minus interest-free liabilities (including deferred tax).

### Cash flow after investing activities

Cash flow from operating activities after deduction of net investments.

### Disclosures about items affecting comparability

Significant one-time items (affecting comparability) that are reported separately in order to achieve comparability between the period under review and other periods.

### Equity/assets ratio

Shareholders' equity (including non-controlling interests) at year-end as a percentage of total assets.

### Gross margin

Net sales minus the cost of goods sold as a percentage of net sales.

### Net receivable

Cash and cash equivalents and other interest-bearing assets minus interest-bearing liabilities.

### Operating margin

Operating profit as a percentage of net sales.

### Profit margin

Profit before tax as a percentage of net sales.

### Return on capital employed

Operating profit plus financial income as a percentage of average capital employed.

### Return on equity

Profit for the year divided by average shareholders' equity.

### KEY RATIOS PER SHARE

#### Dividend yield

Dividend as a percentage of the share price at year-end.

#### Equity per share

Shareholders' equity divided by the number of shares on the balance sheet date.

#### P/E ratio

Share price at year-end divided by the year's earnings per share.

#### Diluted earnings per share

In calculating diluted earnings per share, interest on the convertible debenture loan that has been charged to profit, net of tax, is added back. The number of shares comprises the maximum number of shares after conversion of outstanding convertible notes.

#### Basic earnings per share

Profit for the year divided by the average number of shares outstanding during the financial year.

#### Earnings per share excluding one-time items

In calculating this ratio, one-time items that have affected profit, after deduction of tax, are added back.

### GLOSSARY

**BOD**, measures the biochemical oxygen demand of organic effluents in wastewater, where 7 means that the measurement is done over a period of seven days.

**BRC Global Standard** – a system for product safety in the food industry. Both of Cloetta's production units are BRC-certified.

**GRI – Global Report Initiative, GRI**, is a network-based organisation whose founders include the UN. GRI has pioneered the development of a framework for the structure and content of sustainability reporting. Cloetta reports according to level C.

**Grocery retail trade** – Independent grocery retailers and grocery store chains.

**HACCP – Hazard Analysis Critical Control Points**, with the help of which critical control points in production can be identified and analysed.

**HD** – Hard Discount (discount stores)

**ISO 14001** – an international standard for environmental management

**KAM** – Key Account Manager

**OEE – (Overall Equipment Effectiveness)**. Measures equipment performance in relation to stoppages.

**Private labels** – products manufactured by one company for offer under another company's brand, often as lower cost alternatives.

**REPA** – Cloetta is affiliated with REPA, which is the Swedish business sector's solution for producer responsibility for packaging of plastic, metal, paper/cardboard and corrugated board.

**Service trade** – gas stations, convenience stores, newspaper kiosks, etc.

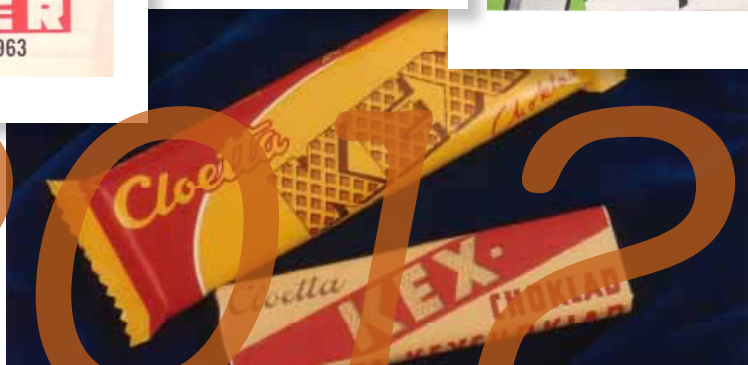
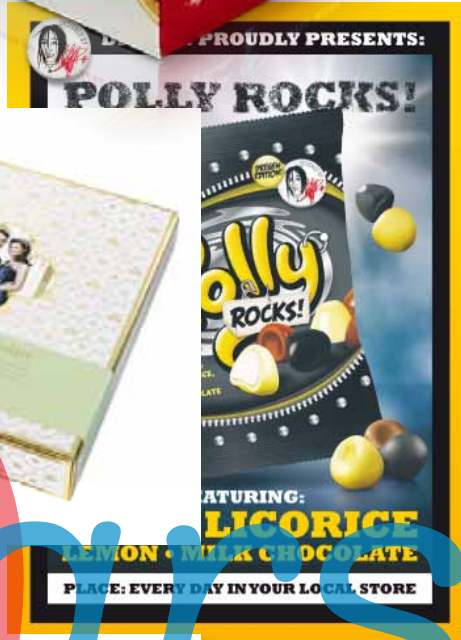








Cloetta och världens  
**CENTER** 1969  
delar ut 200 ishockeyspel



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