

Clœtta

Sustainability report
2017

Cloetta

– a leading confectionery company in the Nordic region and the Netherlands

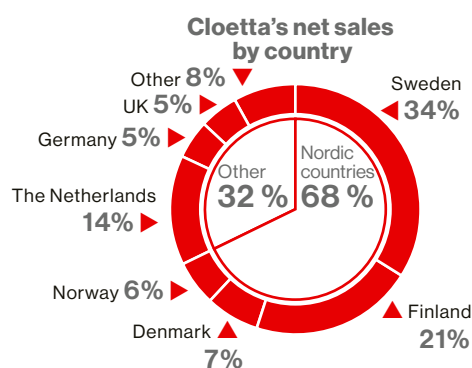
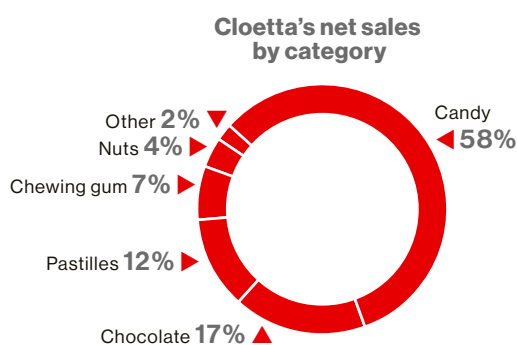
| | | | |
|---|---|--|---|
| <p>FOUNDED IN</p> <p>1862</p> |  <p>2,467</p> <p>EMPLOYEES</p> | <p>SALES IN</p> <p>>50</p> <p>COUNTRIES</p> |  <p>LEADING BRANDS</p> |
|  <p>8</p> | <p>ANNUAL SALES</p> <p>SEK</p> <p>5.8</p> <p>BILLION</p> |  <p>CHOCOLATE</p> |  <p>CANDY</p> |
|  <p>PASTILLES</p> |  <p>CHEWING GUM</p> |  <p>PICK & MIX</p> |  <p>NUTS</p> |
|  <p>VISION</p> <p>To be the most admired satisfier of Munchy Moments</p> | <p>MISSION</p> <p>To bring a smile to your Munchy Moments</p>  |  <p>The vision, together with the goals and strategies, expresses Cloetta's business concept</p> |  |





Cloetta's strengths

- Strong brands and market positions.
- Excellent availability in stores enabled by a strong and effective sales and distribution organization.
- Good consumer recognition and loyalty.
- Innovative product and package development.
- Efficient production with high and consistent quality.



Categories where Cloetta is among the market leaders

Sweden

Candy
Chocolate countlines
Pastilles
Chocolate bags
Pick & mix



Norway

Pastilles
Candy
Pick & mix



Denmark

Pastilles
Candy
Pick & mix



The Netherlands

Pastilles
Candy
Chewing gum



Finland

Pastilles
Chewing gum
Candy
Pick & mix



A year of change

2017 was a year of change for Cloetta. The acquisition of Candyking and the divestment of Cloetta Italy changed the Group's structure significantly.

Strategic initiatives support profitable growth

The confectionery market is characterized by stability. Admittedly growth in Europe is relatively small and individual markets can show reduced sales in a single month or quarter, but over time annual growth in the confectionery market is normally 1 – 2 per cent. Despite this, Cloetta has not managed to fully grow in line with the market in recent years. We have therefore started a number of strategic initiatives that will contribute to profitable growth.

My key focus for Cloetta is to improve our competitiveness, thereby driving profitable growth in our main markets and selected international markets. We will do this by improving the competitive power of our brands, improving our ability in partnership with our customers to expand our categories, as well as improving our performance culture and our cost culture.

The means that we must

- have clearer category and brand plans and improve our working methods when we develop, launch and sell our products,
- offer consumers a choice which means that they can choose with sugar, with less sugar or sugar-free,
- be more effective in our marketing and over time increase our brand investments while providing leading-edge support to our customers with their online sales of our products,
- reduce our cost base both in order to increase profitability and to be able to finance new brand investments,
- integrate Candyking to create substantial synergies and thereby increased profitability,
- continue our Lean2020 programme among other things to increase capacity for insourcing from Candyking as well as reducing production costs.

Enhanced sustainability work

Cloetta's aim is to build long-term sustainable values by growing as a company while at the same time ensuring that the impact on both people and the environment is positive.

Cloetta's sustainability commitment has three components: greater well-being, reduced environmental impact and sustainable sourcing. Action plans, targets and key performance indicators are in place for all prioritized areas.

Cloetta is a member of the UN Global Compact and supports its 10 principles. These are also incorporated into Cloetta's Code of Conduct and thus provide a solid foundation for our sustainability work.

In the area of sustainable sourcing, Cloetta has prioritized a number of raw materials. All cocoa and chocolate that we purchase is UTZ certified. We have now also removed palm oil as a glazing agent in the majority of our products. For the few products that still contain palm oil, we have started switching to segregated palm oil which improves traceability. In 2018 we are also starting a programme for sustainable shea butter.

Cloetta's long-term environmental goals extend until 2020. Following a steady improvement in our environmental key performance indicators in recent years, the picture in 2017 is more mixed. Carbon dioxide emissions per produced kilogram decreased and our recovery rate increased, while our total energy consumption was largely unchanged. We therefore need to increase our focus on energy efficiency since this is good both for our environment and our economy.

Our sustainability report (included in this annual report) has been reviewed by the auditing firm KPMG. Since it is our ambition to meet international standards, our sustainability report is prepared in accordance with the Global Reporting Initiative (GRI) guidelines.

Cloetta is stable

Despite the challenges we faced during the year, Cloetta stands on a firm foundation. We



“Despite the challenges we faced during the year, Cloetta stands on a firm foundation.”

have some of the market's strongest brands and leading market positions. We have one of the best sales and distribution organizations in our main markets. We have experienced, skilled and dedicated employees who are proud of our company and our products. And we have a profitable business, which generates a stable cash flow that can be used for both acquisitions and dividends.

I therefore feel confident in the knowledge that we have the foundation we need to further develop and improve Cloetta. This is for the benefit of customers, consumers, shareholders and employees.

Stockholm, March 2018

Henri de Sauvage-Nolting
President and CEO

Long-term sustainability targets

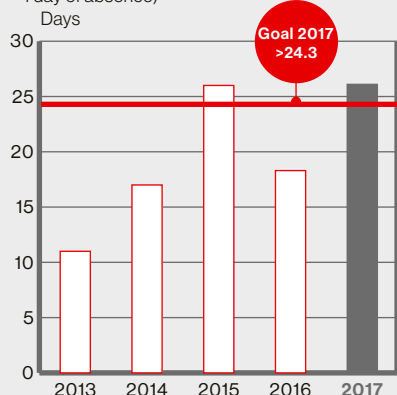
Greater well-being

Employees

Cloetta has zero tolerance for occupational accidents. The target for 2017 was achieved after more focused working methods.

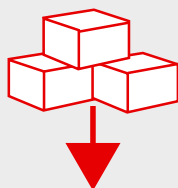
Days between occupational accidents

(number of days between accidents leading to >1 day of absence)



In 2017 LTA reached 26.1 days on average between LTAs compared to 16.6 days in 2016.

Great Place to Work – the goal is an improved Trust Index compared to the previous survey.



LESS SUGAR & SUGAR-FREE

Consumers – Less sugar/sugar-free

Have a sugar-free alternative for all Cloetta's key brands by 2020.



NAFNAC

No Artificial Flavours &
No Artificial Colours

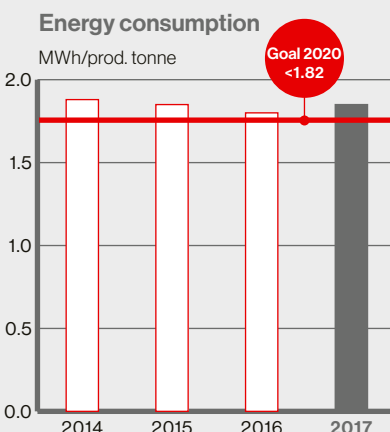
No artificial colours or flavours

Cloetta is committed to increasing the share of natural ingredients. Cloetta's product portfolio will contain no artificial flavours and no artificial colours by 2019.

Reduced environmental impact

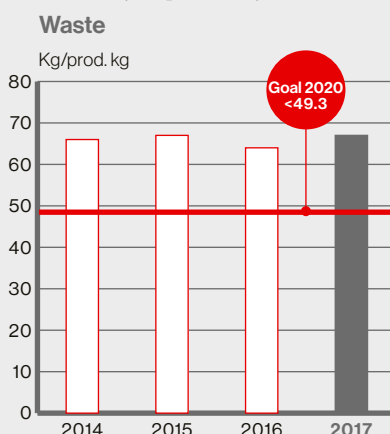
Energy consumption

Energy consumption per produced tonne to be reduced by 5 per cent by 2020.



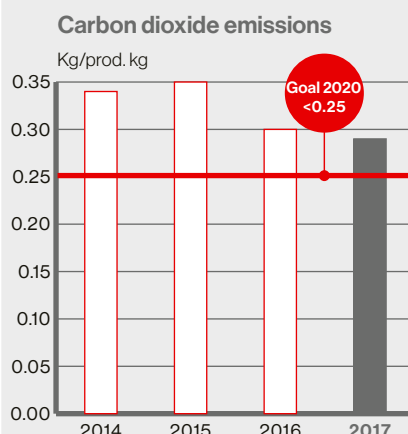
Waste

The volume of waste per produced kg to be reduced by 25 per cent by 2020.



Carbon dioxide emissions

CO₂ emissions from production per produced kg to be reduced



Energy consumption and waste decreased in absolute numbers but the targets were not met due to lower production volumes.

Sustainable sourcing

Responsibility for raw material producers

- Sustainability programmes will be implemented for all prioritized raw materials.
- By 2020 at the latest, Cloetta's suppliers of oils and fats shall have a fully traceable pipeline of palm oil fractions back to known plantations.
- 100 per cent of all cocoa and chocolate purchased by Cloetta must be UTZ-certified.
- From July 2018 and onwards, Cloetta will only source sustainable shea butter according to the AAK programme, see page 24.

Comments on the year's outcome

- Sustainability programmes have been implemented for cocoa and palm oil. For shea butter, Cloetta has decided to switch to sustainable shea butter which will be implemented in 2018. Sustainability programmes for cane sugar, cashew nuts and gum arabic will be in place by 2020 at the latest.
- 100 per cent of the cocoa purchases are UTZ-certified.
- Cloetta started to remove most of the palm oil from glazing agents at the end of 2017. This means that the majority of Cloetta's products are palm oil free. Cloetta's range of chocolate and fudge products still contain palm oil but during the year Cloetta started switching to segregated palm oil in accordance with RSPO principles. Certification according to this standard will take place in 2018.



Sustainability
programs developed
for cocoa, palm and
shea butter

**By 2020
sustainability
programs in place
for prioritized
materials**

New strategic priorities for 2017 and 2018

Focus on driving growth

Brand development – consumer

Continuously enhance our brands with a focus on high quality and local tradition.

- Develop international brand platforms and joint innovation across markets.
- Focus on fewer but bigger brands and activities.
- Use digital media as a communication platform.
- Drive “Choice for you” for the launch of products that contain less sugar or are sugar-free and free from artificial flavours and colours.
- Develop sustainability programmes for the prioritized raw materials.

Customer and market development

Be #1 among snack and candy companies in brand and category development.

- Be available for purchase at all Munchy moments.
- Build superior shopper insight to become preferred supplier with all customers.
- Develop the market’s best “shop in shop” pick & mix concept.
- Strengthen the brands in the stores through wide distribution and high visibility.
- Maintain excellent customer service.
- Develop e-commerce concepts as a way to support the customers.

New markets, initiatives and concepts

Widen and expand the product portfolio into new geographical markets.

- Strengthen and establish international market hubs for global development of The Jelly Bean Factory brand.
- Launch and acquire new products, concepts and brands in existing product categories in existing or closely related markets.



Focus on cost-efficiency

Increase profitability and future investments

- Integrate Candyking and insource production to create synergies.
- Continue the implementation of Lean 2020, which leads to increased efficiencies, lower costs and reduced energy consumption, waste and emissions.
- Minimize material costs through systematic value engineering and reduced waste, and indirect costs through value improvement.
- Greater efficiency in marketing activities.

Focus on the employees and organization

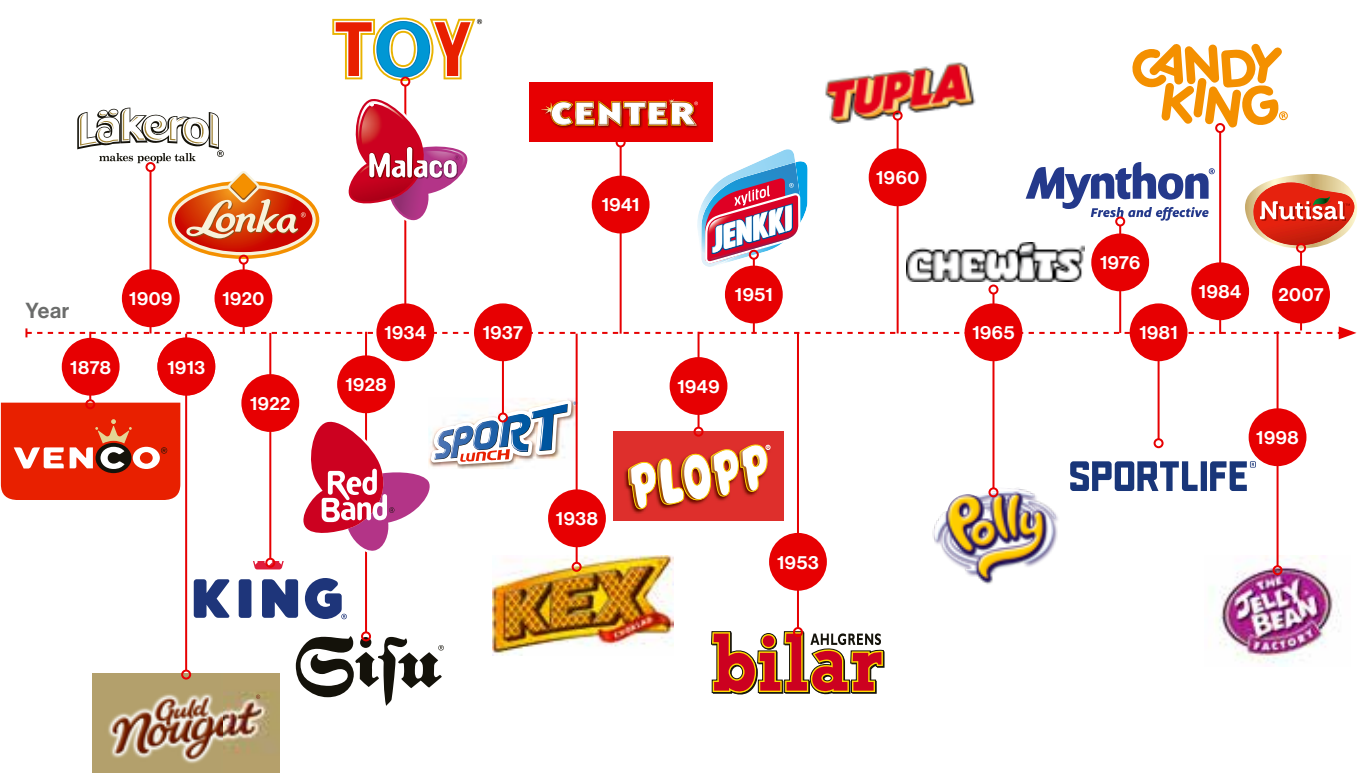
Create the conditions for growth

- Zero tolerance for accidents.
- Create a common agenda and a uniform way of working.
- Create a winning culture.
- Optimize Cloetta's culture with support from "Great Place to Work" and Lean 2020.
- Develop leaders and attract, develop and retain skilled and competent employees.
- Strengthen the organization in brand and category development.



Cloetta's leading brands

Cloetta is the name and symbol of the Nordic region's oldest confectionery company, with a very strong local heritage. Cloetta's brands fulfil the mission »To bring a smile to your Munchy Moments«.





New market, initiatives and concepts

In the spring of 2017 Cloetta acquired Candyking Holding AB (“Candyking”) and its subsidiaries, a leading concept supplier in the pick & mix category in the Nordic region and the UK. Candyking offers retailers a total concept in pick & mix, consisting of products, racks and merchandising as well as in-store and logistics services.

At the time of the acquisition, Candyking provided some 8,000 sales outlets in seven countries with pick & mix and had annual sales of approximately SEK 1,200m. Candyking’s brands include Candyking and Karamellkungen in the candy market and Parrots in natural snacks. Today, pick & mix accounts for 30 per cent of the Group’s sales.

Pick & mix – a vital part of the candy market

Pick & mix accounts for over 30 per cent of the candy market in Sweden, measured by volume. In the other Nordic countries, the share is between 10 and 15 per cent.

In the rest of Europe, pick & mix has a weaker position but is a growing part of the candy market.

Synergies from the acquisition

For several years Cloetta has offered a similar concept for both regular pick & mix and natural snacks. In Finland, Cloetta has successfully driven the pick & mix concept Karkkikatu for many years.

Since Candyking has no in-house production, Cloetta can bring about significant synergies through the acquisition. Over the years, Cloetta has delivered candy to Candyking and Cloetta has the production capacity to successively insource additional production. The synergies are created not only in production, but also in administration, logistics and sales, and will be realized during the years 2017 – 2020.

A total of 600 – 800 articles

Following the acquisition of Candyking, Cloetta now offers a total of 600 – 800 articles in the pick & mix assortment in the form of chocolates, gummy candies, hard-boiled candies, toffee, foam, liquorice and natural snacks. A customer can choose a concept with between 16-200 different articles that consumers can pick in bags or cups.

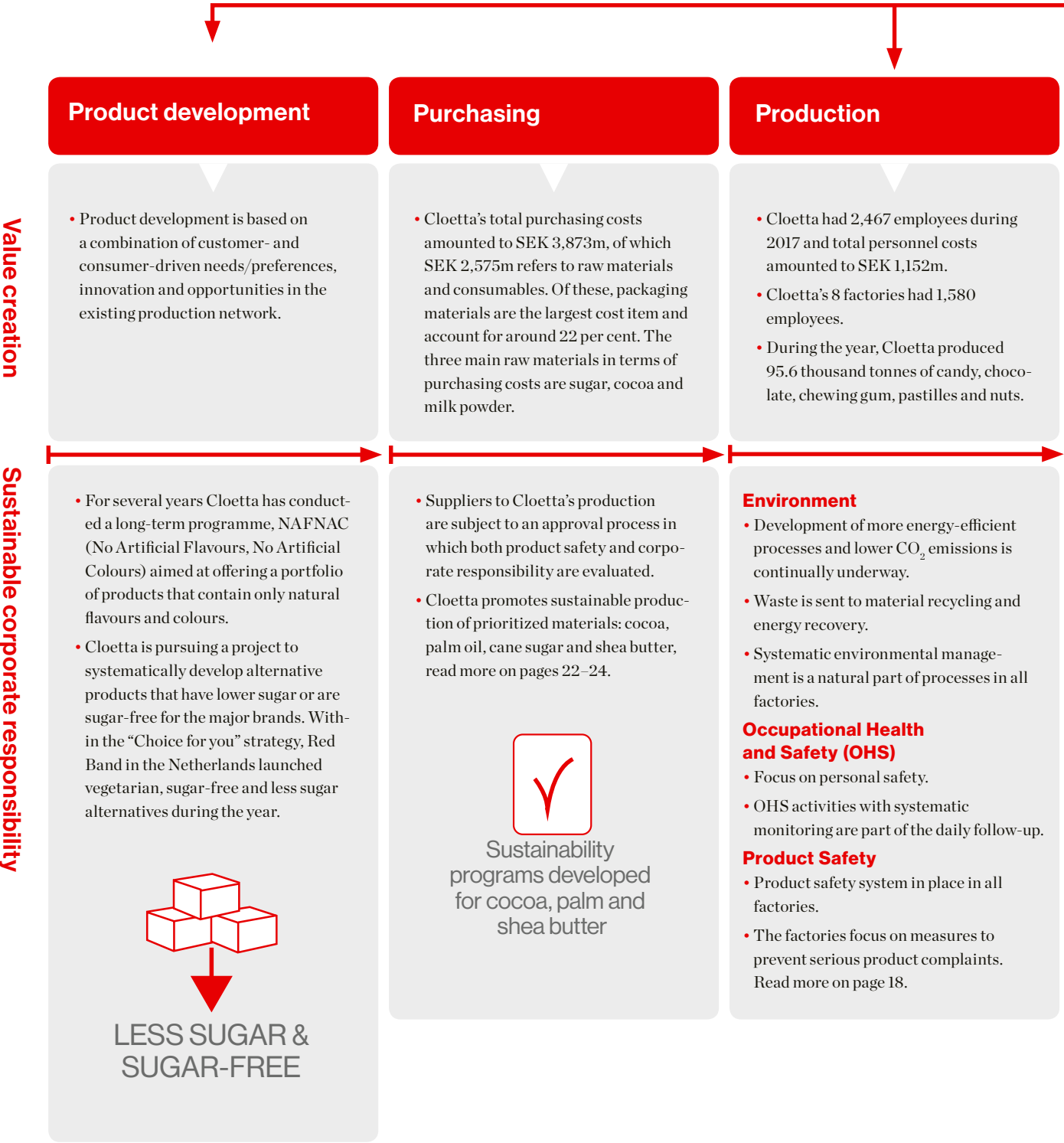
Natural snacks

Through the Parrots brand, Cloetta is also a leading player in the natural snacks market in Sweden and Finland. Parrots is currently the only pick & mix brand that is 100% free from palm oil and includes only UTZ-certified chocolate and natural flavours.

Cloetta's value chain

Cloetta's ambition for creating value is
«To bring a smile to your Munchy Moments».

Through innovative product development, efficient purchasing and high-quality production, as well as good relations with the retail trade and marketing that strengthens the brands, Cloetta creates economic value. At the same time, Cloetta strives to have a positive impact on people and the environment.





Customers

- Total net sales amounted to SEK 5,784m. Cloetta's largest customer category is the grocery retail trade. The service trade is also a very important customer group.

- In general, the customers require BRC or ISO certification.
- Unnecessary transport packaging is avoided and transports are optimized. All packaging can be sorted at source.

Consumers

- Cloetta satisfies Munchy Moments.
- Feedback about complaints and viewpoints.

- Products of a high quality are marketed responsibly.
- Offer consumers a wide range of natural products.
- Programmes to promote sustainable packaging.

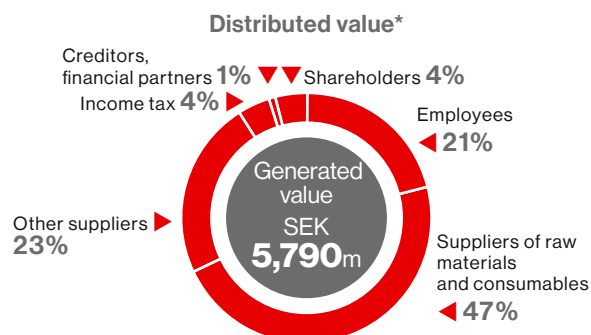
Repayment of borrowings

Profit for the year was SEK 402m

excluding impact of impairment loss in discontinued operation including income tax effects and other items affecting comparability. Including items affecting comparability, profit amounted to SEK -97m.

Shareholders

A certain share of non-restricted equity is distributed to Cloetta's shareholders in the form of dividends, after the operations have been provided with the capital necessary for development. For 2017 the Board has proposed an ordinary dividend of SEK 0.75 per share, which corresponds to 54 per cent of the profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability and a special dividend of SEK 0.75 per share, equal to a total of SEK 433m, to be paid in 2018. In 2017, SEK 216m was distributed to the shareholders.



* Excluding amortization/depreciation, loss in discontinued operation and loss for the year and including paid dividends and net financial items, total SEK 5,531m.

Economic impact

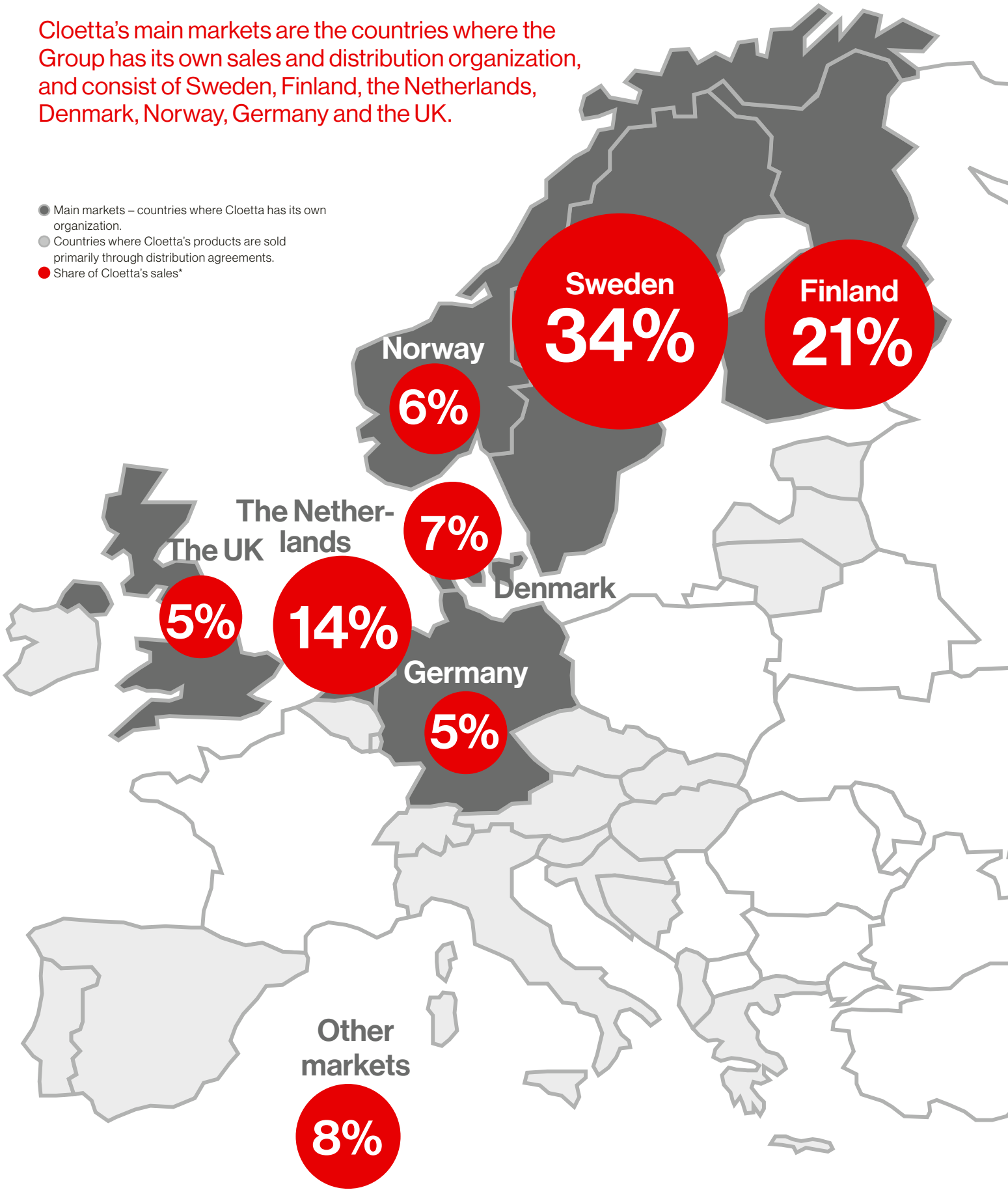
Production and sales of Cloetta's products generate economic values that benefit the stakeholders.

Cloetta's Code of Conduct is the basis for all relationships within and outside the company

Cloetta's main markets

Cloetta's main markets are the countries where the Group has its own sales and distribution organization, and consist of Sweden, Finland, the Netherlands, Denmark, Norway, Germany and the UK.

- Main markets – countries where Cloetta has its own organization.
- Countries where Cloetta's products are sold primarily through distribution agreements.
- Share of Cloetta's sales*



*Pro forma excluding Cloetta Italy including Candyking full year.

Success factors for the sales organization



The right products to the right customer

Selling the right products to the right customer generates profitability for both Cloetta and for the customer. Cloetta's sales force is large and effective, which provides good opportunities for a presence in many different sales points.



Good relations with customers at the central and local levels

Through good relations with the retail trade and in-depth knowledge of the industry, market and products, Cloetta can present attractive sales solutions that support each customer's business objectives.



Good visibility for Cloetta's products

High visibility in stores, and particularly at the checkout stands, is vital for growth in sales. In order to maximize the visibility of Cloetta's products, the sales force also works actively to increase the number of display points in the stores.



Effective sales campaigns in cooperation with the customers

Marketing campaigns are typically combined with sales promotional activities in the stores. The sales force helps retailers to display these.



Ensure compliance with central agreements with the retail trade

The sales force ensures compliance with central agreements and that the agreed range of products is found in the stores.



Boost sales

By being where consumers are found, it is possible to increase sales. The task for Cloetta's sales organization is to continuously seek new non-traditional sales points for selected parts of the product range, but also to increase display space and sales in existing stores.



Cloetta’s sustainability commitment

Cloetta’s overall goal for corporate responsibility is to build sustainable long-term value. For Cloetta, sustainable value is about growing as a company while at the same time ensuring that the people and environments that are affected by Cloetta’s operations or products are positively impacted.



GREATER WELL-BEING EMPLOYEES

Employee well-being is guaranteed through **an attractive** and **safe working environment** in accordance with the UN Global Compact.

Cloetta’s sustainability commitment functions as the road map for building long-term sustainable value. Based on stakeholder dialogues and a materiality analysis, Cloetta has identified four areas which are of key importance for Cloetta to fuel sustainable growth. For all four areas, long-term goals have been identified and matched with clear action programmes and follow-up systems.



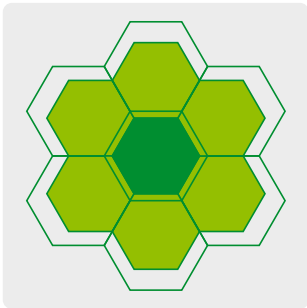
GREATER WELL-BEING CONSUMERS

Consumer well-being is ensured through **high** and **consistent quality** and **sustainable product development**, with a greater share of **natural raw materials** and **less sugar** or **sugar-free products**.

Cloetta’s work with corporate responsibility is governed by the Code of Conduct and the four Cloetta values Focus, Passion, Teamplay and Pride.

Sustainability reporting

Cloetta’s integrated annual and sustainability report is prepared according to GRI G4 Core level standards. The reviewed sustainability report which is equivalent to the statutory

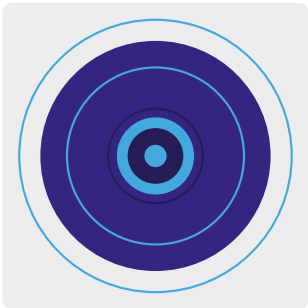


REDUCED ENVIRONMENTAL IMPACT

Environmental impact from Cloetta’s factories to be reduced. Focus on **Energy**, **CO₂** and **Waste**.

More **environmentally friendly** and **sustainable packaging** to be developed.

sustainability report in accordance with the Swedish Annual Accounts Act chapter 6, consists of pages 1–12, 16–18, 20–29, 33, 41–48. The GRI Index is on pages 46–47. The Corporate responsibility section on pages 41–45 describes the basis for sustainability work in more detail as well as how this is governed and organized. How Cloetta has defined materiality issues is also described here.



SUSTAINABLE SOURCING

Cloetta complies with the ten principles of the **UN Global Compact**.

Key suppliers to be approved from a sustainability perspective.

Sustainability programmes are in place for **prioritized raw materials** from developing countries.

6 distinct consumer trends



Genuine raw materials

There is a continued interest in natural and genuine raw materials. Additives of various types and artificially produced substances are being questioned in favour of natural materials. E numbers are being replaced with the name of the additive in plain language. Natural sugar or stevia are preferred over artificial sweeteners.



Greater individualization

Consumers are seeking satisfaction of their individual needs to a greater extent. This means that they want the option of choosing products, but also to have access to products and services that are individualized and can be adapted to different occasions. Pick & mix is a good example of a concept that is individualized.



On-the-go

More and more often, we are eating outside the home on our way to and from different activities. Greater availability and different solutions allow consumers to satisfy their needs immediately.



Responsibility for the environment and working conditions

One key trend is an interest in the effects of food production on the environment and social conditions. Suppliers and retailers have responded to consumer demand for information, above all about the raw materials' origins, quality and cultivation methods by introducing different types of labelling and certification.



Health and less sugar

People are increasingly seeking raw materials with positive health effects.

Cloetta's product range includes nuts, which are rich in vitamins and minerals. Xylitol, which is found in chewing gum and chewy pastilles, is good for dental health.

Cloetta's Red Band offers choices with one totally sugar-free variant, one with 30 per cent less sugar and a vegetarian option.



E-commerce and social media gaining importance

E-commerce is growing rapidly across all sectors, including the grocery retail trade. Both grocery retailers and food producers are building up their own e-commerce capacity to sell their goods online, and new players are also capitalizing on the powerful growth of online sales. Alongside e-commerce, direct communication with consumers via the social media is emerging as one of the most important channels for further developing the brands' personalities and capturing trends.



Consumer well-being



GREATER
WELL-BEING
CONSUMERS

Cloetta’s responsibility for consumer well-being starts with high and consistent quality together with correct and detailed content labelling. Besides these fundamentals, Cloetta is also running a programme with the ambition to meet increasing consumer demand for more healthy products.

Cloetta offers choices

Sugar plays an important role in Cloetta’s assortment when it comes to delivering great taste, pleasure and enjoyment to our consumers. Sugar is also important in bringing structure and preservative properties to the products.

Cloetta’s mission is to bring a smile to consumers’ munchy moments, something that should also include products with alternatives to sugar. Consumers must therefore be able to

find sugar-free products, products with less sugar or those that are naturally free from sugar in Cloetta’s assortment.

By 2020 all Cloetta’s key brands will have a sugar-free alternative or an alternative with a reduced amount of sugar.

No artificial flavours, no artificial colours (NAFNAC)

There is an increasing consumer interest in natural ingredients. Different types of additives and chemically produced substances are being questioned from a health standpoint. Cloetta is therefore conducting a programme aimed at removing artificial flavours and colours from the assortment.

By 2019 Cloetta will use only flavours and colours derived from natural sources.



LESS SUGAR &
SUGAR-FREE

Offers
choices –
sugar-free
for key brands
by 2020.



NAFNAC
No Artificial Flavours &
No Artificial Colours

No
Artificial
Flavours (NAF) or
Colours (NAC)
by 2019

Responsibility for consumer well-being



Fewer calories with stevia

In order to offer products with a reduced calorie content, stevia plays a key role for Cloetta's products. Stevia is a plant native to South America whose leaves contain an intense and natural sweetness. Cloetta uses stevia extract in products such as Läkerol, chewing gum and selected offers of packed confectionary from Red Band.



Nuts – loaded with nutrients

Nuts are a natural source of many vital nutrients and also contain antioxidants. Cashew nuts are rich in iron, folic acid and zinc. Peanuts (which are actually seeds) are rich in protein and contain high levels of Vitamin B3. Almonds (which are actually seeds) are rich in Vitamin E and pistachios are very rich in antioxidants.



Dental benefits with xylitol

Production of the sweetener xylitol, which has fewer calories than natural sugar, was originally started in Finland in the 1970s through extraction from birch sap. Today xylitol is manufactured from various deciduous trees and maize. Xylitol is found in several of Cloetta's chewing gum products, such as Jenkki and Mynthon and the pastille Läkerol DentaFresh.



Natural raw materials

Goody Good Stuff and The Jelly Bean Factory are two examples where Cloetta has implemented the idea of 100 per cent natural ingredients. All artificial colours and flavours have been replaced by natural fruit and plant extracts and all other food additives have been removed.



Clear declaration of ingredients

Cloetta works continuously to develop responsible and clear information about the contents of the products via packages and the website.



High quality and product safety

High quality and product safety are vital in food production and are strictly adhered to in every step of Cloetta's production processes, from inspection of raw materials to finished products. First class raw materials, correct handling and processes according to the recipes create the right flavour, appearance and consistency and eliminate any risks to the consumers.

Goal and outcome for complaints/returns, see page 18.



Supply chain

At year-end 2017 Cloetta had 8 factories in Sweden, Slovakia, the Netherlands, Belgium and Ireland. All in all, Cloetta produced approximately 95,600 tonnes of candy, chocolate, chewing gum, pastilles and nuts in 2017.

Cloetta's supply chain is responsible for production, purchasing, planning, logistics, quality, technology and safety. The top priorities during the year have been to implement and drive the Lean 2020 programme in order to increase efficiencies, prepare and initiate the insourcing of volumes from Candyking, drive the safety culture and to finalize the integration of the factories that came with the acquisition of Lonka in 2015.

Fire in factory

In June 2017, an explosion and a fire destroyed one of the lines in the factory in Turn-

hout, Belgium, and one person was injured. This led to production capacity constraints, and significantly lower volumes were produced after the incident. It also created ripple effects in the factory network when new shifts were set up in some factories and production was outsourced to compensate for lost volumes. This led to higher complexity and additional cost. The effects of the incident impacted the factory network in the second half of 2017 through production of lower volumes. A new production line is expected to be installed during the second quarter of 2018.

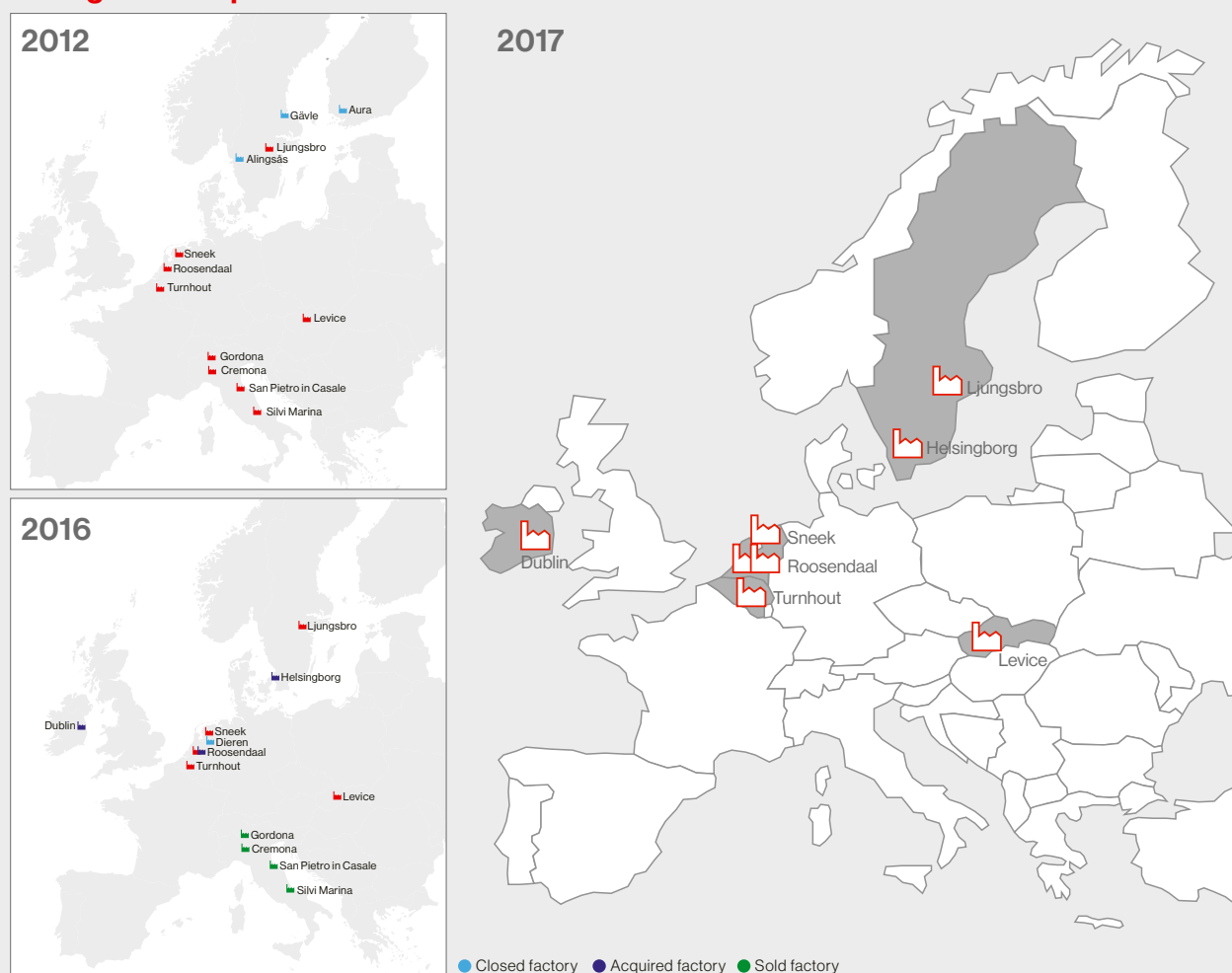
95.6
thousand
tonnes
produced
2017

8

1,580
FACTORY
EMPLOYEES

**Lean
2020**

Changes in the production structure 2012–2017



Production rationalizations and transfers

Between 2012 and 2014 Cloetta implemented a factory restructuring programme in which three factories were closed and production was insourced from third-party suppliers. Moving a production line is a complex process that requires extensive documentation, careful planning, knowledge transfer, technical adaptations and fine-tuning. A physical relocation of machinery is often required. In total, the restructuring programme meant that 40 per cent of the total volume in the Group was transferred in some way.

During 2017 the integration of the factories that came with the acquisition of Lonka was finalized.

In September 2017, Cloetta sold its Italian business including the four factories. Most of the production in the Italian factories was intended for the Italian market, but the products produced on behalf of Cloetta are still being made in the Italian factories but now under a contract manufacturing agreement.

Occupational safety

Employee safety is fundamental to Cloetta and the top priority in every production facili-

ty. The focus is on a program to improve the safety culture that will alter the attitudes and behaviour of employees. Cloetta also works with continuous injury and risk reduction programmes based on real safety data that is translated into specific safety projects with a focus on employee involvement. By increasing safety awareness and encouraging good safety behaviour by everyone in the organization, Cloetta will continue to transform its safety culture and performance.

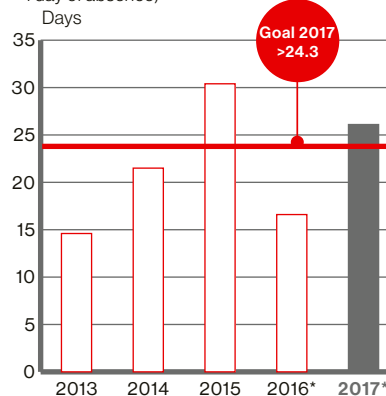
In 2017, the number of occupational injuries fell and the interval between LTAs (Lost-Time Accidents resulting in absence of more than one day) improved by 57 per cent to an average of 26.1 days, compared with 16.6 days in 2016. This outperformed the target of 23.4 days. In total, there were 13 LTAs in 2017, compared with 21 in 2016. The focus for 2018 will continue to be the top four safety risks: machine isolation, hazardous chemical management, fork lift trucks and ATEX (EU Directive regarding explosive atmospheres such as flammable gas and dust, in Cloetta's case dust from flour, for example). The new safety tools and training developed in 2017 will be deployed to support the factories in their work with daily risk reduction. In 2018, Cloetta will also start to track injuries linked

to contractors and use Lost Time Injury Rate (LTIR) as the primary safety KPI (LTIR is the number of occupational accidents (an employee's work stopped more than 24 hours) arisen during a 12-month period for each million hours worked by a group of employees or workers) instead of LTA. This indicator allows Cloetta to make internal comparisons and external benchmarks. The Lost Time Injury Rate target for 2018 is 4.6.

The numbers presented for 2016 and 2017 exclude the Italian factories.

Days between occupational accidents

(number of days between accidents leading to >1 day of absence)



*Excluding the sold Italian operations.

Management systems

Cloetta has a central management system to ensure standardized working methods in its operations. Each production unit has a locally adapted management system that is linked to the central system. Central policies, goals and procedures are broken down and implemented at the factory level.

The management systems cover occupational health and safety, quality, product safety and the environment. These systems are based on international standards (BRC Global Standard for Food Safety, ISO 14001 and OHSAS 18001), recurring risk assessments and continuous improvements.

One important aspect of this working method is a systematized meeting structure for monitoring of results against targets, to detect both positive and negative deviations. Goals and results are visualized for example on displays in the facilities to provide knowledge about the current situation, which contributes to promoting awareness and engagement among the employees. Action can be taken immediately in the event of deviations and systematic follow-up creates scope for proactive improvements.

Read more about Cloetta's environmental work on pages 20–21.

Quality and product safety

Cloetta places rigorous demands on quality and product safety. First class raw materials and correct treatment and processing methods are essential for manufacturing of high quality confectionery.

Continuous efforts are made to ensure that the products meet the requirements and expectations of consumers and retailers. For each product there is a quality specification describing the required flavour, aroma, appearance, consistency and package. No azo food colourings are used in Cloetta's products.

All of Cloetta's factories are certified according to the BRC Global Standard for Food Safety. BRC is a standard for assurance of product safety and quality, and is one of the cornerstones of Cloetta's quality management.

The product safety work is based on the HACCP method (Hazard Analysis Critical Control Points). With the help of the HACCP method it is possible to analyze potential risks to the consumer. This provides a basis for steering and control of the entire process, from purchasing of raw materials to delivery of finished products, in order to eliminate and minimize all conceivable consumer risks.

Both the BRC standard and EU food product legislation require traceability of raw materials and products. This traceability has been assured and is tested regularly. Cloetta has a detailed action plan to enable rapid recall of a product from the market if needed.



Planning and logistics

Effective production planning leads to lower capital tied up in the form of inventories of both raw materials and finished products, at the same time that it increases the service level. Delivery reliability is one of the most critical parameters for the retail trade. Cloetta has a well-developed planning system that integrates the entire value chain from supplier to production and final customer. The system also integrates financial planning and prices.

Cloetta works continuously to optimize its flows and working methods, both internally and externally, together with customers and suppliers.

Purchasing

Cloetta's largest cost items in production, accounting for around 70 per cent of total costs, are raw materials, finished goods and packaging.

Raw materials are purchased only from suppliers that can be verified against Cloetta's ethical, quality, product, safety and environmental requirements. Suppliers to Cloetta are evaluated and approved before they are permitted to deliver raw 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.

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

Cloetta's range includes products that are produced by other manufacturers. External production is outsourced only to manufacturers following approval by Cloetta, according

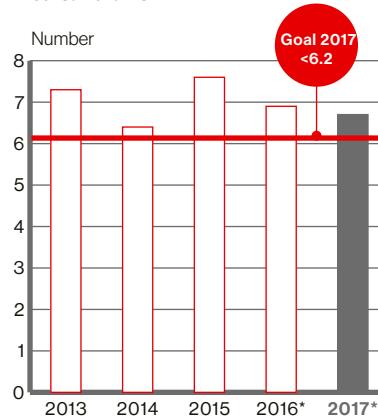
to the same high quality standards that apply to production in Cloetta's own factories. External manufacturers are evaluated and tested regularly.

Consumer and customer feedback

Feedback from individual consumers is extremely valuable in Cloetta's pursuit of continuous improvements.

Each market has a Consumer Service unit that receives, investigates and responds to consumer and customer feedback and complaints. In case of possible quality defects, Consumer Service always contacts the factory in question. The affected factory then uses the information provided by the consumer to systematically find the root causes of any defects and thereby eliminate them. Many of the complaints are related to the mix of products in the bags and damaged packaging.

Complaints, feedback per million sold consumer units



*Excluding the sold Italian operations.

The result for 2017 was an improvement compared to last year due to an increased focus on Cloetta's product quality management system.

Success factors for production



Engaged employees

Good communication about processes and goals creates engaged employees who understand the business and how their work contributes to the Group's overall results.



Employee safety

A safe working environment is a fundamental right for each employee. Being and feeling safe on the job is essential in order to develop and perform well in the workplace.



Flexibility

A production line is often used for several different products. Rapid changeovers and cleaning are vital for high machine capacity utilization. Flexibility also means that each employee is able to work on more than one line.



High and consistent quality

The goal is to always deliver safe products with the right flavour, appearance and consistency according to their respective specifications.



Delivery reliability

Good production planning is decisive for effective production and low warehousing costs, but also for delivery reliability to the customers.

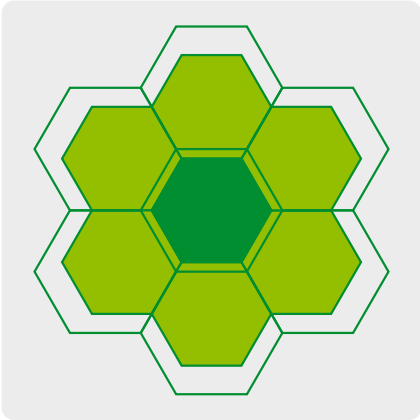


Cost-efficiency

Cloetta's sales are based on large volumes. Cost-efficiency is necessary in order to stay competitive.



Reduced environmental impact



REDUCED ENVIRONMENTAL IMPACT

The Paris Agreement was signed in 2016. The agreement provides a pathway and a direction not only for governments but also for companies around the world.

It also sends a signal that it is urgent – we must act now to avoid serious climate change for future generations.

Fighting climate change

Cloetta’s primary focus in the fight against climate change is within the following three areas:

- reduction of greenhouse gases,
- increased energy efficiency and
- reduction of waste.

The scope of reducing Cloetta’s environmental impact lies within the production network – the emissions and waste generated by Cloetta’s operations.

For the three areas above, Cloetta has defined long-term goals to be reached by 2020. The action programme in place to reach the 2020 goals is incorporated into

Cloetta’s Lean programme, where the vision is to benchmark against world class production with the aim of achieving operational excellence.

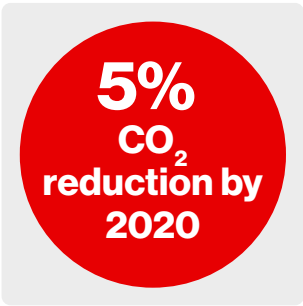
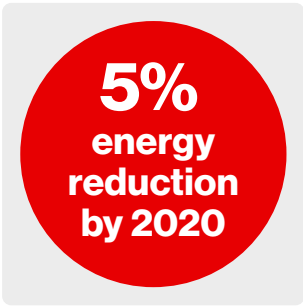
All of Cloetta’s production units conduct systematic environmental management that includes action plans and monitoring in several different areas.

By 2020 Cloetta will reduce energy consumption and CO₂ emissions in relation to produced volume (MWh/tonne) by 5 per cent and the volume of waste in relation to produced volume (kg/tonne) by 25 per cent.

Sustainable packaging

Waste is also generated in the final stage of the life cycle of a Cloetta product – disposal of packaging material. To reduce the environmental impact of this final stage, Cloetta has defined a sustainable packaging programme.

By 2020 all PVC will be phased out and by 2025 all of Cloetta’s packaging material will be 100% recyclable/recoverable. By 2019 Cloetta will launch its first bio-based packaging material.



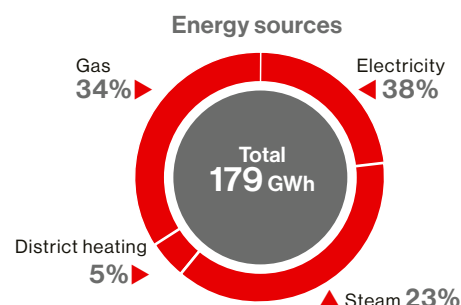
Environmental key performance indicators

| | 2017 ¹ | 2016 ¹ | 2015 | 2014 |
|--|-------------------|-------------------|------|------|
| Total energy consumption, GWh ² | 179 | 180 | 215 | 216 |
| Energy consumption per produced tonne, MWh ² | 1.85 | 1.80 | 1.85 | 1.88 |
| CO ₂ per produced kilo, kg ² | 0.29 | 0.30 | 0.35 | 0.34 |
| Waste per produced tonne, kg ³ | 67 | 64 | 67 | 66 |
| Recycled waste, % ³ | 82 | 81 | 81 | 80 |
| Wastewater per produced tonne, m ³ , ³ | 1.7 | 1.5 | 2.9 | 2.9 |
| COD* per produced tonne, kg ³ | 14.2 | 15.0 | 17.6 | 16.6 |

1) Excluding the sold Italian operations. Roosendaal Borchwerf is included as of 2016. For this reason, the Group's targets have been adjusted slightly.

2) Compared to the 2016 report, comparative figures for 2014 and 2015 have been adjusted, since Roosendaal Borchwerf is now included.

3) The factories in Dublin, Helsingborg and Roosendaal Borchwerf are included as of 2016.



Energy and CO₂ emissions

Alongside efforts to reduce energy consumption, Cloetta is also working to choose energy types with the smallest possible negative impact on the environment. For that reason, the total amount of energy used is converted to the amount of CO₂ equivalents generated by the chosen energy types.

As a result of efficiency improvements the total amount of energy used in the factories decreased. Due to a lower produced volume during the year the energy consumption per produced tonne increased to 1.85 MWh/tonne (1.80). In 2017 Cloetta had emissions of 0.29 kg CO₂ per produced kg (0.30). CO₂ emissions within scope 1 (direct emissions) amounted to around 11,700 tonnes in 2017, while the corresponding figure for scope 2 (indirect emissions) was 16,600 tonnes in 2017. Cloetta purchases renewable electricity for some of the factories, and assumes 0 kg in CO₂ emissions for this power. During the year a large proportion of renewable energy was purchased which, despite a lower produced volume, means that the amount of CO₂ per produced kg fell.

Transports

Cloetta calculates CO₂ emissions from transports that Cloetta is responsible for. In 2017 38 kg of CO₂ were released per transported tonne. To reduce both freight costs and CO₂ emissions, Cloetta uses stackable pallets and chooses transporters that have a higher load capacity and who use a combination of road/rail/water transports, when possible. If viable, without jeopardizing product quality, refrigerated transports are avoided.

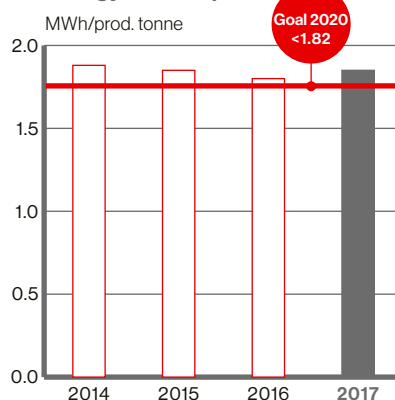
Waste management

All of Cloetta's production units pre-sort their waste. A reduction in raw material waste has a positive impact on both the environment and the Group's total costs. Due to more efficient sorting, 82 per cent (81) of waste is recovered/recycled. The volume of hazardous waste is very minor and consists of fluorescent light tubes and similar.

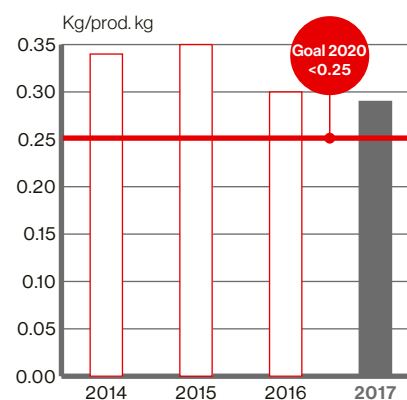
Wastewater

The volume of wastewater was 1.66 m³ (1.51) per produced tonne. In addition to the

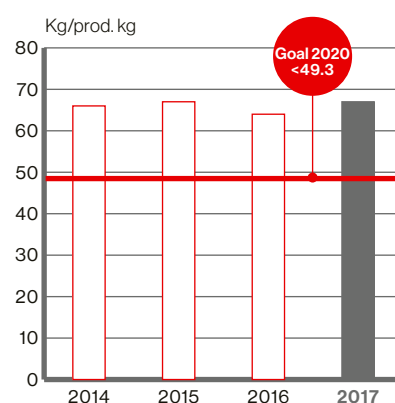
Energy consumption



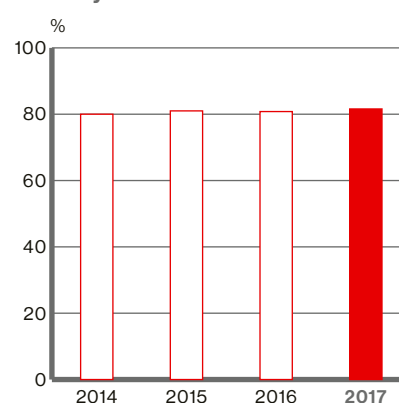
Carbon dioxide emissions



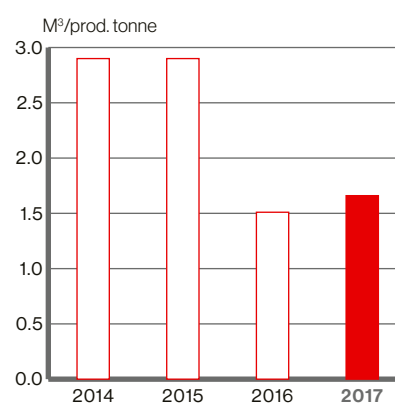
Waste



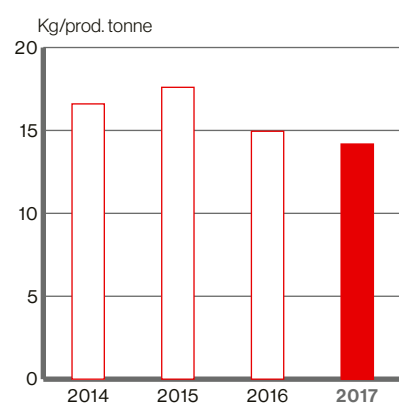
Recycled waste



Wastewater



COD*



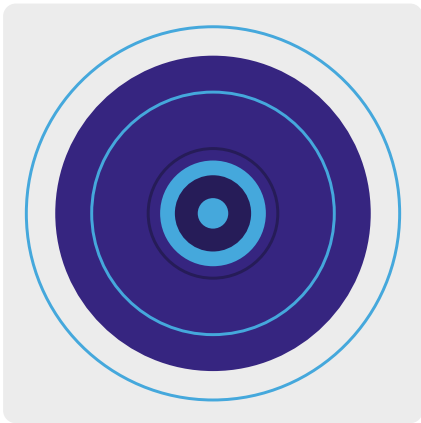
* COD (Chemical Oxygen Demand), is a measure of the amount of oxygen consumed in complete chemical decomposition or organic compounds in water.

three prioritized goals, Cloetta is working to improve the wastewater quality. Cloetta rates this quality among other things in terms of COD (Chemical Oxygen Demand), which measures the amount of oxygen consumed in complete chemical decomposition or organic compounds in water. More efficient cleaning

routines have reduced COD emissions in relation to produced volume. There are several projects in progress to improve the quality of the wastewater.



Sustainable sourcing



SUSTAINABLE SOURCING

By incorporating sustainability aspects into the sourcing strategy, Cloetta creates a platform for ensuring the supply of high quality raw materials to the factories while at the same time improving opportunities for the growers in the countries of origin to develop sustainable farming methods.

Supplier approval process

First of all, sustainable sourcing at Cloetta is about having control one step back in the supply chain, i.e. to the first line of suppliers. Raw materials are purchased only from suppliers that can be verified and approved against Cloetta's Code of Conduct for suppliers.

Based on a risk assessment, certain suppliers are physically audited according to an established schedule. Cloetta's Code of

Conduct for suppliers is based on the 10 principles in the UN Global Compact.

Sustainability programmes for prioritized raw materials

Secondly, sustainable sourcing at Cloetta is aimed at directly addressing different types of social, environmental and economic challenges in the countries of origin for prioritized raw materials. Cloetta's sustainable sourcing programme for prioritized raw materials is based on external certifications and/or verification according to the guidelines defined in Cloetta's Code of Conduct.

So far, Cloetta has a sustainability programme in place for cocoa, palm and shea butter. By 2020, Cloetta will also have sustainability programmes in place for cane sugar, gum arabic and cashew nuts.

Goal

100%

suppliers approved according to the principles of UN Global Compact

Proud member of Bonsucro

RSPO

UTZ Certified cocoa

Sustainability programs developed for cocoa, palm and shea butter

By 2020

sustainability programs in place for prioritized materials

Sustainable cocoa farming through UTZ

Through UTZ the cocoa farmers are given

- Training in new farming methods.
- Support in buying better plants, which leads to a higher yield.
- UTZ-certified cocoa growers produce more than growers not affiliated with UTZ.



COCOA

Cocoa is cultivated by around 5 million farmers and employs some 40 million people, of whom close to 70% are found in West Africa, primarily Ghana and Cote d'Ivoire.



Greater knowledge results in higher quality crops

- UTZ-certified cocoa farmers in Cote d'Ivoire have higher knowledge levels than those who are not UTZ-certified, and **83%** have shared this knowledge with their families, their employees and others.

UTZ-certified cocoa growers produce more

Cocoa farmers in Cote d'Ivoire

UTZ-certified
467 kg/hectare

Not UTZ-certified
315 kg/hectare

A better life for cocoa growers in Cote d'Ivoire

92% of UTZ certified farmers experienced positive changes from certification.

82 % mentioned living conditions had improved.

49 % of UTZ farmers use increased cocoa revenues to send their children to school.

Sustainable cocoa

Since 2014 Cloetta buys only sustainable cocoa from UTZ-certified farmers. For Cloetta it is vital to address the challenges facing the cocoa growers in West Africa. By switching to sustainable cocoa from UTZ-certified farmers, Cloetta creates a platform for securing a supply of high quality cocoa to the factories while providing better possibilities for West African cocoa growers to develop sustainable farming.

Sourcing of cocoa

West Africa accounts for around 70 per cent of the total global harvest of cocoa beans. Local intermediaries then distribute the raw materials to the international cocoa wholesalers, after which the cocoa is sent to Europe. Every year, Cloetta buys approximately 3,000 tonnes of cocoa in the form of cocoa liquor, cocoa butter and cocoa powder from suppliers in Europe.

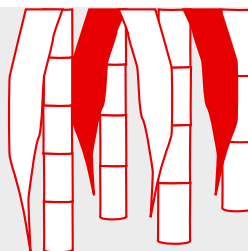
Low productivity for the cocoa farmers

The West African cocoa farmers face a number of economic, social and environmental challenges, of which low productivity on the farms is one of the most critical. Limited knowledge about how to grow high quality cocoa in an efficient manner is a root cause behind the farmers' low productivity. The farmers are also struggling with aging cocoa trees and declining soil fertility at the same time that they often lack the means to finance investments in new plants, fertilizers, etc.

Bonsucro certifies for sustainable sugarcane production



470
Members



SUGARCANE

Bonsucro's global standard for sustainable sugarcane is based on

1. Legal compliance.
2. Biodiversity and environmental impact.
3. Human rights.
4. Production and processing.
5. Continuous improvements.

Over
800,000
hectares
are certified according
to Bonsucro's standard

Worker wages are
on average
19%
higher than
minimum wage
(at farms and mills)

Better yield
An analysis performed on
Brazil's Centre-South
productivity has shown that
certified mills in the region
achieve on average
18 %
higher yields compared to
non-certified mills.

Sugarcane

There are a number of sustainability challenges in the sugarcane industry. Deforestation is one of the most acute, but other problems related to the rights of indigenous

peoples and the work environment also exist.

To address the sustainability challenges found in the sugarcane industry, Cloetta has become a member of Bonsucro. Most of the sugar purchased by Cloetta is of European

origin and comes originally from sugar beets. As a result of the current market dynamics in Europe, Cloetta also buys sugar derived from sugarcane.

Sustainable palm oil through RSPO-certification

8

principles that growers must respect

1. Commitment to transparency.
2. Compliance with laws and regulations.
3. Commitment to long-term economic and financial viability.
4. Use of appropriate best practices by growers and millers.
5. Environmental responsibility and conservation of natural resources and biodiversity.
6. Responsible consideration of employees, and of communities and individuals affected by growers and mills.
7. Responsible development of new plantings.
8. Commitment to continuous improvement in key areas of activity.

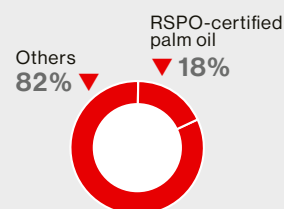
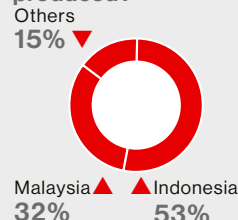


In certain regions, cultivation of palm oil has caused and continues to cause destruction of rain forest.

By respecting eight key principles, it is possible to reduce the negative impacts of palm oil cultivation on the environment and communities.

Around
85%
of all palm oil in
the world comes from
Malaysia and
Indonesia.

Where is palm oil
produced?



Palm oil

Some of Cloetta's products contain small amounts of palm oil. However, Cloetta does not buy pure palm oil but only oils and fats that contain derivatives of palm oil to a varying extent.

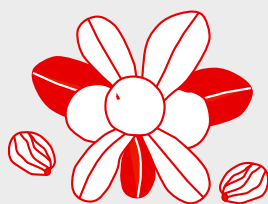
Cloetta's palm oil policy

In order to improve traceability, Cloetta started moving to 100% RSPO-segregated palm oil in 2017 in Cloetta's chocolate and fudge range. Certification towards the standard will be done in 2018. This means that Cloetta will know which mills, and related plantations, the palm oil comes from. Cloetta's suppliers must accept Cloetta's

requirement not to permit palm oil extraction in primary forest, peatlands, areas with protected forest or areas where slash and burn farming is used in plantation operation.

In 2017, the majority of the amount of palm oil that is found in Cloetta's glazing agents was also replaced. This means that the vast majority of Cloetta's products were free from palm oil at the end of 2017.

Sustainable shea butter – empowering women in rural West Africa



More than
100,000
women engaged.

In 2017 Cloetta decided to partner up with AAK (a specialist in oils and fats solutions) for sustainable shea butter. In a number of West African countries, AAK has set up a sustainability programme for direct sourcing of shea kernels that empowers rural women. The partnership means that from July 2018 and onwards, Cloetta will only source segregated and traceable shea butter that falls under the scope of the AAK direct sourcing programme.

The programme setup

From Tamale (Ghana), AAK is running a programme office for sustainable shea kernels. The basic principle of the programme is to establish a direct relationship with the rural West African women. Traditionally, the supply chain contains a series of middlemen

who give the women the status of price-takers in the market.

One prerequisite for the programme is that AAK helps the women to organize themselves into producer groups, normally consisting of women from the local village. By organizing the women in producer groups, AAK can build a direct buying relationship with the women. AAK then trains the women in business management and in good post-harvest practices. The main advantage for the women is a higher return, as they will be paid the same price that AAK would otherwise have paid to the middlemen. It is also a guaranteed outlet for all of their shea kernels. The advantage for AAK and Cloetta is a more secure, transparent and sustainable supply chain with increased opportunities to impact the quality of the shea kernels.

Another important benefit for the women is the possibility of obtaining pre-financing. At the beginning of the season, AAK extension officers visit the producer groups to discuss the women's outlook for the season. Part of the volume is then pre-financed and the women are paid this money at a time of year when they have little or no other source of income. It is also a guarantee that AAK will come back and buy all their shea kernels. The pre-financing is interest-free – it's an advance payment, not a loan.

The programme has been running since 2009 in Burkina Faso and since 2015 in Ghana. More than 100,000 women are engaged in the programme, which has had a major impact on the lives of the many women and their families.



Employees



GREATER WELL-BEING EMPLOYEES

Greater well-being, employees

Cloetta is driven by a conviction that value is created by the employees, and that the ability to attract, retain and develop the best and most competent people is crucial for the company's success. It is also very important that the safety of our employees is continuously improved.

Safety first

In production, employee safety is always the top priority. Feeling safe in the workplace is a prerequisite for performing well. For this reason, all factories carry out continuous risk assessments to minimize the risk for accidents. All incidents and injuries are followed up and reported. The Lean method is used to prevent and minimize production-related occupational injuries. Thanks to these systematic efforts, the number of occupational injuries has been reduced in recent years. The metric for occupational accidents with effect from 2018 will be Lost Time Injury Rate (LTIR), that is the number of accidents resulting in absence. LTIR is defined as the number of occupational accidents (measured as 24 hours absence) for each million hours worked by a group of employees or contractors. The Injury Rate target for 2018 is 4.6.

Working environment

Efforts to improve and develop the working environment are a natural aspect of operational development and the goal is to create a good physical working environment and a healthy working climate where everyone can feel secure and pursue personal development.

One essential part of a secure working environment is to ensure that no one is subject to discrimination or sexual harassment. Cloetta aims to be a workplace where diversity and the different qualities, knowledge and skills of all employees are respected regardless of gender, religion, ethnic background, age, race and sexual orientation.

An attractive workplace

To create an attractive workplace for all employees, it is essential that there is a genuine interest in understanding how the employees see their place of work, i.e. what they appreciate and what they find lacking or are simply dissatisfied with. On a bi-annual basis Cloetta therefor conducts the Great Place to Work survey, where the results are analyzed and corrective action plans are set into place.



FACTORY
SAFETY
PROGRAMS



SAFETY

< 4.6
Lost Time
Injury Rate
by 2018

Improve
Great Place
to Work
trust index



Cloetta is driven by a conviction that value is created by the employees, and that the ability to attract and retain the best and most competent people is decisive for the company's future.

Cloetta works determinedly to create an attractive workplace for all employees and promote the development of a high-performing organization by continuously developing and training its staff, designing competitive remuneration systems, upholding an inspiring corporate culture and building a clear corporate identity.

Employee survey – Great Place to Work

To create an attractive workplace for all employees, it is essential that there is a genuine interest in understanding how the employees see their place of work, i.e. what they appreciate and what they find lacking or are simply dissatisfied with.

According to Great Place to Work, the best workplaces are built through day-to-day relationships. From the employees' perspective, a good workplace is one where you:

- trust the people you work for,
- have pride in what you do, and
- enjoy the people you work with.

The goal is that Great Place to Work – the Trust Index will be in line with or exceed the previous year's level. During the year Cloetta

conducted the recurring employee survey "Great Place to Work" in the supply chain. The response rate was as high as in 2014, when 80 per cent of the employees participated. One thing that is certain is that the results in the production organization are lower than in the commercial units, where the survey was conducted last year. This is not unique to Cloetta. The combined result for Cloetta's production units was lower than the previous measurement since the so-called Trust Index result amounted to 46 per cent compared to 52 per cent. In general, the production organization faced challenges in 2017 and also worked hard with changes where the efficiency improvement tool and training in various Lean tools were in focus. This climate of change has had an impact on the results for Great Place to Work.

Follow-up

In 2017 Cloetta has therefore made an in-depth analysis of each factory's and department's results for "Great Place to Work". This work has been done to ascertain the underlying factors for the current results and what can be improved ahead of 2018 and onwards with regard to attitudes, working

methods and communication. This is an important collaboration with joint responsibility between managers, employees and trade unions.

To improve handling and communication related to the survey and to maintain the focus on ongoing improvement initiatives, the survey is conducted every other year in the commercial units and every other year in the supply chain.

So, in 2018 it is once again time for the commercial units to carry out their "Great Place to Work" survey. The base will be somewhat different at that time, since Candyking will be included in the different countries. The goal is to improve the Trust Index for the commercial units by 2 per cent per country.

Relationship between the company and the employees

Cloetta strives to uphold a relationship of mutual respect and trust between the company and its employees. This also steers the company's way of working with the European Works Councils, local company councils and trade unions organizations. Cloetta complies with the applicable laws and regulations in the countries where the Group is active and

respects local norms and values. In addition, the Group's principles are consistent with the relevant International Labour Organization (ILO) conventions.

Cloetta encourages a good balance between professional and personal life. It is important to help both men and women combine the demands of their jobs with responsibility for home and family. The Group therefore supports flexible work arrangements like flex-time and part-time hours, when possible.

Cloetta's whistleblower service gives all of Cloetta's employees the opportunity to report, either anonymously or via a manager, concerns about conduct that is not in line with the company's values or ethical principles. Read more on page 43.

A good and safe working environment

Efforts to improve and develop the working environment are a natural aspect of operational development and the goal is to create a good physical working environment and a healthy working climate where each individual can feel secure and pursue personal development.

In production, employee safety is always the top priority and all of the factories perform continuous risk assessments to minimize the risk for accidents. All incidents and injuries are followed up and reported. The Lean method is used to prevent and reduce production-related occupational injuries. Managers are responsible for preventing occupational illnesses and accidents through monitoring and active measures. Cloetta's HR department has developed a tool that makes it possible, together with managers that have staff responsibility, to detect early signals that can lead to illness and thereby indicate a risk for long-term sickness absence. After a couple of years with a steady decrease in occupational injuries, the trend was broken

in 2016 and the target was not met. A new safety standard was therefore drawn up for immediate implementation in all factories, an effort that has had high priority in 2017. This paid off during 2017 and led to a decrease in occupational injuries compared to 2016. Read more on page 17.

In the past two years the "Cloetta Energy" programme was rolled out in certain parts of the organization – a health promotion program utilizing different activities that include lectures and training with a focus on exercise, diet and sleep as key components for achieving a healthy work/life balance. This programme will continue in 2018.

Diversity

One vital part of a safe working environment is that no one should be subject to discrimination or sexual harassment. Cloetta aims to be a workplace where diversity and the different qualities, knowledge and skills of all employees are respected regardless of gender, religion, ethnic background, age, race and sexual orientation. Questions about whether anyone feels that they have been harassed or discriminated against are included in the employee survey "Great Place to Work".

The right expertise

Cloetta is committed to continuously renewing and utilizing the Group's aggregated expertise. Competent employees that are given scope to realize their full potential create the conditions for Cloetta to maintain its position as an attractive and innovative partner not only for the employees but also for customers, suppliers and business partners. A learning-driven organization that works in project form and the use of cross functional teamwork in day-to-day activities are important components of Cloetta's skills development. All skills development is designed to support Cloetta's strategies, to be business-oriented and to promote the individual's professional interests and needs.

The main focus areas are to develop the right people for the right jobs and to continuously clarify and improve roles, responsibilities and working methods throughout the organization. In recent years there has been a major initiative, primarily in production, to work according to Lean.

Employer branding

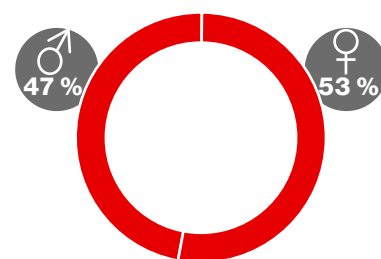
Cloetta strives to be an attractive employer in the markets where the company is active and thereby retain valuable employees.

All recruitment takes place locally with the support of centrally developed tools that include both skills tests and self-assessment tests. For all positions, the selection is based on a job description with specific set of competencies against which the candidates'



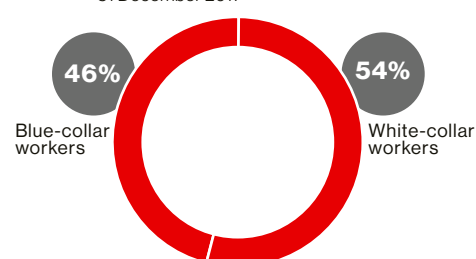
Gender distribution

31 December 2017



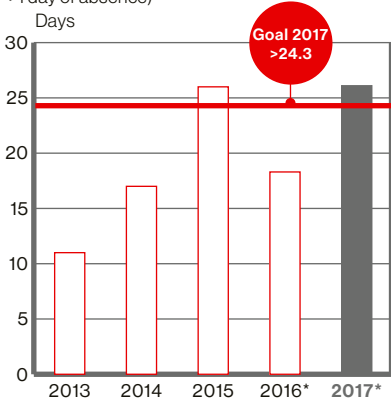
Employee categories

31 December 2017



Days between occupational accidents

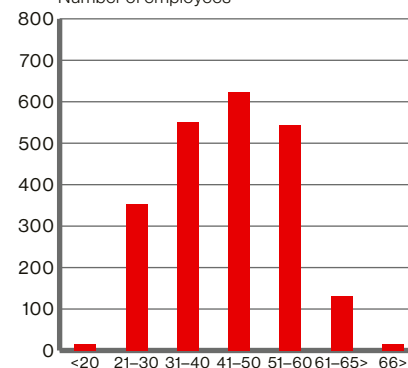
(number of days between accidents leading to >1 day of absence)



*Excluding the sold Italian operations.

Age distribution*

Number of employees



* Excluding Candyking



performance is measured, in combination with analysis of the various tests and interview material.

In 2016 an internal survey was conducted with questions about why people have chosen to work at Cloetta and what makes them want to stay. People who have been employed

by Cloetta for no more than one year were invited to take part. The results show that a majority of employees feel they have been given far-reaching personal responsibility and scope to work independently.

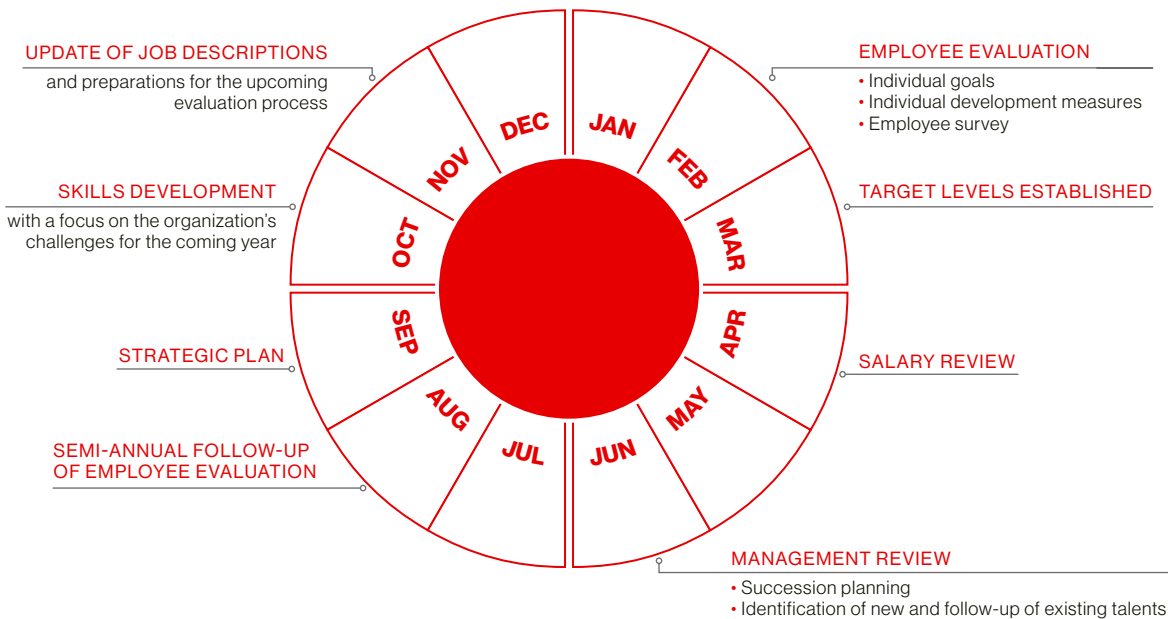
With the help of feedback from the internal survey, Cloetta has initiated a joint

platform for communication about Employer Branding, which is planned to be launched in 2018.

Cloetta's leadership

As a leader, it is vital that you dare to trust in both your own leadership and in others. It is

Cloetta's HR wheel



Cloetta's HR work follows an annual cycle of activities aimed at building and raising the level of expertise in the organization. Most of the activities in Cloetta's HR wheel as described apply primarily to salaried employees.

also essential to understand each other and why different individuals act differently in similar situations.

For some time Cloetta has worked with the leadership tool Management Drives, which is based on the use of a questionnaire that among other things identifies the drives for each employee, what energizes them and what drains them of energy. By using this leadership tool, both managers and employees are made aware of their own profiles and thereby which working methods suit them best. In 2016 the company further developed its leadership tool through the launch of Cloetta's Leadership Dimensions.

Cloetta's Leadership Dimensions

- Visionary Leadership
- People Leadership
- Entrepreneurial Leadership
- Structured Leadership
- Committed Leadership
- Trusted Leadership

Each dimension is briefly described with the help of several competencies and behaviours that are tied together with Management Drives. By combining the concepts in Management Drives with Cloetta's Leadership Dimensions, the company has created a set of concepts that show who Cloetta's employees are and what type of leaders and employees Cloetta wants to be. Good leadership is essential in inspiring maximum motivation and performance in the various teams and plays a vital role in realizing Cloetta's vision and goals.

In 2016–2017, 100 managers were trained in Cloetta's Leadership Dimensions at the central level, where the Group Management Team also took part. Since then, the focus has been on the ongoing local rollout in a number of countries. Cloetta's Leadership Dimensions, connected to Management Drives, have given Cloetta a common language and working tools that can be handled in areas such as development, conflict management and team building activities.

Framework for remuneration

One major factor in how employees perceive the attractiveness of their workplace is the feeling that they are fairly paid and that there is a well-designed salary structure in the company.

For several years Cloetta has made comparisons with other companies to ensure a clear framework and strategy for Cloetta's remuneration/ salary structure. All positions at Cloetta have been evaluated and plotted on a matrix where comparable jobs are ranked similarly regardless of company or function. This has then been supplemented with a salary structure that is benchmarked against other consumer goods companies in each country. The results provide an excellent basis for upcoming salary reviews, where the existing salary level and the year's performance are key parameters in the framework that has been established.

Number of employees

The average number of employees in 2017 was 2,467 (2,115). 70 per cent of the

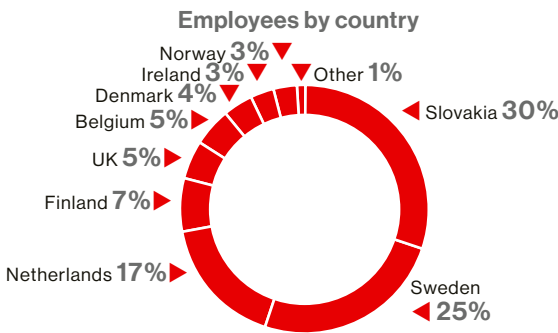
employees are covered by collective agreements. The employees at Cloetta's factory in Levice, the factory not covered by a collective agreement, are instead covered by a separate agreement. Of the average number of employees, 46 per cent are employed under collective agreements and 54 per cent are salaried employees.

In production there are certain periods with a higher workload, such as the spring run-up to Easter and the autumn run-up to Christmas, when extra staff is hired. Other areas of operation also use temporary and extra staff. Temporary staff accounted for approx. 9.7 per cent.

Flat organization for shorter decision-making processes

Cloetta has employees in 14 countries who are active in sales and marketing, production, innovation and support functions. Cloetta's head office is located in Stockholm.

Cloetta is organized according to function and its commercial activities are organized separately from the supply chain organization. As of 2018, finance and human resources will report by function and not directly in the line organization. One of the foremost tasks is to build and strengthen uniform processes and routines. Responsibility for business development, corporate communications, business control, marketing strategies, HR and certain financial activities like tax, financial administration, insurance and financial control are handled by central staffs.



Average number of employees and sickness absence

| Employees | Slovakia | Sweden | The Netherlands | Finland | UK | Belgium | Denmark | Ireland | Norway | Italy | Germany | Other | Total |
|-----------------------------|----------|--------|-----------------|---------|-----|---------|---------|---------|--------|-------|---------|-------|-------|
| Average number of employees | 744 | 610 | 415 | 168 | 128 | 124 | 104 | 83 | 67 | 10 | 8 | 6 | 2,467 |
| – of whom, women | 502 | 315 | 129 | 132 | 86 | 24 | 52 | 34 | 31 | 6 | 3 | 5 | 1,319 |
| Sickness absence, %* | 8.4 | 4.8 | 5.4 | 2.3 | 0.0 | 6.2 | 1.7 | 2.0 | 6.8 | 0.0 | 2.4 | | |

* Excluding Candyking

Frequently asked questions to Cloetta

Why don't you sell product X or Y anymore, and do you have any plans to launch product Z?

If we no longer sell a product, this is unfortunately often due to insufficient demand for the product in question. In certain cases, it could also be because the product's profitability has been too low or even negative. The launch of new product types can sometimes be difficult if we lack a brand that can carry them, at the same time that the necessary marketing investments would be so high that the products wouldn't be profitable.

How will you meet your margin target?

Profitable growth and increased cost efficiency will contribute to higher earnings. The integration of Candyking will create substantial synergies and we are currently also implementing the Lean 2020 programme in the supply chain that will help to boost profitability.

When will you meet your 14 per cent margin target for adjusted operating profit?

In the last few years we have gradually strengthened our margin, although it declined in 2017 due to the inclusion of Candyking and a lower EBIT as a result of lower production volumes. Our EBIT margin target remains intact, but we have never set a specific timeline for reaching the target.

What is your pricing strategy?

We adjust our prices based mainly on fluctuations in raw material costs and exchange rates.

This means that over time, Cloetta will hopefully avoid the impact of cost trends on raw materials. Sometimes we also adjust prices in connection with initiatives such as new product launches or changes in packages.

Do you plan to make additional acquisitions, and if so, in which countries?

We aim to pursue acquisitions that are consistent with our Munchy Moments strategy. This means that we acquire companies with impulse-driven brands that are well suited to our categories and our distribution chain.

Will you use the strong cash flow for acquisitions, to reduce debt or to pay dividends to the shareholders?

In 2017 we reached our targeted net debt/EBITDA ratio of 2.5x and we feel that we have the capacity for both acquisitions and share dividends. The dividend payout ratio should be 40 – 60 per cent of net profit. However, we see no reason to reduce the net debt/EBITDA ratio to a level much lower than 2.5x.

How is Cloetta affected by the ongoing debates about sugar, health and childhood obesity?

The major challenge in this context is hidden sugar, i.e. the sugar hidden in everyday food products like breakfast cereals, yoghurt, bread, etc., and to a certain extent also carbonated beverages. The discussion should focus on consumption of these "sugar traps". Cloetta's products are among the

most honest, since all consumers are aware that they contain sugar. Furthermore, for those seeking an alternative to products with sugar, Cloetta offers options such as nuts, chewing gum with xylitol and pastilles. In addition, we are developing candy with lower sugar and no sugar.

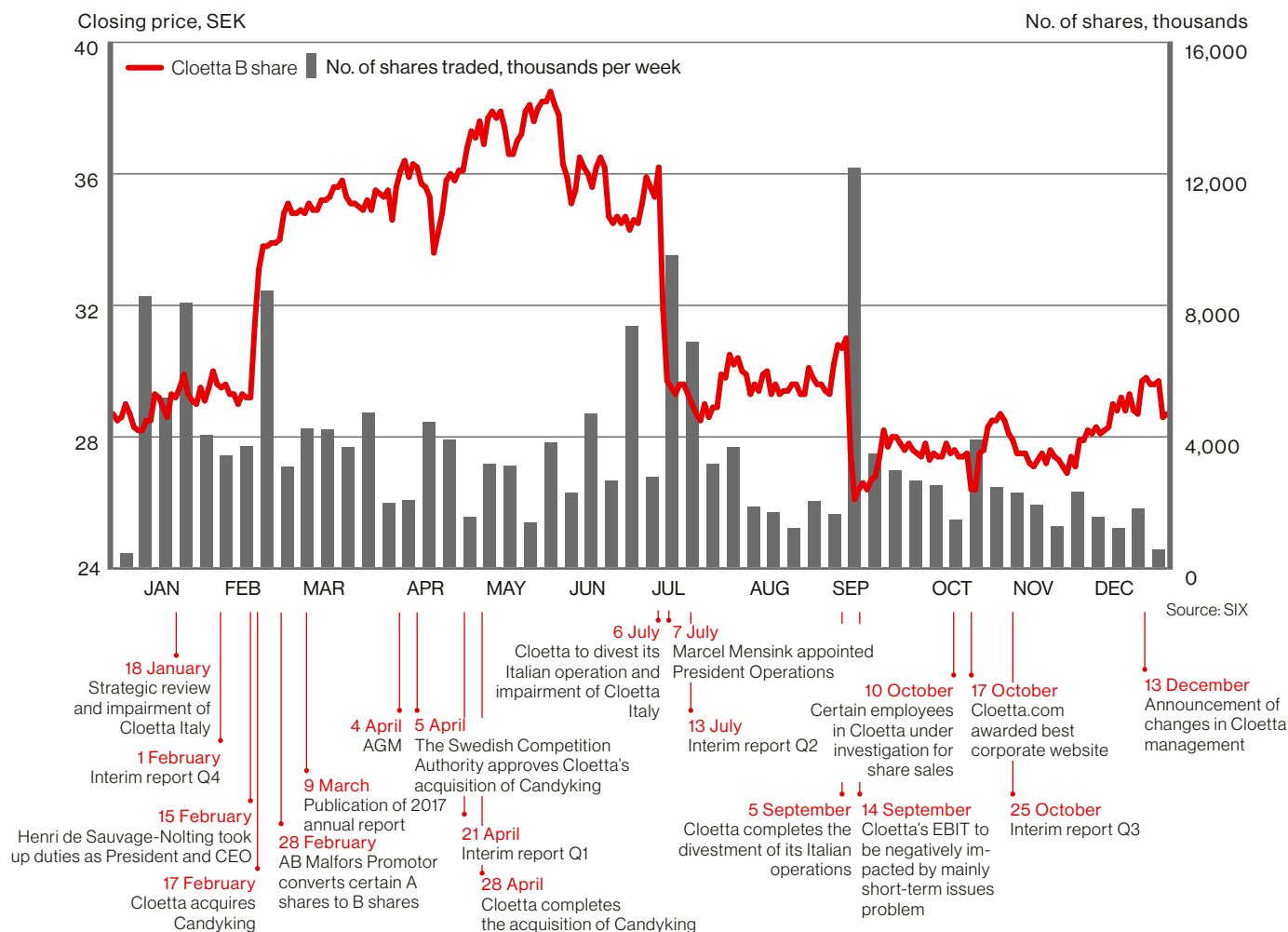
How big is the risk that various sugar taxes will be introduced, and how will that affect you?

In general, we have to reckon with the possibility that different countries will both introduce and abolish sugar and confectionery taxes from time to time. When different taxes are introduced it naturally affects our sales, but only to a fairly minor extent since our products are of a type that consumers want, and can afford, to treat themselves to despite price increases.

Why do you use palm oil in your products?

As of 2018, we will have eliminated palm oil from all products with the exception of certain chocolate and fudge products and some products from the recently acquired Candyking. In those products where there is no satisfactory alternative to palm oil, mainly chocolate, we will use RSPO-segregated palm oil.

Share price performance during 2017



Risks and risk management

Uncertainty about future events is a natural part of all business activities. Future events can have a positive impact on operations through opportunities to create increased value, or a negative impact through risks that can have an adverse effect on Cloetta's business and results.

Risks can arise as a result of events or decisions that are beyond Cloetta's control, but they can also be an effect of incorrect handling within Cloetta or among its suppliers or customers.

Organization for risk management

Cloetta's Board of Directors is responsible to the shareholders for handling the company's risk management. Decisions regarding risks associated with business development and long-term strategic planning are prepared and discussed by the Group Management Team and decisions are made by the Board of Directors.

The Group Management Team continuously reports to the Board of Directors on risk areas such as the Group's financial status and compliance with the Group's finance policy. The operational risk management that is handled at all levels in the organization is regulated by Cloetta's Code of Conduct and a number of central policies.

Identification of risks

The identification of risks and proactive measures to limit them or prevent them from materializing and having a negative impact on operations are of fundamental importance for operations and are a central part of every manager's responsibility at Cloetta. Cloetta works continuously to assess and evaluate the risks to which the Group is, and can be, exposed. All events that could affect confidence in Cloetta or lead to operating disturbances are vital to monitor and minimize. This takes place among other things through business intelligence and dialogue with various stakeholders.

Risk management

Effective handling of risks is an integral part of Cloetta's management and control. Rapid distribution of relevant information is ensured via the company's management structures and processes. If possible, risks are eliminated and undesired events are

minimized through proactive measures.

Alternatively, risks can be transferred for example through insurance or agreements. However, certain risks are not possible to be eliminated or transferred. These are often an active part of business operations.

Risk overview









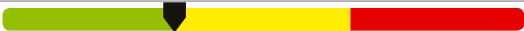
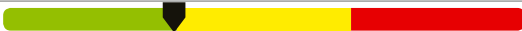


In Cloetta's risk management process, a number of risk areas have been identified. A selection of these and a brief description of how each risk area is handled are presented on the following pages. The Group's financial risk management is described in more detail on page 72 and in Note 29, on page 122 in Cloetta's annual report.

Pages 82–83 in the annual report contain a description of the internal control processes and risk assessment aimed for preventing misstatements in the financial reporting.

Management of risks in the working environment is described on page 17.















Industry and market-related risks

Cloetta works continuously to assess and evaluate the risks to which the Group is, and can be, exposed. Critical external risks are handled both strategically through business and product development and operationally through day-to-day purchasing, sales and marketing activities.

| | Risks Probability | Management Impact |
|---|---|--|
| Market climate |  <p>Financial crises can have a negative impact on consumption patterns. Operations are affected in that Cloetta's customers are suffering from lower profitability, which leads to price pressure.</p> |  <p>From a historical perspective, the confectionery market has been comparatively mildly affected by market downturns among consumers. This applies to a large extent to Cloetta's products, which most people can afford to buy. To support the customers' business and promote sound price development, Cloetta cooperates with the customers among other things through in-store sales activities.</p> |
| Competition |  <p>The confectionery market is highly competitive with several major players. Furthermore, grocery retailers offer private labels that compete with certain Cloetta products. This competition can limit Cloetta's opportunities for price increases to compensate for higher raw material costs.</p> <p>Cloetta may also need to increase its investments in marketing and product development in order to maintain or expand its market shares.</p> <p>Cloetta is a significant player in pick & mix, which by nature often consists of multi-year contracts that must be continuously renewed. Competition from other players, including the grocery retail chains, can cause Cloetta to lose major contracts.</p> |  <p>Cloetta competes in the market through active pricing, product innovation, product quality, brand recognition and loyalty, marketing and the ability to predict and satisfy customer preferences.</p> <p>It is important that Cloetta's products are perceived as providing the consumers with greater value added than the cheaper alternatives.</p> <p>Cloetta strives for effective marketing.</p> <p>Cloetta strives to offer the best pick & mix concepts with regard to the customer and consumer experience. Furthermore, the integrated production chain enables Cloetta to be cost-effective in pick & mix.</p> |
| Retail trade development |  <p>The European grocery and service trade has undergone a process of consolidation leading to the establishment of large, sophisticated players with substantial purchasing power. These major players are not necessarily dependent on individual brands and can hold back price increases and demand higher investment in marketing initiatives. They can also take over shelf space that is currently used for Cloetta's products for their own brands.</p> |  <p>Cloetta's strong brands and market position, together with a strong sales force and close cooperation with the trade, contribute to its ability to maintain good relations with the retail trade. Cloetta also works actively with new sales channels. Cloetta has a relatively wide and diversified customer base. In 2017 Cloetta's ten largest customers accounted for around 42 (43) per cent of the Group's total sales.</p> |
| Consumer trends Health Social responsibility |  <p>Changes in consumer behaviour give rise to both opportunities and risks. Health trends and the debate on health, weight and sugar can have a negative impact on confectionery consumption. The health trend has also spurred a growing interest in natural raw materials.</p> <p>In the wake of rapid globalization, individual consumers are more aware of how their consumption patterns affect the environment and social/ethical conditions around the world. Consumers want to know more about product origins, manufacturing methods and raw materials. Information that Cloetta, or Cloetta's suppliers, are not taking adequate environmental or social responsibility could damage Cloetta's brand.</p> |  <p>Health trends have not affected confectionery sales to a great extent, since confectionery is often eaten as a small luxury in everyday life. Cloetta works continuously to satisfy consumer preferences. In addition, Cloetta offers both sugar-free products and products with less sugar, as well as products that promote dental health. In the long-term, Cloetta's goal is for all products to be free from artificial colours and additives (NAFNAC).</p> <p>Cloetta strives to include supplier codes of conduct in all agreements as far as possible, but as an individual company Cloetta is unable to influence international development on its own. Cloetta's goal is to be open and, through cooperation with other confectionery producers and via various organizations, to identify problem areas and contribute to improvements.</p> |
| Laws and taxes |  <p>Cloetta conducts operations through companies in a number of countries. New laws, taxes or rules in various markets may lead to limitations in operations or place new and higher demands. There is a risk that Cloetta's interpretation of the applicable tax laws, tax treaties and regulations in the different countries is not entirely correct or that such rules will be changed, possibly with retroactive effect.</p> |  <p>Cloetta continuously assesses legal issues in order to predict and prepare its operations for possible changes. The introduction of confectionery taxes and fat taxes often has a short-term impact on sales.</p> <p>Provisions for legal disputes, tax disputes, etc., are based on an estimation of the costs, with the support of legal advice and based on the information that is available.</p> |
| Raw material prices |  <p>Price development for raw materials is steered mainly by supply and demand, and is beyond Cloetta's control. The prices on sugar and many of the other raw materials purchased by Cloetta are also affected by agro-political decisions in the EU regarding quotas, support, subsidies and trade barriers, but also by rising living standards and the activity of financial investors on the commodities exchanges.</p> |  <p>Cloetta continuously monitors the development of raw material prices and all purchasing is carried out through a central purchasing function. To ensure access and price levels, Cloetta normally enters into supplier contracts that cover the need for raw materials for a period of 6–9 months forward. If the average raw material prices had been 10 per cent higher/lower at 31 December 2017, profit before tax for the year would have been around SEK 150m lower/higher.</p> <p>Cloetta's policy is to compensate for higher raw material costs by raising prices to its customers.</p> |

Operational risks

Operational risks can often be influenced, for which reason they are normally regulated by policies, guidelines and instructions. Operational risks are part of Cloetta's day-to-day work and are handled by the operating units. The operational risks include among others risks related to the brand, relocation of production, insurable risks and environmental, health and safety-related risks.

| | Risks Probability | Management Impact |
|---|---|--|
| Business ethics and brand risks |  <p>Demand for Cloetta's well known brands is driven by the consumers' association of these with positive values. If Cloetta or any of the Group's partners takes any measures in conflict with the values represented by the brands, the Cloetta brands could be damaged.</p> |  <p>Cloetta takes a proactive approach to its sustainability responsibility by implementing a Code of Conduct, ethical guidelines and routines.</p> |
| Sustainability risks in the supply chain |  <p>Cloetta uses several raw materials originating from countries with risks regarding the working environment, social conditions and corruption. In addition, political instability can have a negative impact on costs.</p> |  <p>As far as possible, Cloetta strives to include supplier codes of conduct in all agreements.</p> <p>Cloetta has evaluated all raw material groups and prioritized them based on the existing sustainability challenges and Cloetta's opportunities to address these challenges.</p> <p>Cloetta purchases UTZ-certified cocoa for its entire range of chocolate products.</p> <p>All products aside from parts of the chocolate and fudge range are free from palm oil (parts of the range from the recently acquired Candyking are not yet free from palm oil).</p> <p>During the year Cloetta started switching to segregated palm oil in accordance with RSPO principles in the entire range of chocolate and fudge products. Certification according to this standard will take place in 2018.</p> <p>During 2018 Cloetta will change over to sustainable and traceable shea butter.</p> <p>Cloetta is a member of Bonsucro, which is a multi-stakeholder initiative that works to achieve a sustainable sugarcane industry.</p> |
| Product safety risks |  <p>Handling of food products places high demands on traceability, hygiene and safety. In a worst-case scenario, inadequate control can lead to contamination or allergic reactions. Deficiencies in handling of food products can lead to lower confidence in Cloetta and the Group's brands.</p> |  <p>Cloetta works with first-class raw materials and in accordance with international quality standards. Analyses through chemical and physical tests are performed on both raw materials and finished products. Issues of importance for product safety are gathered in special policies and there are plans for information or product recalls in the event of deficiencies.</p> |
| Insurable risks |  <p>Assets such as factories and production equipment can be seriously damaged, for example in the event of a fire or power outage. Product recalls can give rise to substantial costs, resulting from both direct costs and of damage to Cloetta's reputation.</p> |  <p>Cloetta has an insurance programme, among other things for property and liability risks, and works systematically to reduce the risk for incidents and to have robust contingency plans in place to limit the effects of any incidents.</p> |
| Relocation of production lines |  <p>To optimize efficiency, Cloetta continuously monitors capacity utilization in production. Moving production from one factory to another is a complex process that can result in disruptions and delays in production, which can in turn lead to delivery problems.</p> |  <p>Cloetta has an experienced and efficient organization with well-established routines for handling relocation of production lines.</p> |
| Access to the right expertise |  <p>To a large extent, Cloetta's future is dependent on its capacity to recruit, retain and develop competent senior executives and other key staff.</p> |  <p>Cloetta endeavours to continue to be an attractive employer. Employee development and follow-up plans, together with market-based and competitive compensation, contribute to Cloetta's ability to recruit and retain employees.</p> |
| Environmental risks |  <p>Environmental risks arise mainly through water and energy consumption, wastewater emissions, raw material and packaging waste, production waste and transports.</p> |  <p>Cloetta sets environmental requirements for its production and regularly monitors the company's impact on the environment, and conduct systematic efforts to reduce its environmental impact.</p> |

Corporate governance report

The purpose of corporate governance is to ensure that the company is managed as effectively as possible in the interests of the shareholders, but also that Cloetta complies with the applicable rules. Corporate governance is also aimed at creating order and systems for both the Board and the Group Management. By having well defined structures, rules and processes, the Board can ensure that the Group Management and employees are focused on developing the business and thereby creating shareholder value.

Cloetta AB (publ) is a Swedish public limited company, with corporate identification number 556308-8144, whose class B shares are traded on the Mid Cap list of Nasdaq Stockholm. The company is domiciled in Ljungsbro, Linköping, and its head office is in Stockholm.

Framework for corporate governance

Cloetta's corporate governance is regulated by external steering instruments that include the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm's Rules for Issuers and the Swedish Corporate Governance Code, as well as internal steering instruments such as the Articles of Association, instructions, policies and guidelines. The Swedish Corporate Governance Code is available at www.bolagsstyrning.se, where a description of the Swedish model for corporate governance is also provided. During the year, Cloetta complied with Nasdaq Stockholm's Rules for Issuers and good stock market practice.

Application of the Swedish Corporate Governance Code

In 2017 Cloetta complied with the Code.

1 Share and shareholders

The class B shares in Cloetta AB (publ) have been listed on Nasdaq Stockholm since 16 February 2009 and are traded on the Mid Cap list since 2 July 2012. However, Cloetta was originally introduced on the stock exchange in 1994 and has since then been listed in a number of different owner constellations. The number of shares at 31 December 2017 was 288,619,299 of which 282,884,050 were

of class B and 5,735,249 were of class A. 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. The number of shareholders at 31 December 2017 was 20,125 (compared to 16,236 at 31 December 2016). On 31 December 2017 AB Malfors Promotor was Cloetta's largest shareholder, with a holding corresponding to 36.7 per cent of the votes and 25.4 per cent of the share capital in the company. For more information about Cloetta's shares and shareholders, see section "Share and shareholders" on pages 56–60 in Cloetta's annual report.

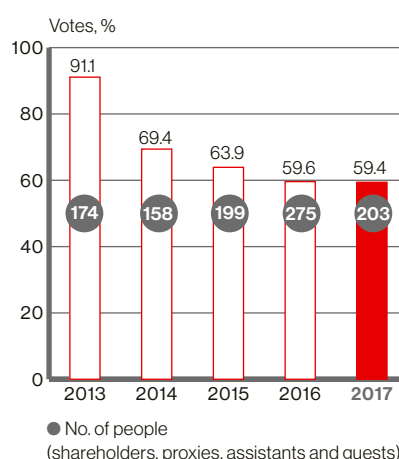
2 General meeting of shareholders

The general meeting of shareholders is Cloetta'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 among other things by the Swedish Companies Act and the Articles of Association.

Cloetta's financial year runs from 1 January to 31 December. The Annual General Meeting shall be held within a period of six months after the end of the financial year. The date and location of the AGM shall be communicated on the company's website at the latest in connection with publication of the third quarter report. Notice of the AGM shall be given no earlier than six weeks and no later than four weeks prior to the AGM through publication in Post- och Inrikes Tidningar (the Swedish Official Gazette) and on the company's website. At the same time,

information confirming that notification has taken place shall be published in Dagens Industri. Every shareholder has the right to request that a matter be taken up at the AGM and in such case 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 seven weeks prior to 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.

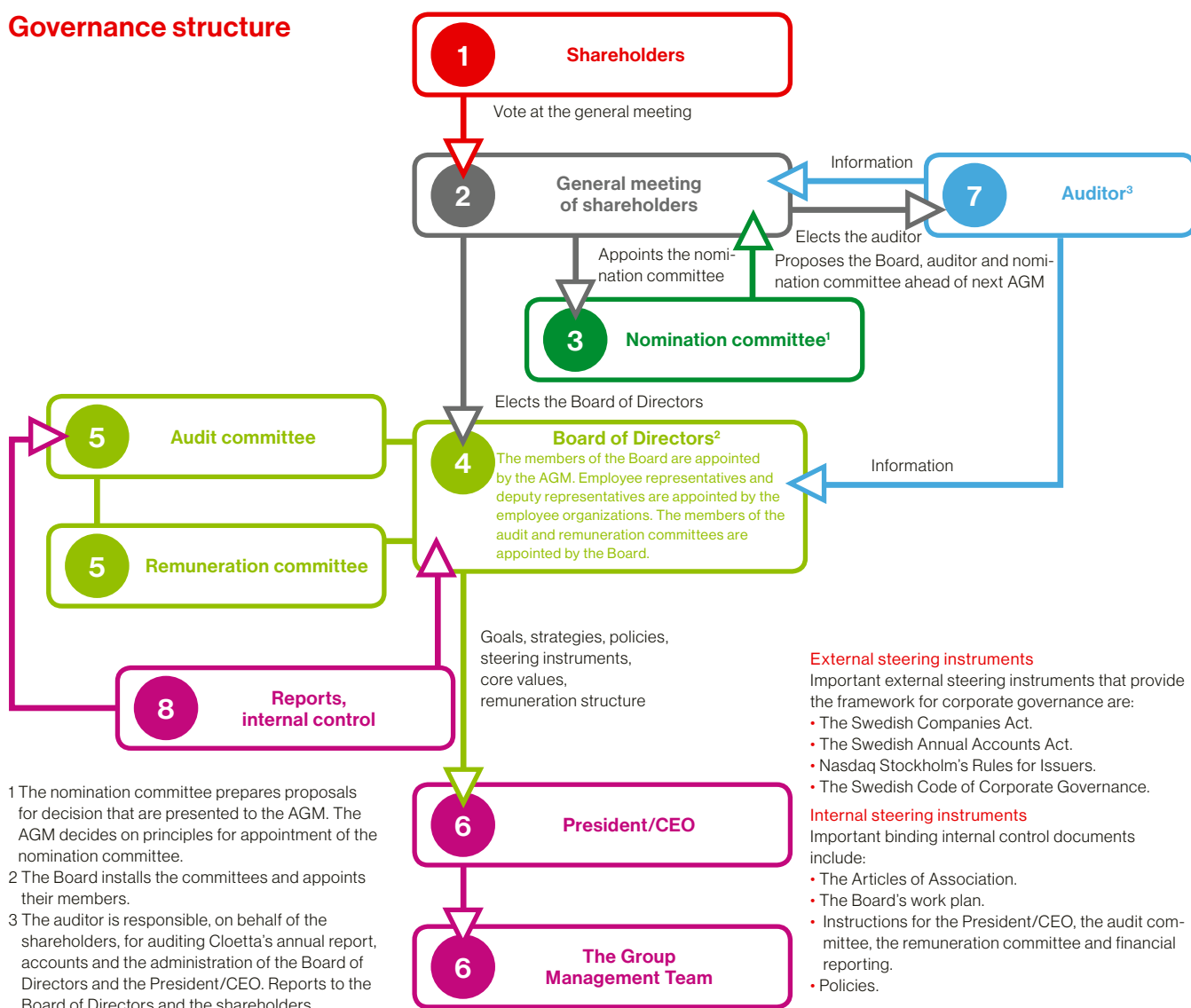
Attendance at AGMs/EGMs



2017 AGM

The latest AGM was held on 4 April 2017 in Stockholm. The AGM was attended by 203 individuals representing 59.4 per cent of the votes in the company. The President/CEO, the majority of the Board members, the company's independent auditor, the chairman of the nomination committee, and the Group's

Governance structure



CFO and SVP Corporate Communications and Investor Relations were also present at the AGM. The AGM approved the proposals of the Board and the nomination committee regarding:

- Adoption of the balance sheet and the profit and loss account;
- Appropriation of the earnings of the company through a dividend of SEK 0.75 per share;
- Discharge from liability for the Board of Directors and President/CEO;
- That the number of Board members elected by the AGM shall be seven, with no deputies;
- Re-election of sitting Board members Lilian Fossum Biner, Camilla Svenfelt, Adriaan Nühn, Mikael Svenfelt, Lottie Knutson and Mikael Norman. Mikael Aru was elected as new Board member. The AGM elected

Lilian Fossum Biner as Chairman of the Board. Former Board member Hans Porat resigned in connection with the AGM. Aside from the members elected by the AGM, the employee organizations PTK and LIVS each appointed an employee representative and a deputy representative to the Board;

- Board fees were set at SEK 620,000 for the Board Chairman and SEK 285,000 for each of the other Board members elected by the AGM. Fees for work on the Board committees were set at SEK 100,000 for each member of the audit committee and SEK 100,000 for each member of the remuneration committee;
- Fees to the auditor are to be paid according to approved account;
- Re-election of KPMG AB as the company's auditor to serve for the period until the end of the next AGM;

- Rules for the nomination committee;
- Guidelines for remuneration to the Group Management Team;
- The implementation of a share-based long-term incentive plan.

The complete minutes from the AGM can be viewed at www.cloetta.com.

2018 AGM

The 2018 AGM will be held on Monday, 16 April 2018, at 3:00 p.m. at Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, in Stockholm. The Notice of the Annual General Meeting was published in March 2018 and contained the Board's proposals. For more information, see www.cloetta.com.

3 Nomination committee

Work of the nomination committee

The task of the nomination committee is to prepare recommendations to be put before the AGM for decisions regarding election of Board members and the Board Chairman, fees to the Board of Directors, potential remuneration for committee work, election of a chairman of the AGM, election of auditors, auditing fees and rules for the nomination committee. The Board Chairman presents an annual evaluation of the Board's performance during the year to the nomination committee, which provides a basis for the nomination committee's work together with the provisions in the Swedish Corporate Governance Code and Cloetta's own company-specific requirements. The nomination committee's recommendations for election of Board members, Board fees and auditors are presented in the notice to attend the AGM and at www.cloetta.com.

Composition of the nomination committee

In accordance with the decision of the AGM, Cloetta's nomination committee shall consist of at least four and at most six members. Of these, one shall be a representative of the Board and three shall be members appointed by the three largest shareholders in terms of voting power. The members appointed may themselves appoint one additional member.

Independence of the nomination committee

The majority of the nomination committee's members shall be independent in relation to the company and its Group Management, and at least one of these shall also be independent in relation to the company's largest shareholder in terms of voting power. Of the appointed members, all four are independent in relation to the company and its Group Management and three are independent in relation to the company's largest shareholder in terms of voting power.

Shareholder proposals

All shareholders have the right to contact the nomination committee to propose candidates for election to the Board. Proposals shall be sent to the chairman of the nomination committee by e-mail to nominationcommittee@cloetta.com.

Meetings of the nomination committee

During 2017, the nomination committee ahead of the 2018 AGM held one meeting. No fees have been paid for work on the committee.

4 Board of Directors

Work of the Board

The primary task of the Board is to serve the interests of the company and the shareholders, appoint the President and ensure that the company complies with the applicable laws, the Articles of Association and the Swedish Corporate Governance Code. 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 and that the company's financial accounting, financial management and financial circumstances in general can be controlled satisfactorily. At least once a year the Board shall meet with the company's auditor without the presence of the Group Management Team, and shall continuously and at least once a year evaluate the performance of the President/CEO.

Composition of the Board

According to the Articles of Association, Cloetta's Board of Directors shall consist of at least three and at most ten members that are elected annually at the AGM for a period until the next AGM has been held. The AGM on 4 April 2017 resolved that the Board shall have seven members appointed by the AGM. To serve for the period until the end of the next AGM, to be held on 16 April 2018, the AGM on 4 April 2017 elected Board members Lilian Fossum Biner (Chairman), Lottie

Knutson, Mikael Norman, Adriaan Nühn, Mikael Svenfelt, Camilla Svenfelt and Mikael Aru. In addition, the employee organization LIVS appointed one employee representative to the Board, Lena Grönedal, and one deputy representative, Shahram Nikpour Badr. The employee organization PTK appointed one employee representative to the Board, Mikael Ström, and one deputy representative, Christina Lönnborn. All Board members have attended Nasdaq's stock market training course for board and management. The average age of the Board members elected by the AGM was 54 at year-end 2017, and three of the seven are women. For information about the Board members' assignments outside the Group and holdings of shares in Cloetta, see pages 84–85 in Cloetta's annual report and cloetta.com.

Diversity policy

Through the nomination committee, Cloetta applies rule 4.1 of the Swedish Corporate Governance Code as its diversity policy to propose election of directors to the Board. According to this rule, the board composition must be set with regard to appropriateness to the company's operations, phase of development, and must collectively exhibit diversity and breadth of competence, experience and background among the directors elected by the annual general meeting. An equal balance between the genders is strived for. The objective of the diversity policy is to underline the importance of appropriate diversity within the Board with regard to gender, age, nationality and experience, professional background and business expertise. The nomination committee has confirmed that the Board of Cloetta has an almost equal gender balance and an appropriate composition in general.

Independence of the Board

In accordance with the Swedish Corporate Governance Code, the majority of the Board members elected by the AGM shall be independent in relation to the company and its Group Management and at least two of these shall also be independent in relation to the company's major shareholders. Of the Board's seven members, all are independent in relation to the company and its Group Management and five are independent in relation to the company's major shareholders.

Nomination committee ahead of the 2018 AGM

| Member | Appointed by | Independent ¹ | Share of votes at 31 Dec. 2017, % |
|-------------------------|-------------------------|--------------------------|-----------------------------------|
| Olof Svenfelt, Chairman | AB Malfors Promotor | No | 36.70% |
| Dan Riff | Wellington Management | Yes | 8.60% |
| John Strömgren | Carnegie Fonder | Yes | 1.10% |
| Lilian Fossum Biner | The Board of Cloetta AB | Yes | 0% |

1) Independent from the company and its Group Management/from the company's largest shareholder in terms of voting power

Instructions and policies

The Board reviews and adopts the following instructions and policies on a yearly basis:

- Work plan for the Board.
- Instructions for the President.
- Instructions for financial reporting.
- Work plan and instructions for the audit committee.
- Work plan and instructions for the remuneration committee.
- Code of Conduct.
- Corporate Communications and IR policy.
- Finance policy.
- HR policy.
- Insider policy.
- Insurance policy.
- Policy for internal control.
- IT security policy.
- Mergers and acquisitions policy.
- Fraud and whistleblower policy.
(anonymous reporting of violation of laws, the Code of Conduct or other rules at Cloetta).
- Anti-bribery and -corruption policy.
- Trade control policy.

The Board's instructions and policies

On a yearly basis, the Board reviews and adopts a work plan for its own activities and those of the Board's audit and remuneration committees. The Board also adopts instructions for the President/CEO and instructions for financial reporting. Among other things, these regulate the segregation of duties between the Board of Directors, the Board Chairman, the President/CEO and the

auditor, quorum, conflict of interest, the work of the committees, internal and external reporting, routines for notice to attend general meetings, Board meetings and minutes. In addition, the Board has issued and adopted a Code of Conduct and policies for corporate communications and IR, finance, HR, insiders, insurance, internal control, IT security, mergers and acquisitions, fraud and whistleblower, trade controls and anti-bribery and -corruption.

Evaluation of Board performance

The performance of the Board is evaluated yearly in order to develop the Board's working methods and efficiency. The Board Chairman is responsible for carrying out the evaluation and presenting the results to the nomination committee. The purpose of the evaluation is to gather the Board members' views on the Board's performance, what measures can be taken to improve the efficiency of board work, and whether the Board has a well-balanced mix of competencies. The evaluation provides valuable input for the nomination committee ahead of the AGM. In 2017 the Chairman conducted a written survey among all Board members including the employee representatives. The results of the evaluation have been reported to and discussed by both the Board and the nomination committee.

Board meetings

In 2017 the Board held eight scheduled meetings, of which one statutory meeting, and four extra meetings and two per capsulum meetings. President/CEO, the CFO and the Senior Vice President Corporate Communications

Organization for sustainability work

The overall strategies for Cloetta's corporate responsibility work are adopted by the Group Management Team and are controlled and monitored through business planning processes at several levels in the company. Ultimate responsibility for corporate responsibility matters lies with Cloetta's President/ CEO.

Cloetta's sustainability work is overseen by the Director Corporate Responsibility, who functions as a spokesman for issues related to corporate responsibility and is responsible for identifying prioritized areas, acting as the stakeholders' link to the management and supporting the implementation of Cloetta's corporate responsibility strategy. Environmental and occupational health and safety managers are found at all of the factories.

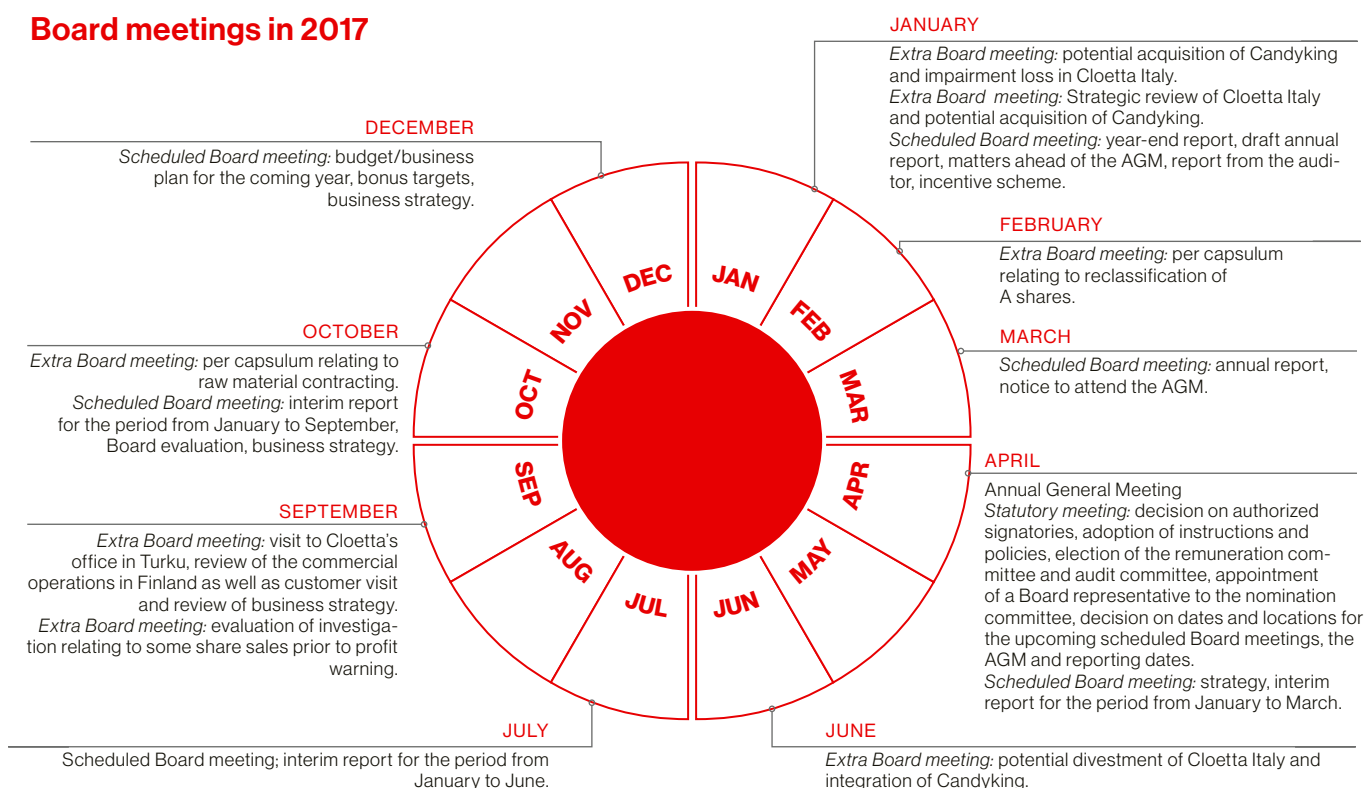
& IR, who is also the Board Secretary, take part in the Board's meetings. Other members of the Group Management Team take part as needed as rapporteurs for special items of business.

5 Board committees

Audit committee

In 2017 the Board audit committee consisted of members Mikael Norman (chairman), Camilla Svenfelt and Adriaan Nühn. The majority of the committee's members shall be independent in relation to the company and its Group Management, and at least one of these shall also be independent in relation

Board meetings in 2017



to the company’s major shareholders. At least one member shall be independent and have accounting or auditing expertise. Of the audit committee’s three members, all are independent in relation to the company and its management, and two are independent in relation to the company’s major shareholders. The work of the audit committee is regulated by special instructions that have been adopted by the Board as part of its work plan. The audit committee is responsible for ensuring the quality of the financial reporting and the effectiveness of the company’s internal control and risk management regarding financial reporting. In brief, the audit committee, without affecting the other tasks and responsibilities of the Board, shall regularly meet with the company’s auditors to stay informed about the focus and scope of the audit. The company’s auditor shall be invited to participate in the meetings of the audit committee. The audit committee shall meet at least four times every financial year. At least once a year, the committee shall meet without the presence of any member of the Group Management. All meetings of the audit committee are minuted. The audit committee shall inform the Board about the matters dealt with by the committee. In 2017 the committee held five meetings.

Remuneration committee

The remuneration committee shall have no more than four members who are appointed by the Board on a yearly basis. One of the members shall be chairman of the committee. The Board’s remuneration committee consists of members Mikael Svenfelt (chairman), Lottie Knutson and Lilian Fossum Biner. The majority of the committee’s members shall

be independent in relation to the company and its management. Of the remuneration committee’s members, all are independent in relation to the company and its management. The work of the remuneration committee is regulated by special instructions that are adopted by the Board as part of its work plan. The main tasks of the remuneration committee are to prepare recommendations to the Board for decision on remuneration principles, remuneration levels and other terms of employment for the Group Management, to monitor and evaluate programmes for variable remuneration completed during the year and ongoing programmes for the Group Management as adopted by the AGM and of the current remuneration structures and levels in the Group. The remuneration committee shall meet at least twice every financial year. In 2017 the committee held five meetings.

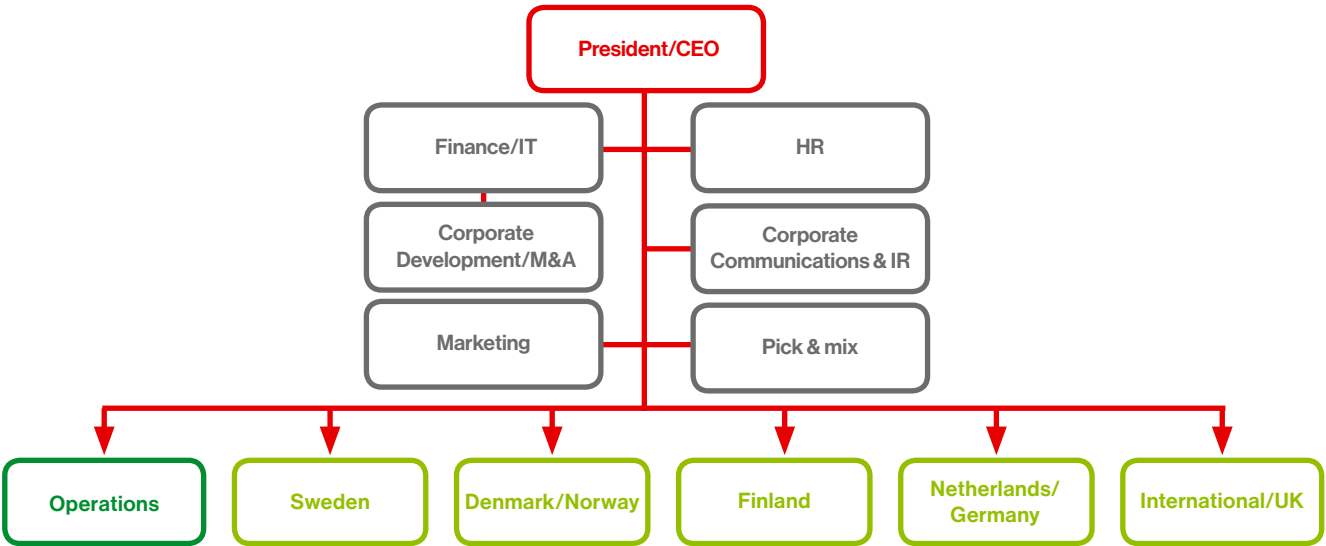
Board Chairman

The Board Chairman shall be elected by the general meeting of shareholders, and the AGM on 4 April 2017 elected Lilian Fossum Biner as Chairman of the Board. The Chairman shall supervise the work of the Board and ensure that the Board discharges its duties, and has special responsibility for ensuring that the work of the Board is well organized and effectively executed and for monitoring the Group’s development. The Chairman oversees the effective implementation of the Board’s decisions and is responsible for ensuring that the work of the Board is evaluated yearly and that the nomination committee is informed about the results of this evaluation.

6 President and Group Management Team

The President/CEO is appointed by the Board and 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. In addition, the President/CEO, together with the Chairman, decides which matters are to be dealt with at Board meetings. The Board regularly evaluates the President/CEO’s duties and performance. The President/CEO is responsible for ensuring that the Board members are supplied with the necessary information and decision data and presents reports and proposals at Board meetings regarding issues dealt with by the Group Management Team. The President/CEO regularly informs the Board and Chairman about the financial position and development of the company and the Group. Henri de Sauvage-Nolting has been President/CEO of Cloetta since 15 February 2017, and until this date Danko Maras was Interim President/CEO. At 31 December 2017, aside from the President/CEO, the Group Management Team consisted of the three regional presidents, the President Operations (which includes purchasing and production) and the five heads of the central staff functions Finance/IT, Marketing, HR, Corporate Communications & IR and Chief Pick & mix officer. For information about the President/CEO and other members of the Group Management Team, see page 40 and pages 86–87 in Cloetta’s annual report.

Organization*



* This organization chart applies from 1 March 2018.

The Group Management Team conducts management meetings at regular intervals and held ten meetings in 2017. The meetings are focused on the Group's strategic and operative development and financial performance. In addition to these meetings, the members of the Group Management Team work in close daily cooperation regarding various matters.

7 Auditor

The auditor is elected by the AGM for examination of the company's annual accounts and accounting records and the administration of the Board of Directors and the President/CEO. The auditor's reporting to the shareholders takes place at the AGM through presentation of the auditor's report. The AGM on 4 April 2017 re-elected the certified auditing firm KPMG AB as the company's independent auditor to serve during the period until the end of the next AGM. Authorized Public Accountant Tomas Forslund is Auditor in Charge.

8 Financial reporting

The Board of Directors is responsible for ensuring that the company's organization 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 is prepared in accordance with the legal requirements, relevant accounting standards and other requirements applicable to listed companies. The tasks of the Board are to oversee the Group's financial development, assure the quality of

the Group's financial reporting and internal control and regularly monitor and evaluate operations. The task of the audit committee is to support the Board in assuring the quality of the company's financial reporting. However, the audit committee deals not only with the Group's financial reports and significant accounting matters, but also matters related to internal control, compliance, material uncertainty in reported values, events after the balance sheet date, changes in estimates and judgments and other conditions affecting the quality of the financial reports.

The President/CEO ensures that the 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 President/CEO 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. For each upcoming financial year, a profit, balance sheet and investment budget are prepared for the Group and are adopted at the scheduled Board meeting in December. External financial information is regularly provided in the form of:

- Interim reports
- The annual report
- Press releases about important news that is assessed to have a potential impact on the share price
- Presentations for financial analysts, investors and the media on the date of publication of the year-end and interim reports
- Meetings with financial analysts and investors

Awards for financial communication Webranking by Comprend

Cloetta was named the best website in Comprend's Webranking survey among 100 largest Swedish listed companies.



Best Annual Reports in the World by Reportwatch

Cloetta took first place in Reportwatch's competition "Best Annual Reports in the World" among all global companies in the food and beverage sector.

Additional information

At www.cloetta.com, information such as the following can be found: The Articles of Association, the Code of Conduct, information from previous AGMs and corporate governance reports from previous years.

Press releases 2017

January

- Strategic review and impairment of Cloetta Italy.

February

- Interim report Q4, October – December 2016.
- Request to convert A-shares to B-shares.
- Proposal by the Nomination Committee regarding the Board of Directors of Cloetta AB.
- Cloetta acquires Candyking.
- Notice of the Annual General Meeting.

March

- Annual report 2016.

April

- Annual General Meeting.
- The Swedish Competition Authority approves Cloetta's acquisition of Candyking.
- Interim report Q1, January – March 2017.
- The acquisition of Candyking completed.

July

- Cloetta to divest its Italian operations.
- Marcel Mensink appointed President Operations.
- Interim report Q2, April – June 2017.

September

- Cloetta has completed the divestment of its Italian operations.
- Cloetta's EBIT to be negatively impacted by mainly short-term issues.

October

- Nomination committee appointed ahead of 2018 Annual General Meeting of Cloetta AB (publ).
- Certain employees under investigation for share sales.
- Cloetta awarded best Swedish corporate website 2017.
- Interim report Q3, July – September 2017.

November

- Management changes in Cloetta.

Board of Directors

| Elected by the AGM | Nationality | Year elected | Born in |
|---------------------|-------------|--------------|---------|
| <i>Chairman</i> | | | |
| Lilian Fossum Biner | Swedish | 2016 | 1962 |
| <i>Member</i> | | | |
| Camilla Svenfelt | Swedish | 2016 | 1981 |
| Mikael Aru | Swedish | 2017 | 1953 |
| Lottie Knutson | Swedish | 2015 | 1964 |
| Mikael Norman | Swedish | 2015 | 1958 |
| Adriaan Nühn | Dutch | 2012 | 1953 |
| Mikael Svenfelt | Swedish | 2008 | 1966 |

Group management team

| | Nationality | Employeed year | Born in |
|--------------------------|----------------------|----------------|---------|
| Henri de Sauvage Nolting | Dutch | 2017 | 1962 |
| Danko Maras | Swedish | 2010 | 1963 |
| Jacob Broberg | Swedish | 2010 | 1964 |
| Regina Ekström | Swedish | 2004 | 1963 |
| Johnny Engman | Swedish | 2012 | 1977 |
| Dani Evanoff | Lebanese and Swedish | 2017 | 1976 |
| Ewald Frenay | Dutch | 2000 | 1963 |
| Marcel Mensink | Dutch | 2017 | 1971 |
| Christian Boas Linde | Danish | 2013 | 1968 |
| Ville Perho | Finnish | 2004 | 1979 |
| Lars Pålsson | Swedish | 2008 | 1959 |
| Erwin Segers | Belgian | 2010 | 1967 |

Glossary

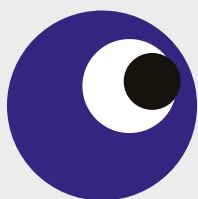
| | |
|--------------------------------------|--|
| Brand extension | Totally new products developed under an established brand. |
| BRC Global Standards for Food Safety | A leading safety and quality certification programme. Many European and global retailers will only consider business with suppliers that have been certified according to the BRC Global Standard. |
| Contract manufacturing | Manufacturing of external brands, i.e. insourcing production of products from external parties. |
| GRI Global Reporting Initiative | A network-based organization whose founders include the UN. GRI has pioneered the development of a framework for the structure and content of sustainability reporting. |
| ICC | International Chamber of Commerce. |
| ILO | International Labour Organization, United Nations agency dealing with labour issues. |
| ISO 9001 and ISO 14001 | International Organization for Standardization. ISO 9001 addresses quality management and ISO 140001 addresses environmental management. |
| Line extension | New packaging, sizes and flavours for an established brand. |
| OHSAS 18001 | International occupational health and safety management system specification. |
| Polyols | Sugar alcohols that resemble sugar and are used as sweeteners. |
| Pick & mix concept | Cloetta's range of candy and natural snacks that are picked by the consumers themselves. |
| UTZ | Certified standards for sustainable farming with a number of social and environmental criteria. |

Corporate responsibility



Core values

Cloetta has four core values that guide the way of working and acting, both within and outside the company. These core values are Focus, Passion, Teamplay and Pride.



Focus

is about doing the fundamentals with self-confidence, ambition and a “will do” attitude.



Passion

is about “going the extra mile”, being positive and having fun.



Teamplay

is about mutual responsibility, doing your part and supporting each other.



Pride

is about being proud of our company, our brands, our products and our personal contribution.

Long-term sustainability

Cloetta's overall goal for corporate responsibility is to build sustainable long-term value. For Cloetta, sustainable value is about growing as a company while at the same time ensuring that the people and environments that are affected by Cloetta's operations or products are positively impacted.

Steered by Code of Conduct and core values

Cloetta's work with corporate responsibility is steered by the Group's Code of Conduct. The Code of Conduct is a set of guidelines and principles for the way in which the company conducts operations and the employees' actions in relation to consumers, customers, suppliers, shareholders and colleagues. They are based on Cloetta's core values; Focus, Passion, Teamplay and Pride.

Long-term undertaking

Cloetta's sustainability commitment is a long-term undertaking. Cloetta has therefore formulated a number of goals that extend until 2020.

However, the journey to a sustainable society will not end in 2020. Cloetta is therefore working continuously to evaluate the achieved results and improve its working methods in order to continuously improve our corporate responsibility work.

Cloetta's goals for 2020 are shown under the respective headings; Greater well-being, Reduced environmental impact and Sustainable sourcing.

Sustainability every day

Cloetta's continuous striving for sustainable development is daily focused on respect for the employees' health and development, control of raw materials and first line suppliers, manufacturing safe products, handling complaints/returns effectively and reducing the Group's environmental impact.

Measures to achieve day-to-day sustainability are described in this report within the targeted areas, such as product safety in the Supply Chain section and efforts to create a good working environment in the Employees and Production sections.

Scope

Cloetta's sustainability work primarily covers the company's own operations, meaning Cloetta's direct impact on the environment and people. However, Cloetta's commitment to corporate responsibility is integrated throughout the entire value chain.

This means that aside from taking responsibility for the aspects that are under the company's direct control, Cloetta also takes a certain responsibility for indirect aspects outside of its direct control, i.e. from raw material supplier to the recyclability of the product packages.

Sustainability and Cloetta's overall strategies

Cloetta's sustainability commitment supports and is firmly grounded in the company's overall strategies:

Focus on driving growth

By creating sustainability programmes for the prioritized raw material groups and communicating these programmes on Cloetta's

Cloetta's Code of Conduct



The Code of Conduct covers the entire value chain, from raw material to consumer, and applies to all activities in all markets and countries where Cloetta is represented. The principles in the Code of Conduct are consistent with:

- The UN's Declaration of Human Rights
- ILO conventions
- Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises
- The ICC framework for responsible marketing of food and beverages
- European Brand Association

From raw materials to cherished brands

Cloetta works with responsibility throughout the supply chain, from raw material to finished product. Cloetta supports the relevant ILO conventions and complies with the laws and rules in the countries where it conducts operations. The same requirements are placed on the suppliers, and in order to become an approved supplier to Cloetta, the supplier must undergo an approval process and accept Cloetta's general supplier requirements.

Cloetta – every day

Cloetta has clearly defined guidelines for mutual respect and a shared set of core values. Cloetta has joined the UN Global Compact and works to promote its ten principles in the communities and environments where the company conducts business. Special emphasis is placed on:

- Equality and non-discrimination
- Freedom of association and collective bargaining
- Occupational health and safety
- Working hours

Cloetta's commitment to product content

When it comes to product content and quality, Cloetta is subject to a number of national and international laws and rules. However, Cloetta wishes to take its responsibility further and is a forerunner in developing the content of the products. For example, Cloetta is conducting an internal long-term programme called NAFNAC (No Artificial Flavours, No Artificial Colours), which is aimed at offering a portfolio of products that contain no artificial flavours or colours.

Cloetta's environmental impact

Systematic environmental management provides a foundation for Cloetta's efforts to minimize its environmental impact. Cloetta's environmental work is aimed at complying with the applicable laws and rules, engaging the employees and focusing on continuous improvements in the environmental area. Cloetta's foremost environmental impact arises through water and energy consumption, wastewater emissions, waste and transports.

packages, the brands are further strengthened among customers and consumers. UTZ-certified cocoa and palm oil certified according to the Roundtable on Sustainable Palm Oil (RSPO)'s principles are two such examples.

Focus on cost-efficiency

Efforts to continuously reduce the company's environmental impact go hand in hand with lower costs. Lower energy use and waste volumes from the factories contribute to greater cost-efficiency.

Focus on the employees and organization

Cloetta works determinedly to create an attractive workplace for all employees and promotes the development of a high-performing organization by continuously developing and training its staff, designing competitive remuneration systems, upholding an inspiring corporate culture and building a clear corporate identity.

Organization for sustainability work

The overall strategies for Cloetta's corporate responsibility work are adopted by the Group Management Team and are controlled and monitored through business planning processes at several levels in the company. Ultimate responsibility for corporate responsibility lies with Cloetta's President/CEO.

Cloetta's sustainability work is overseen by the Director Corporate Responsibility, who functions as a spokesman for issues related to corporate responsibility and is responsible for identifying prioritized areas, acting as the stakeholders' link to the management and supporting the implementation of Cloetta's corporate responsibility strategy. Environmental and occupational health and safety managers are found in all factories.

Independent verification and assurance

Cloetta has commissioned KPMG to make a limited review and assure the sustainability report. The independent review focuses on the most significant aspects of sustainability, as well as assurance that the report satisfies reporting criteria in line with Global Reporting Initiative (GRI) G4. See page 46.

Cloetta supports

Cloetta is involved in projects primarily in its local markets but also takes part in initiatives at the global level. These can include environmental projects driven within the framework of Cloetta's sustainability work and projects to promote an active and healthy lifestyle.

Community engagement

The local commitment to sustainable development is aimed at strengthening the surrounding community but also Cloetta's brand both within and outside the company. This

engagement is mainly focused on consideration to the local environment where Cloetta's production facilities are based, but can also consist of other activities. Cloetta maintains an ongoing dialogue with local authorities in the locations where it has factories, as well as with the media and schools/universities, among others.

Whistleblower service

Cloetta's whistleblower service that gives all Cloetta employees the opportunity to report concerns about conduct that is not in line with the company's values or ethical principles. As a first course of action, Cloetta's employees are encouraged to contact their manager. If an employee feels unable to openly disclose the information, Cloetta offers an opportunity to report their concerns anonymously.

All reports are treated confidentially. Personal data relating to violation of laws is handled only by key persons or individuals in management positions. Two cases were notified in 2017 and none in 2016. Neither related to corruption or fraud.

Anti-bribery and -corruption policy

The anti-bribery and -corruption policy is closely related to Cloetta's Code of Conduct, and together they are designed to ensure compliance with the applicable principles to combat bribery and corruption.

The policy applies to all of our activities in all markets and the principles outlined in this document apply to our relationships with employees, customers, consumers, suppliers, competitors, official authorities and Non Governmental Organizations (NGO).

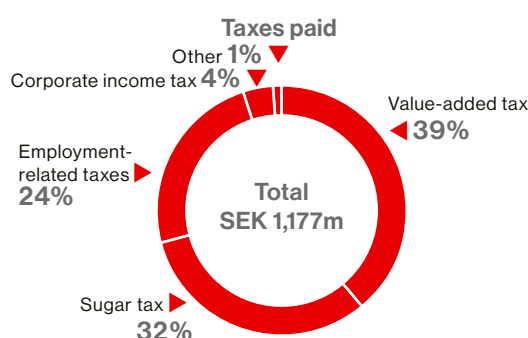
The policy summarizes key features of anti-bribery and corruption control principles in order to prevent bribery and corruption within Cloetta. It explains compliance procedures to be followed by all Cloetta employees, along with information about applicable reporting and record keeping, and penalties for non-compliance with the policy. It applies to Cloetta, all of its employees, and all persons engaged to perform work for Cloetta, including temporary agency personnel, contractor personnel, and non-employee agents acting on its behalf.

Strategic components

| | |
|---|--|
| Policy and prioritized areas | Cloetta's overall strategy and operational policy. Code of Conduct. Responsible marketing. Materiality analysis and Cloetta's sustainability commitment. |
| Goals and KPIs | Overall financial targets. Goals and KPIs have been defined for each part of Cloetta's sustainability commitment. |
| Data | See entire sustainability report. |
| Management systems, programmes and certifications | Lean 2020, IFRS. Cloetta's leadership platform. BRC, ISO 14001, UTZ and RSPO. |
| External statutes or initiatives | UN Global Compact and other relevant ILO conventions. EWC (European Works Council). |

Tax information

Cloetta paid SEK 1,177m in various taxes in 2017. These were mainly value-added tax, sugar taxes and employment-related taxes. Considering the reported profit before tax, the amount of corporate income tax paid is relatively low due to the availability of tax losses carried forward. The majority of the remaining tax losses carried forward are expected to be utilized in the near future.



Stakeholders and materiality issues

The areas that are prioritized in Cloetta’s sustainability commitment have been defined through a materiality analysis. Every year, Cloetta performs a materiality analysis based on the sustainability issues that have been identified in discussions with Cloetta’s stakeholders.

Cloetta’s primary stakeholders are customers, consumers, employees, shareholders/ investors, business partners/suppliers and the local communities. These groups are directly critical for Cloetta’s long-term survival. In addition, there are a number of other important stakeholders. These are shown in the illustration below in the outer circle. Cloetta has a continuous, open dialogue above all with the primary stakeholders based on

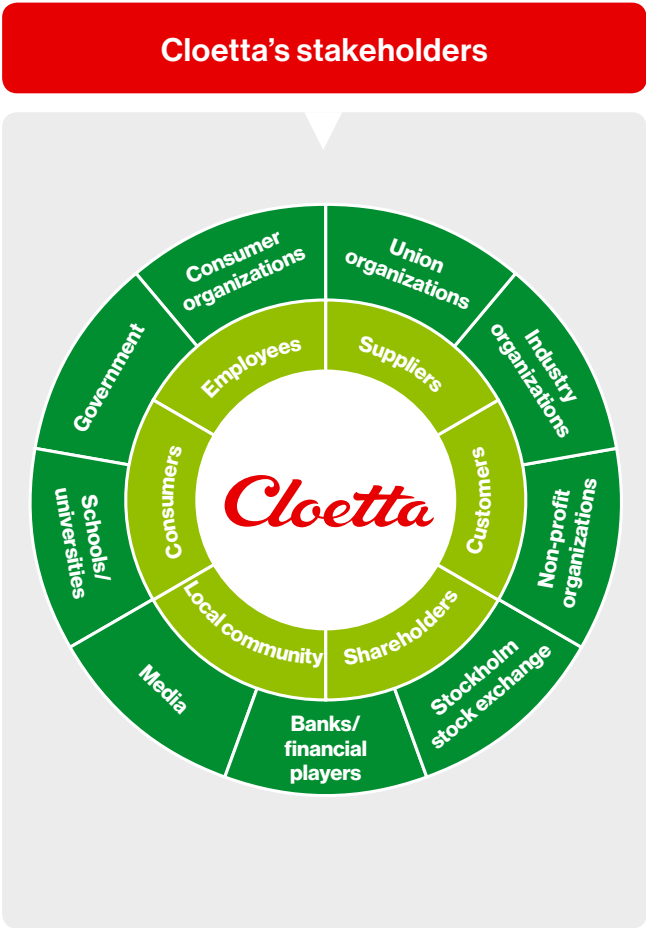
the expectations and requirements of each stakeholder group.

The methodology behind Cloetta’s materiality analysis is aimed at classifying different types of sustainability issues on the basis of two parameters:

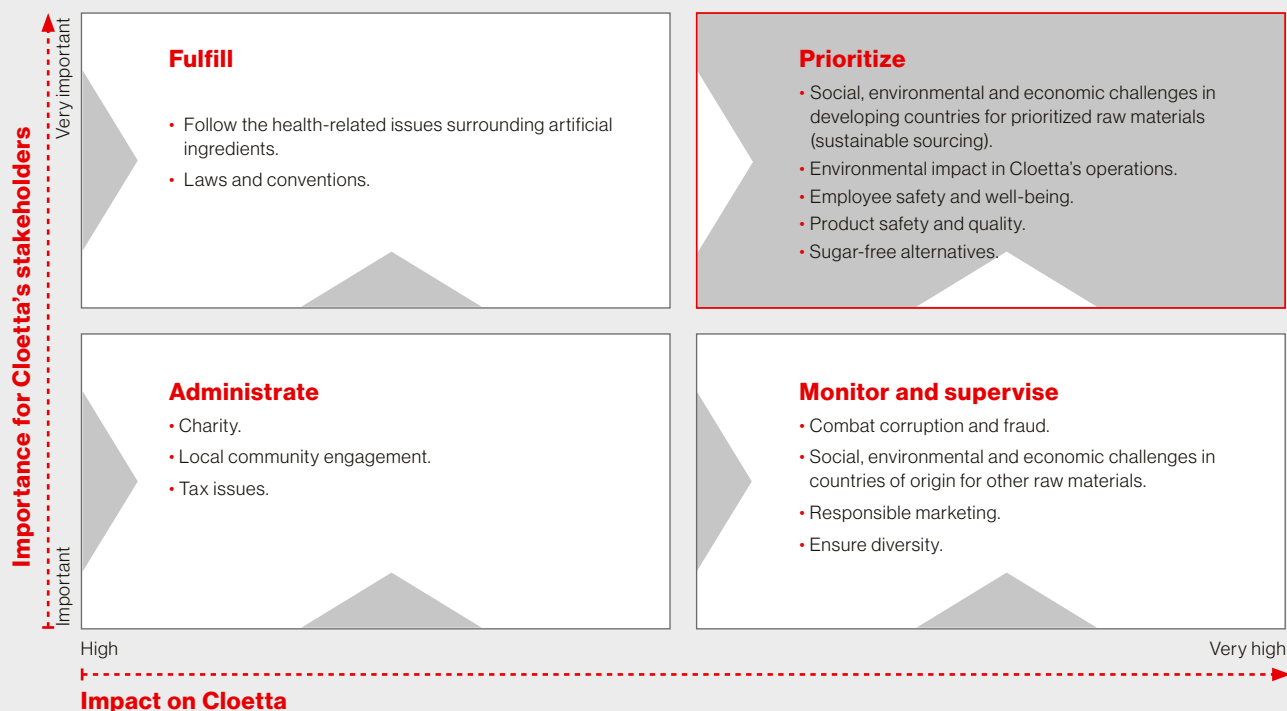
- The stakeholder perspective – i.e. what importance a specific issue has for Cloetta’s stakeholders.

- The impact perspective – i.e. the direct impact a specific issue can have on Cloetta from a financial perspective, goodwill, etc.

The issues that are classified as being of critical importance from both a stakeholder and impact perspective are those that have the highest priority for Cloetta. It is these sustainability issues and areas that are defined in Cloetta’s sustainability commitment.



Materiality analysis



The stakeholders' key sustainability issues

| Stakeholder | Key issues – sustainability | Communication and cooperation |
|--|---|---|
| Customers/ Consumers | <ul style="list-style-type: none"> Product safety and quality. Clear declaration of ingredients. Eco-friendly packages. Cloetta takes responsibility for the environment and working conditions. Ethical issues in general. Efficient transports to the retail trade. | <ul style="list-style-type: none"> With consumers via annual surveys and via websites and social media. With customers through personal customer and sales meetings on a tertial basis and via customer surveys, but also collaborative initiatives for eco-friendly transports. |
| Employees | <ul style="list-style-type: none"> Good and stimulating working conditions. A safe working environment. Health and fitness activities. Ethical issues in general. Good financial development for the company. | <ul style="list-style-type: none"> 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 provided monthly, e.g. via managers, the intranet and union representatives. Employee survey "Great Place to Work" every other year. |
| Shareholders and investors | <ul style="list-style-type: none"> Sustainable long-term financial value growth. Ethical issues in general. | <ul style="list-style-type: none"> Annual report, website, analyst and investor meetings, interim reports and annual general meeting. |
| Suppliers | <ul style="list-style-type: none"> Ethics and business codes in procurement. Product safety. Sustainable long-term development. Support of human rights among raw material producers. | <ul style="list-style-type: none"> Collaborative projects for sustainability. Annual supplier evaluations, sponsorship evaluations and development projects. |
| Local communities, the public/society | <ul style="list-style-type: none"> Cloetta takes responsibility for the environment and working conditions as far as possible. Laws, regulations and standards. Cloetta makes a positive contribution to development of society, including the local environment. | <ul style="list-style-type: none"> Continuous contact with the local communities/municipalities around Cloetta's factories with regard to the local environment. Continuous contact with public authorities in areas related to occupational health and safety, environmental and product responsibility, schools and universities. Annual audits by Certification bodies for ISO and BRC. Continuous contact with key opinion leaders. |

GRI-index

| Strategy and Analysis | | Page |
|--|---|------------------------------|
| G4-1 | Statement from the most senior decision-maker of the organization | 2 |
| Organizational Profile | | |
| G4-3 | Report the name of the organization | Inside back cover |
| G4-4 | Report the primary brands, products and/or services | 6 |
| G4-5 | Report the location organization's headquarters | 34 |
| G4-6 | Report the number of countries where the organization operates, and names of the countries where the organization has significant operations | 10, 17, 29 |
| G4-7 | Report the nature of ownership and legal form | 34 |
| G4-8 | Report the markets served | 10 |
| G4-9 | Report the scale of the reporting organization | Inside front cover |
| G4-10 | Total number of employees by employment type, employment contract, region and gender | 27–29 |
| G4-11 | Report the percentage of total employees covered by collective bargaining agreements | 29 |
| G4-12 | Describe the organization's supply chain | 8–9, 22–24, 33 |
| 17G4-13 | Report any significant changes during the reporting period regarding the organization's size, structure, ownership or supply chain | 2, 11, 17 |
| G4-14 | Report whether and how the precautionary principle is addressed by the organization | 20–21, 42 |
| G4-15 | List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses | 42–43, 48 |
| G4-16 | List of memberships of associations and national or international advocacy organizations | 48 |
| Identified Material Aspects and Boundaries | | |
| G4-17 | List all entities included in the organization's consolidated financial statements or equivalent documents | 47 |
| G4-18 | Explain the process for defining the report content and the Aspect Boundaries | 44–45, 47 |
| G4-19 | List all the material aspects identified | 45 |
| G4-20 | For each material Aspect, report the Aspect Boundary within the organization | 42, 47 |
| G4-21 | For each material Aspect, report the Aspect Boundary outside the organization | 42, 47 |
| G4-22 | Report the effect of any restatements of information provided in previous reports and the reasons for such restatements | Divestment of Cloetta Italy |
| G4-23 | Report significant changes from previous reporting periods in Scope and Aspect Boundaries | 2, 17 |
| Stakeholder Engagement | | |
| G4-24 | Provide a list of stakeholder groups engaged by the organization | 44 |
| G4-25 | Report the basis for identification and selection of stakeholders with whom to engage | 44 |
| G4-26 | Report the organization's approach to stakeholder engagement | 45 |
| G4-27 | Report key topics and concerns that have been raised through stakeholder engagement | 13 |
| Report Profile | | |
| G4-28 | Reporting period for the information provided | 1 January – 31 December 2017 |
| G4-29 | Date of most recent previous report | 9 March 2017 |
| G4-30 | Reporting cycle | Calendar year |
| G4-31 | Provide the contact point for questions regarding the report or its content | 47 |
| G4-32 | Report the GRI Content Index in accordance with GRI G4.0 Core requirements and report the reference to the External Assurance Report | 46–47, 49 |
| G4-33 | Report the organization's policy and current practice with regard to seeking external assurance for the report | 49 |
| Governance | | |
| G4-34 | Report the governance structure of the organization, including committees, and Board responsibility for economic, environmental and social topics | 34–39, 43 |
| Ethics and Integrity | | |
| G4-56 | Describe the organization's values, principles, standards and norms | 41–43 |

Performance indicators

| GREATER WELL-BEING – SAFE EMPLOYEES WITH GOOD WELL-BEING | | | | |
|--|---|---|---|-----------------------------|
| | Working conditions | Scope | Comments | Page |
| G4-DMA | Occupational health and safety and absenteeism | | | 17, 25–29, 35, 41–42 |
| G4-LA6 | Occupational injuries, lost days, and absenteeism | Includes Cloetta | ODR, IR, LDR replaced by days between occupational injuries that lead to sick leave and absenteeism. Occupational injuries are not reported by region and gender. Absenteeism is reported by gender | 3, 25, 27, 47 |
| G4-LA12 | Composition of governance bodies and breakdown of employees by gender and age group | | The indicator is not reported by minority groups | 25–29, 40 |
| GREATER WELL-BEING – CONSUMERS | | | | |
| Product responsibility | | | | |
| G4-DMA | Customer health and safety | | | 14–15, 16–19, 33, 37, 41–45 |
| G4-PR1 | Evaluation of products and services with regard to consumer health and safety | Includes Cloetta's customers | | 3, 14–15, 16–19 |
| Own | Consumer complaints/returns | | | 18 |
| REDUCED ENVIRONMENTAL IMPACT – FROM OWN OPERATIONS | | | | |
| Environment | | | | |
| G4-DMA | Energy consumption, waste and carbon dioxide emissions | | | 20–21, 33, 35, 40–45 |
| G4-EN3 | Energy consumption inside the organization | Includes Cloetta | | 3, 20–21 |
| G4-EN15, G4-EN16 | Direct and indirect greenhouse gas emissions, by weight (Scope 1, Scope 2) | Refers to Cloetta and the supply chain | | 20–21 |
| G4-EN22 | Total water discharge by quality and destination | Refers to Cloetta's supply chain | | 20–21 |
| G4-EN23 | Total weight of waste, by type and disposal method | | No detailed information about disposal method. Reported in percentage, not weight. | 20–21 |
| Own | Recycling of materials | | | 20–21 |
| G4-EN30 | Transports | Refers to transports within Cloetta's supply chain | Reported only in kg CO ₂ per transported tonne. | 20–21 |
| SUSTAINABLE SOURCING | | | | |
| Human rights | | | | |
| G4-DMA | Supplier human rights assessment | | | 17–19, 22–24, 33, 35, 41–45 |
| G4-HR 10 | Percentage of new suppliers that were screened using human rights criteria | Refers to Cloetta's suppliers | No percentage available. | 22 |
| Own | Results of sustainability programmes for prioritized raw materials | Refers to Cloetta's suppliers | | 22–24 |
| ECONOMIC PERFORMANCE AND ANTI-CORRUPTION | | | | |
| G4-DMA | Economic performance | | | 41–45 |
| G4-EC1 | Direct economic value generated and distributed | Refers to Cloetta and external stakeholders | | 9 |
| G4-DMA | Anti-corruption | | | 36–37, 41–43 |
| G4-S05 | Confirmed incidents of corruption | Cloetta's employees or third party acting on behalf of Cloetta. | Measured through incidents reported to whistleblower service. | 0 incidents page 43 |

Cloetta reports in accordance with the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines, G4, Core. Cloetta's sustainability reporting covers all of its operations unless otherwise stated. The most recent sustainability report was presented on 8 March 2017. The table of contents above contains all standard disclosures and the specific disclosures that have been identified as the most relevant in view of Cloetta's long-term sustainability targets. The specific disclosures and other contents of the sustainability report have been selected based on Cloetta's materiality analysis on page 45. The focus of Cloetta's sustainability work and therefore also the reporting is on the well-being of employees and consumers, reduced environmental impact and sustainable sourcing. The key performance indicators have been collected with the help of internal reporting systems. KPMG has performed limited assurance procedures on Cloetta's sustainability report, see page 49.



Contact for sustainability information

Thomas Wiesgickl
 Director Corporate
 Responsibility and Special Sales
 Telephone: +46 73 026 16 33
 E-mail:
 thomas.wiesgickl@cloetta.se

Membership of organizations

Cloetta is active in a number of collaborative initiatives aimed at promoting more sustainable cultivation of raw materials and improving the conditions for growers in developing countries. The following collaborations are the most important.

| | | |
|--|---|---|
| World Cocoa Foundation (WCF) | Caobisco | Round Table on Sustainable Palm Oil |
| The World Cocoa Foundation (WCF) manages a range of programmes aimed at increasing the cocoa farmers' 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. | The Round Table on Sustainable Palm Oil (RSPO) is committed to promoting the growth and use of sustainable palm oil worldwide. |
| UN Global Compact | UTZ | Bonsucro |
| The UN's Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour environment and anti-corruption. | UTZ Certified stands for sustainable farming and better opportunities for farmers, their families and our planet. The UTZ programme enables farmers to learn better farming methods and to improve their working conditions and the environment. | With more than 400 members from 32 countries that represent all parts of the delivery chain, Bonsucro is an organization that has the resources to realize its vision: <i>"A sugarcane sector that is continuously improving and verified as sustainable"</i> . |
| Global Shea Alliance | Industry organizations | |
| The GSA is a nonprofit organization that promotes sustainability in the shea industry. The GSA's mission is to design, develop and propose strategies that provide a foundation for a competitive and sustainable shea industry worldwide, and to support and empower the rural African women and their communities. | <ul style="list-style-type: none">• Bord Bia, Irish Food Board, (Irish industry association).• Chokofa is a Swedish industry association.• Choprabisco, Belgium.• DI (Danish Chocolate and Confectionery Industries).• ETL (Finnish Food Industries' Federation).• FNLI (The Dutch Food Industry Federation).• HSH (The Federation of Norwegian Commercial and Service Enterprises).• VBZ (Association of the Dutch Bakery and Confectionery Industry), the Netherlands. | |

Auditor's Limited Assurance Report

on Cloetta ABs Sustainability Report and statement regarding the Statutory Sustainability Report

To Cloetta AB (publ), Corp. id. 556308-8144

Introduction

We have been engaged by the Board of Directors and the CEO of Cloetta AB to undertake a limited assurance engagement of Cloetta ABs Sustainability Report for the year 2017. Cloetta AB has defined the scope of the Sustainability Report on page 12 in this document, the Statutory Sustainability Report is defined on page 68 in Cloetta's annual report.

Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 47 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance engagements other than audits or reviews of financial information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory

Sustainability Report has been conducted in accordance with FAR:s accounting standard RevR12. The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Cloetta AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our conclusions below.

Conclusions

Based on the limited assurance procedures performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

A Statutory Sustainability Report has been prepared.

Stockholm 7 March 2018

KPMG AB

Tomas Forslund
Authorized Public Accountant

Torbjörn Westman
Expert member of FAR



Cloetta, founded in 1862, is a leading confectionery company in the Nordic region and the Netherlands. In total, Cloetta products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands on the market, such as Läkerol, Cloetta, Candyking, Jenkki, Kexchoklad, Malaco, Sportlife and Red Band. Cloetta has eight production units in five countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

Cloetta

Cloetta AB (publ) • Corp. ID no. 556308-8144 • Solna Business Park, Englundavägen 7D,
PO Box 6036, SE-171 06 Solna, Sweden. • Tel +46 8-52 72 88 00 • www.cloetta.com