Cloetta

Annual and sustainability report

2018

Contents

■ The audited annual report for Cloetta AB (publ) 556308-8144 consists of the administration report and the accompanying financial statements on pages 1–4 and 62–140.

■ The sustainability report consists of pages 5–10, 24–25, 37–41, 44–55, 71, 77, 148–154, 160.

The annual report is published in Swedish and English.

The Swedish version is the original.

Cloetta

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

FOUNDED IN **1862**

2,458 EMPLOYEES

SALES IN **>50** COUNTRIES

LEADING BRANDS

8

ANNUAL SALES SEK **6.2** BILLION

CHOCOLATE

CANDY

PASTILLES

CHEWING GUM

PICK & MIX

NUTS

Munchy Moments

VISION
To be the most admired satisfier of Munchy Moments

MISSION
To bring a smile to your Munchy Moments

The vision, together with the goals and strategies, expresses Cloetta's business concept

Munchy Moments

Categories in which Cloetta is a market leader

Sweden
Pastilles
Candy
Chocolate bars
Chocolate bags
Pick & mix

Finland
Pastilles
Candy
Chewing gum
Pick & mix

The Netherlands
Pastilles
Candy
Chewing gum

Denmark
Pastilles
Candy
Pick & mix

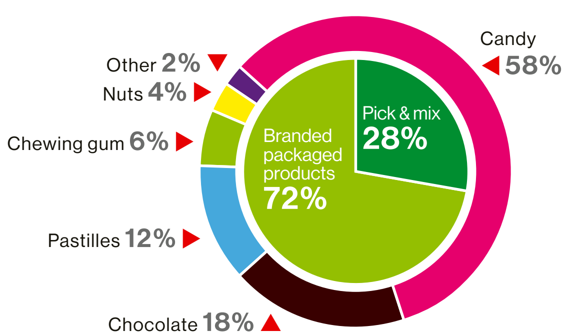
UK
Pick & mix

Norway
Pastilles
Candy
Pick & mix

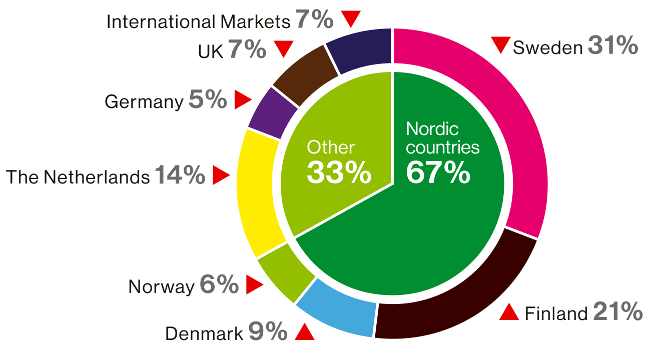
Cloetta's strengths

- Strong leading local brands.
- Core markets in stable Northwestern Europe.
- Strong European leader in pick & mix.
- Scale benefits in Northwestern Europe versus local competition.
- Route to market scale in core markets.
- Locally tailored innovation.

Cloetta's net sales by category



Cloetta's net sales by country



The year in brief

Q1

- Katarina Tell appointed President Cloetta Sweden.
- Michiel Havermans appointed Senior Vice President International Markets and UK.
- Thomas Biesterfeldt appointed Chief Marketing Officer.
- Oskari Vidman appointed Chief Pick & Mix Officer.

Q2

- Ordinary dividend of SEK 0.75 and special dividend of SEK 0.75 is paid.
- Amended and extended loan programme and launched commercial-paper programme.
- Frans Rydén appointed CFO.
- New production line installed in the factory in Turnhout, Belgium.
- Candyking units in the Nordic countries implemented Cloetta's business enterprise system.

Q3

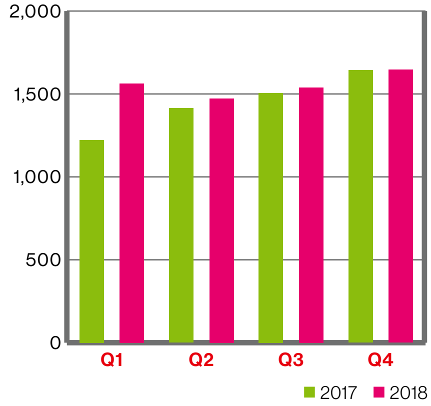
- Cloetta awarded "Listed company of the year".
- Malaco Gott & Blandat with 30 % less sugar launched.
- Red Band celebrated 90 years.

Q4

- Cloetta awarded best corporate web site in Sweden.
- Record number of shareholders (23,956) in Cloetta.

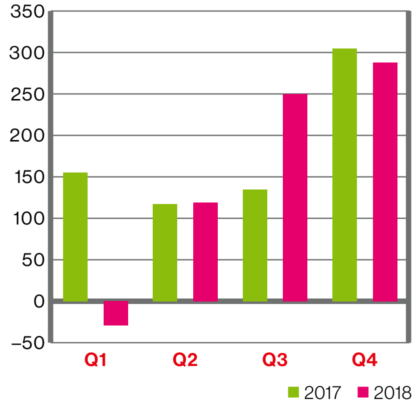
Net sales

SEKm



Cash flow from operating activities

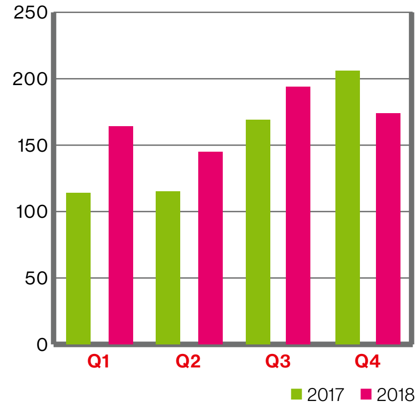
SEKm



Examples of new launches

Operating profit, adjusted

SEKm



Key ratios

SEKm	2018	2017	2016	2015	2014
Net sales	6,218	5,784	5,107	5,674	5,313
Operating profit (EBIT), adjusted	677	604	695	690	632
Operating profit margin (EBIT margin), adjusted %	10.9	10.4	13.6	12.2	11.9
Operating profit (EBIT)	660	527	635	671	577
Operating profit margin (EBIT margin), %	10.6	9.1	12.4	11.8	10.9
Profit/loss before tax	562	443	469	493	338
Profit/loss for the period	483	–97	–191	386	242
Profit/loss for the period excluding impact of impairment loss discontinued operation including corporate income tax effects and other items affecting comparability	483	402	403	386	242
Earnings per share, basic, SEK	1.69	–0.34	–0.67	1.35	0.84
Earnings per share, diluted, SEK	1.68	–0.34	–0.67	1.35	0.84
Net debt/EBITDA, x	2.31	2.39	2.44	3.03	3.97
Cash flow from operating activities	628	712	889	927	500

For definitions, see page 156.

Cloetta positioned for profitable growth

During 2018 Cloetta both increased sales in branded packaged products and grew operating profit. A sharper marketing focus, together with a cost savings programme and synergies from Candyking all contributed to our progress.

When I summarise 2018 I can conclude that we laid the foundation for profitable growth during the year. Even if Cloetta's organic growth was negative, mainly due to the loss of a larger pick & mix contract, we managed to grow our branded packaged products for the first time in many years. This bodes well for the future. During the year, the 2017 acquisition of Candyking was integrated into Cloetta, giving us the ability to make the combined pick & mix business more solid and profitable.

Increased sales and improved operating profit

This year's net sales increased by SEK 434m to SEK 6,218m (5,784) compared to last year, driven by structural changes and exchange rate differences. Organic growth was –2.8 percent. Operating profit, adjusted for items affecting comparability, increased and amounted to SEK 677m (604). Profit from continuing operations improved and amounted to SEK 483m (237).

Net debt/EBITDA ratio in line with targets and increased dividend

For the third year in a row we have achieved a net debt/EBITDA ratio that is in line with our target. This gives us financial flexibility to focus on continued dividend payments and potential acquisitions. In light of our stable cash flow and an improved operating result, we proposed to the Board of Directors an increase in the ordinary dividend to SEK 1.00 (0.75) per share.

Integration of Candyking and development of the pick & mix concept

Pick & mix is a growing and important consumer market for us based on underlying consumer trends such as individualism and less use of plastic packaging. As the leading confectionery company in the Nordic countries we have good opportunities to develop the category and thereby drive profitability and growth.

Savings from synergies from Candyking, acquired in 2017, were in line with expectations for 2018. This means that half of the total synergies of SEK 100m still remain to be realised during 2019 and 2020, which is in line with the plan.

Operationally, the integration of Candyking will be complete by summer 2019 once the last of the Candyking markets have implemented Cloetta's business enterprise system. The insourcing of the Candyking volumes is proceeding according to plan and the necessary investments to further increase insourcing will be fully implemented during 2020. Once all these investments are in place, the full synergies from the acquisition of Candyking will be able to be realised.

In the short term, our focus is on improving the operating profit margin from pick & mix. This may entail price increases on certain contracts, and that we may choose to exit unprofitable contracts.

Sustainability work a priority

By further integrating and embedding environmental and social aspects into our business strategy and our operations, we are creating the conditions for long-term value creation. By understanding and managing our impact on people and the environment, and at the same time being an attractive employer that also exceeds consumers' and customers' expectations, we are creating the conditions for long-term profitability. This means that Cloetta must be a safe and also attractive place of work, that consumers must be offered products of high quality but also that Cloetta's brands offer choices to the consumer, for example with less or no sugar. It means reducing the environmental impact from Cloetta's factories and from the use of packaging, as well as placing environmental and social requirements within our sourcing process.

In our role as a responsible company we shall offer consumers a choice when they want to enjoy our brands. We have successfully launched both a product with 30 per cent less sugar and products with no sugar under the leading candy brand Red Band in the Netherlands. We also successfully launched a product with 30 per cent less sugar under the brand Malaco Gott & Blandat in Sweden and Norway in 2018. Our long-term ambition is to be transparent and offer more choice to the consumer when making trade-offs on sugar, naturalness, gluten etc., so that people have alternatives and can make their own choices.

The cocoa and chocolate that Cloetta buys is UTZ certified. We have removed palm oil from the majority of our glazing agents and for any products still containing palm oil, we have started the transition towards

"My goal is to grow Cloetta organically and with acquisitions to an EBIT margin, adjusted of 14 per cent."

Henri de Sauvage-Nolting
President and CEO

segregated, traceable palm oil. This increases traceability.

We also aim to decrease our carbon dioxide per produced tonne even further, but in 2018 we have not seen a decrease due to less renewable electricity being purchased. We can decrease carbon dioxide further, for example by taking a more integrated perspective on the supply chain.

Cloetta is a member of the UN's Global Compact and supports their ten principles regarding human rights, working conditions, the environment and anti-corruption. Our sustainability agenda also supports eight of the UN's 17 sustainability goals.

Sustainability is one of Cloetta's priority areas. During 2019, we will therefore further develop this work based on the materiality analysis that we recently carried out. This means that both our ways of working and objectives may change.

Strategic initiatives

My goal is to grow Cloetta organically and with acquisitions to an EBIT margin, adjusted of 14 per cent. To succeed in this, the consumer must always come first, at the same as customers see Cloetta as their partner of choice. Through our strong leading local brands and a leading position in pick & mix, we can benefit from economies of scale in production and innovation and use our strong channels to market to continuously improve our brands. Quality and local tradition continue to be our guiding principles.

We will strengthen our position as the leading confectionery company in Northwestern Europe. This should be done through a continued focus on profitable growth in our existing categories in our main markets and in selected international markets, while we concurrently carry out selected acquisitions.

We have three main areas that are important for our ability to reach our goals. They are driving growth, enabling growth and financing growth.

Driving growth

By focusing on our core categories and markets and, over time, doubling sales in International Markets, we will be able to grow at least in line with the market. This means both increasing market share as well as increasing volumes in branded packaged products, at the same time as we increase our penetration and improve our product offering within pick & mix. Additionally, we want to make selective acquisitions in our categories in our main markets or adjacent markets.

Enabling growth

We will create "One Cloetta" with a common agenda and scale synergies to produce better conditions for growth. However, we also need to strengthen our brands through increased and more effective marketing and innovation. Through zero tolerance for accidents in the workplace and simultaneously creating a culture of winning, we can ensure that we attract, develop and retain competent employees.

Financing growth

To free up resources to increase growth and profitability, we will carry out cost-cutting activities throughout Cloetta. This means challenging costs and improving internal systems and processes. There is also ample scope in our factories to drive further efficiencies and cost reductions. To increase capacity in our factories, we are working with a capacity enhancement programme 'Perfect Factory' and at the same time we are investing to enable more insourcing and organic growth.

Cloetta stands strong

I am pleased that we managed to grow our branded packaged products during every quarter of 2018, leading to a 1.5 percent growth in the category. Branded packaged products are generally very profitable, which is why profitable growth in this category is of a significant importance for Cloetta to be able to reach the goal of a 14 per cent EBIT margin.

We still have much to do in order to improve and develop in the pick & mix business, but the foundation is now in place. This makes me confident that we will increase profitability in this important category while simultaneously growing it over time.

I am far from satisfied, even if we did increase profitability in 2018. Our goal of reaching an underlying operating profit margin of 14 per cent remains. Indeed, much work remains, but we have laid the foundation that will enable us to reach our goal through the plans and activities we have developed and started during the course of the last year.

My new Group Management Team is now complete following several new appointments during the year. This means that we now have the people and the organisation in place that can contribute to profitable growth.

Cloetta has a profitable business with a stable cash flow in stable markets. We have strong brands and strong market positions and we have competent and committed employees that are proud of our company and our products. All this makes me confident in saying that Cloetta stands strong.

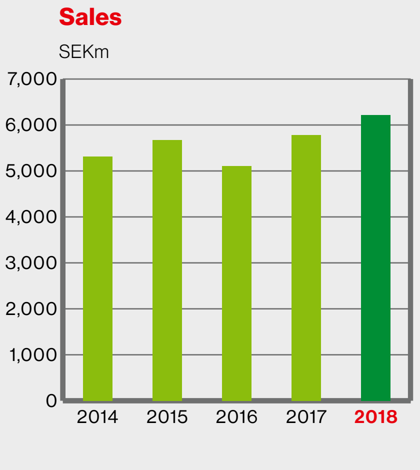
Stockholm, March 2019

Henri de Sauvage-Nolting
President and CEO

Long-term financial targets

Organic sales growth

Cloetta's long-term target is to increase organic sales at least in line with market growth.

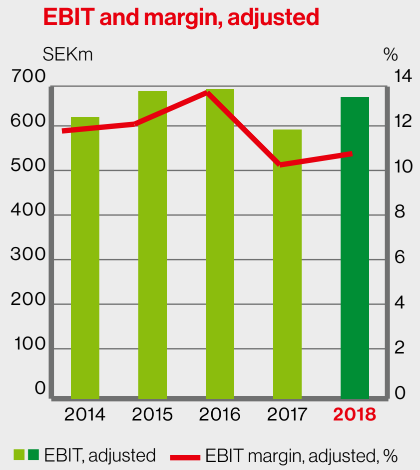


Comment on the year's outcome

Historically, total annual growth in the markets where Cloetta is active has been around one to two per cent. In 2018 organic growth accounted for –2.8 per cent, due entirely to decreased pick & mix sales caused primarily by a lost contract in Sweden and the significantly raised sugar tax in Norway. Sales of branded packaged products grew by 1.5% and pick & mix sales decreased by 12.8%.

EBIT margin

Cloetta's target is an EBIT margin, adjusted of at least 14 per cent.

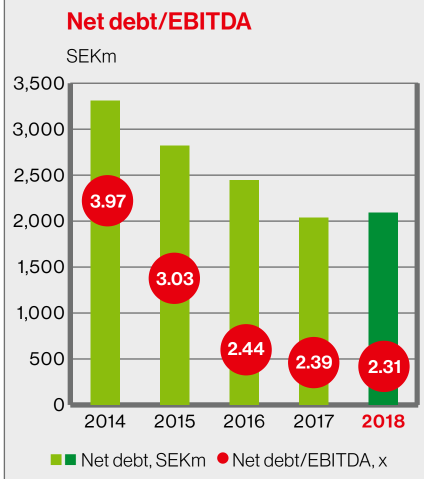


Comment on the year's outcome

The EBIT margin, adjusted improved during the year, mainly due to growth in sales of branded packaged products, higher production volumes and good cost control, partly offset by higher production costs.

Net debt

Cloetta's long-term target is a net debt/EBITDA ratio of 2.5x.



Comment on the year's outcome

In 2018, and for the third year in a row, Cloetta met its long-term target for net debt/EBITDA. Net debt/EBITDA reached 2.31x, which is lower than the target of 2.5x.

Dividend policy

Cloetta's goal is to have a dividend payout ratio of 40 to 60 per cent of profit after tax.

Comment on the year's outcome

Given that this year's profit is higher compared to the previous year, the Board of Directors proposes a dividend of SEK 1.00 (0.75) per share for 2018, which corresponds to 60 per cent of the profit for the period.

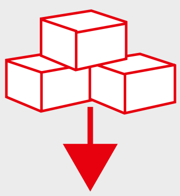
Sustainability targets

Employees and customers

Employees

Cloetta has zero tolerance for occupational injuries.

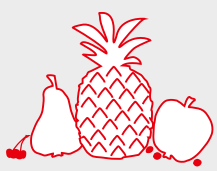
Lost Time Injury Rate (LTIR)
(LTIR is absence due to accidents (for more than 24 hours) per 1,000,000 hours worked.)



LESS SUGAR & SUGAR-FREE

Less sugar and sugar-free

Cloetta's larger brands will offer alternatives with less sugar, no added sugar or sugar-free products



NAFNAC
No Artificial Flavours & No Artificial Colours

No artificial colours or flavours

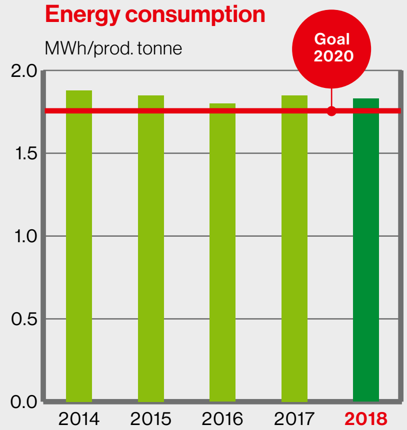
Cloetta believes it is important to increase the proportion of natural ingredients. Cloetta's target is to have switched entirely to natural colours and flavours in its products by the end of 2020.

Increased resource efficiency

Energy consumption

Energy consumption per produced tonne to be reduced by five per cent by 2020, compared with 2014 levels.

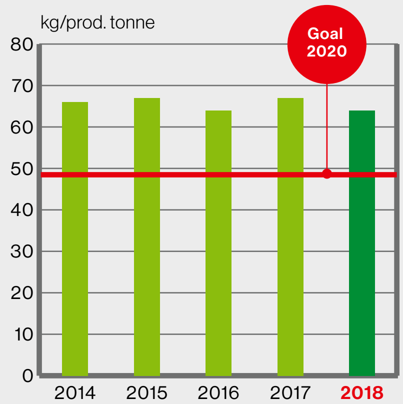
Energy consumption



Waste

The volume of waste per produced kg to be reduced by 25 per cent by 2020, compared with 2014 levels.

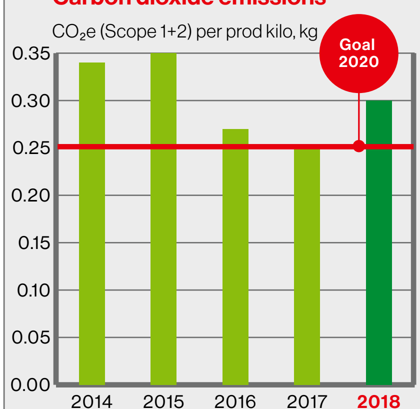
Waste



Carbon dioxide emissions

CO_2 emissions from production to be reduced by 5 per cent per produced kg by 2020, compared with 2014 levels.

Carbon dioxide emissions



The figures for 2016 and 2017 have been adjusted.

Responsible sourcing

Cloetta's ambition

- Sustainability programmes will be implemented for all prioritized raw materials.
- Palm oil present in Cloetta's products should be RSPO (Round Table on Sustainable Palm Oil) certified*.
- 100 per cent of all cocoa and chocolate purchased by Cloetta is UTZ* certified.
- From 2018, Cloetta will only source sustainable shea butter according to the AAK* principles.

Comments on the year's outcome

- 100 per cent of cocoa purchased by Cloetta is UTZ certified.
- During 2018, Cloetta has switched to sourcing sustainable and traceable shea butter via the AAK programme.
- Cloetta has replaced the majority of the palm oil used in glazing agents with other alternatives. This means that many of Cloetta's products are palm oil free. This effort to replace palm oils has mostly been driven by customer expectations and demands. In those chocolate and fudge products that contain palm oil, Cloetta has started transitioning to segregated palm oil in accordance with RSPO principles. RSPO certification of Cloetta's factories will take place in 2019.

* Read more on pages 49–50.

Strategic priorities

Cloetta's mission is "to bring a smile to your Munchy Moments". For us, the consumer must always be front and centre, and we do everything we can so that our customers perceive Cloetta as their number one partner. Cloetta's goal is to grow organically and with acquisitions to an EBIT margin, adjusted of 14 per cent.

Cloetta aims to strengthen its position as the leading confectionery company in Northwestern Europe. Cloetta has strong leading local brands and a leading position in pick & mix. Cloetta can utilize its scale in production and innovation and its strong route to market to continuously enhance its brands with a focus on high quality and local traditions.

Cloetta's core categories are candy, chocolate, pastilles, chewing gum, nuts and pick & mix. The company's core markets, where organic growth should be at least 1 – 2 per cent, are Sweden, Finland, the Netherlands, Denmark, the UK, Norway and Germany. Cloetta will also selectively expand and grow faster with a number of brands in International Markets.

Cloetta will create the conditions for growth by building "One Cloetta" with a common agenda across the Group. Further, a focus on cost-efficiency will enable Cloetta to increase profitability and invest for the future. Investments may be made to strengthen and increase the Group's capabilities within production, marketing or sales as well as selective acquisitions.

Cloetta's strategy is built on three pillars:

1 Drive growth

- **Strengthen** the strong local brands and selectively expand brands internationally
- **Focus** on core markets and double the sales in International Markets
- **Grow** market shares and volume in branded packaged products
- **Grow** the pick & mix penetration and offering in core markets
- **Selective** acquisitions in Cloetta's core categories in core and adjacent markets

2 Facilitate growth

- **Zero tolerance** for occupational accidents
- Create "**One Cloetta**" with one agenda and way of working
- **Strengthen** brand and category management
- Create a **winning** culture
- **Develop**, attract and retain skilled leaders and employees

3 Fund growth

- Drive **cost saving** activities throughout the entire organisation
- Embed "**Perfect Factory**" and Lean programme in the supply chain
- **Insource** production
- **Improve** profitability in pick & mix
- Improve **marketing efficiency** and internal systems and processes

Cloetta's value chain

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

Cloetta creates economic value through innovative product development, efficient purchasing and high-quality production, as well as good relations with the retail trade and marketing that strengthen the brands.

Value creation

Product development 1

- Product development is based on a combination of customer and consumer-driven needs/preferences, innovation and opportunities in the existing production network.

Purchasing 2

- Cloetta's total purchasing costs amounted to SEK 4,001m, of which SEK 2,680m were for raw materials and consumables. The three main raw materials in terms of purchasing costs are sugar, cocoa and milk powder.

Production 3

- Cloetta had 2,458 employees during 2018 and total personnel costs amounted to SEK 1,331m.
- Cloetta's 8 factories had 1,645 employees.
- During the year, Cloetta produced 102 thousand tonnes of candy, chocolate, chewing gum, pastilles and nuts.

Sustainable corporate responsibility

Product development

- For several years Cloetta has conducted a long-term programme, NAFNAC aimed at offering a portfolio of products that contains only natural flavours and colours.
- Cloetta systematically develops alternative products for its major brands that have lower sugar or are sugar-free. Under the brands Red Band and Malaco Gott & Blandat products that are low sugar, sugar-free or vegetarian have been launched.

Purchasing

- Suppliers to Cloetta's production are subject to an approval process in which both product safety, social- and environmental requirements are evaluated.
- Cloetta promotes sustainable production of the prioritized raw materials cocoa, palm oil and shea butter. Read more on pages 48–50.

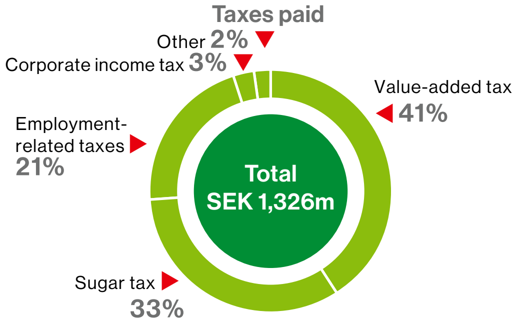
Sustainability programmes for cocoa, palm oil and shea butter

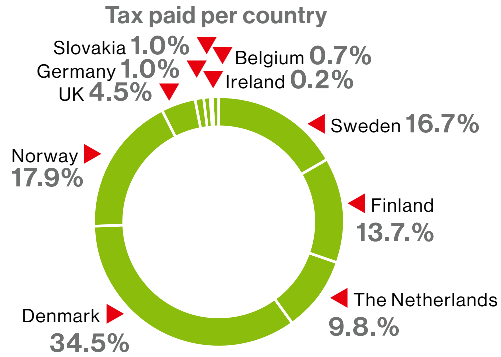
Production

Environment
- Continuous endeavours to use energy more efficiently in production and to reduce CO_2 emissions.
- Improved resource efficiency through recycling of materials and energy.
- Systematic environmental management is a natural part of processes in all factories.

Occupational Health and Safety (OHS)
- Focus on personal safety.
- OHS activities with systematic monitoring are part of the daily follow-up.

Product Safety
- Product safety system in place in all factories.
- The factories focus on measures to prevent serious product complaints. Read more on page 40.





Tax information

Cloetta paid SEK 1,326m (1,177) in various taxes in 2018. These were mainly value-added tax, sugar tax and employment-related taxes. Considering the profit reported 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.

Tax paid in Norway and Denmark is proportionally higher due to sugar taxes.

Repayment of borrowings

Customers 4

- Total net sales amounted to SEK 6,218m. Cloetta's largest customer category is the grocery retail trade. The service trade is also a very important customer group.

- In general, customers require BRC or ISO certification.
- All packaging can be sorted for waste management.

Consumers 5

- Cloetta satisfies Munchy Moments.
- Feedback on complaints and points of view.

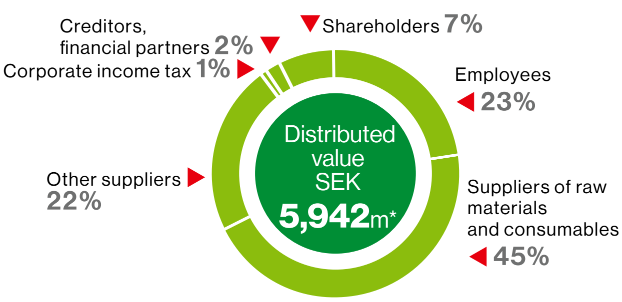
- Products of a high quality are marketed responsibly.
- Offer consumers a wide range of products.

Profit for the year was SEK 483m

Shareholders

A certain share of non-restricted equity is distributed to Cloetta's shareholders in the form of dividends, after the business has been provided with the capital necessary for continued development. For 2018 the Board of Directors (Board) has proposed an ordinary dividend of SEK 1.00 per share, which corresponds to 60 per cent of the profit for the period, to be paid in 2019. In 2018, SEK 433m was distributed to the shareholders through ordinary as well as special dividend.

Generated value SEK 6,222m



* Excluding amortization/depreciation, and profit for the year and including paid dividends.

Economic impact

Production and sales of Cloetta's products generate economic value that benefits its stakeholders.

Cloetta's sustainability agenda

By further integrating environmental and social aspects into both the business strategy and operations, Cloetta is creating the conditions to grow as a company. This also leads to risks and opportunities being identified, while enabling Cloetta to understand and manage impact on people and the environment, and live up to the expectations of the world around us.

The materiality analysis is a process for defining the environmental and social aspects that are most relevant both to Cloetta's ability to create long-term value as a company and to how Cloetta creates value for the most important stakeholders. Cloetta has through the materiality analysis defined four priority areas, and within each of these, goals have been set and programmes and follow-up systems have been established.

The materiality analysis also serves as a basis for adapting the sustainability agenda to the UN's Sustainable Development Goals, and it supports eight of the 17 goals. In 2019, the Group's sustainability agenda will be updated and new long-term goals and KPIs will be defined and integrated into the business strategy.

Health and development of our employees

Cloetta's employees are essential for Cloetta's success. Cloetta's ability to attract, retain and develop employees is therefore of the utmost importance. This is why Cloetta has activity plans and goals in place for ensuring that the workplace is as safe and as attractive as possible.

Consumer front and centre

Cloetta will offer safe and high-quality products. In response to consumer preferences, Cloetta also offers products with more natural raw materials, less sugar, sugar-free products and products with functional properties, such as chewing gum for better dental hygiene.

Increased resource efficiency

Cloetta makes all efforts to use resources as effectively as possible. Cloetta manages the environmental impact from operations and transportation through optimising energy consumption, reducing emissions and waste and prioritising climate-smart transportation. Cloetta is also developing packaging solutions with improved environmental performance.

Responsible sourcing

Cloetta controls that suppliers live up to Cloetta's standards by integrating environmental and social requirements into the sourcing process. Furthermore, Cloetta has a programme for purchasing certified raw materials that is aimed at improving the social and environmental conditions in the places where the raw materials are produced.

The confectionery market

The confectionery market is traditionally divided into candy, chocolate, pastilles and chewing gum. Cloetta is active in all these categories, as well as in nuts.

Cloetta's main markets are Sweden, Finland, the Netherlands, Denmark, Norway, the UK and Germany. The total market for confectionery in Cloetta's main markets amounts to approximately SEK 228bn (225).

Mature market

The confectionery market is relatively insensitive to economic fluctuations and shows stable growth that is driven primarily by population trends and price increases. Market recessions affect Cloetta mainly through general price pressure from the retail trade and increased competition from the trade's own private labels. However, private labels account for a relatively small share of confectionery compared to other grocery products.

Since growth takes place almost exclusively through the development of existing strong confectionery brands, the continuous launch of new flavours and products is a key success factor.

In terms of value, candy including pastilles accounts for 26 per cent, chocolate for around 66 per cent and chewing gum for around 8 per cent of the total market in Cloetta's main markets.

Competitive market

The global market for confectionery is dominated by international companies like Mars/Wrigley, Mondelez, Nestlé, Ferrero, Perfetti, Haribo, and Lindt & Sprüngli. However, in the local markets these meet tough opposition from players with locally established brands such as Cloetta, Fazer, Orkla and Toms. No player has a strong position across all European markets.

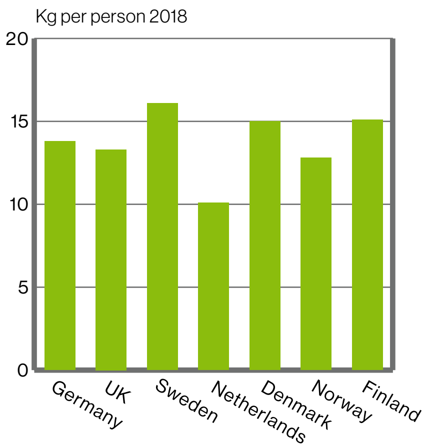
Consolidation of the confectionery industry is taking place gradually. The industry as such has a long history and the pace of technological product innovation is low.

The nut market

Cloetta is also active in the nut market via the brands Nutisal and Parrots. The total nut market in the Nordic region is worth around SEK 5bn, and the private labels of the retail trade account for approximately one third of the total market.

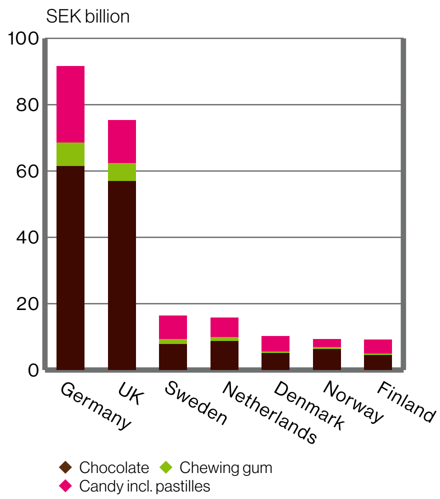
In Cloetta's main markets, the nut market is experiencing annual growth of 1–2 per cent in volume. However, the nut market has grown in value by some 4 per cent due to price increases and a shift to the premium product category during 2018.

Confectionery consumption
per capita



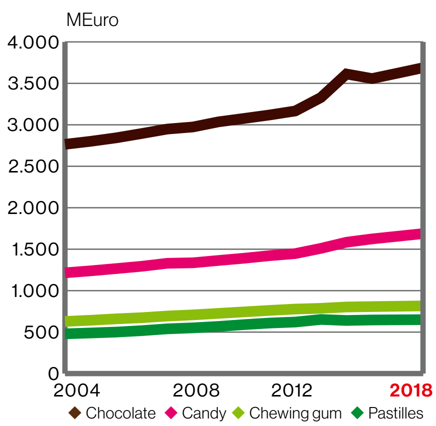
The graph refers to candy and chocolate in the countries where Cloetta is active.
Source: Mintel

Market size, by region,
Cloetta's main markets, 2018



Source: Mintel

Market development
in Cloetta's main markets



Source: Datamonitor and Mintel

Consumption patterns

Confectionery is one of the most impulse-driven categories in the retail trade. With over 80 per cent of purchasing decisions made at the point of sale, brand, availability and product placement are significant success factors.

The European confectionery market is characterized by strong consumer loyalty to local brands. The main considerations when buying are brand, flavour, quality and curiosity about new products.

Consumption patterns and taste preferences vary between the different markets. For example, compared to the rest of Europe, the Nordic region has a lower per capita consumption of chocolate, but a significantly higher consumption of candy.

Pick & mix

The pick & mix category has a very strong position in the Nordic countries and accounts for a high share of the total confectionery consumption, while the consumption of pick & mix is considerably lower in Central Europe where packaged candy and chocolate have a stronger position. In Sweden, pick & mix accounts for 30 per cent of the total confectionery market, while in the other Nordic countries it accounts for 5 to 15 per cent. Pick & mix candy as a market is growing faster than packaged products in most Nordic countries.

Cloetta's sales channels

Grocery retail trade

Increasingly fewer and larger stores, which is leading to greater efficiency and strength. Typically covered by central agreements at a national level.

Service trade

Generous opening hours, centrally located in the form of convenience stores and filling stations. An increasingly wide range of snack alternatives.

Other sales channels

These include movie theatres, building supply stores, airports and arenas. This channel often requires support in developing its confectionery sales. The e-commerce sales channel is growing rapidly, although still at a relatively low level compared to other consumer goods.

Traditional sales channels

Cloetta's foremost sales channels in all markets are the grocery retail trade and the service trade.

The grocery retail trade has undergone extensive consolidation and restructuring over the past ten years, and the number of stores has decreased at the same time as floor space per store has grown larger. Concentration in the grocery trade is high in the majority of European markets, which means that the channel can place high demands on its suppliers. Nonetheless, as a leading supplier Cloetta has the opportunity to develop partnerships that benefit both sides. Strong brands and high-quality products that are attractively priced and can be effectively displayed and marketed are therefore of major importance.

A large share of the everyday consumption of confectionery has traditionally taken place via the service trade, i.e. filling stations and convenience stores, kiosks, etc. Over the past decade, confectionery sales to the service trade have decreased, primarily due to the presence of fewer filling stations, but also because the service trade has developed its own snack alternatives that compete with confectionery.

Other sales channels

Since availability and a strong brand are two key factors for impulse-driven purchases, Cloetta continuously evaluates new types of sales channels to ensure availability where the consumers are found.

Other sales channels include those where confectionery has been offered for many years, including ferry lines, movie theatres, airports and arenas, and also channels that have not been traditionally associated with confectionery sales, such as building supply stores, furniture and appliance stores, hotels and bars.

One key success factor is to develop different packaging solutions to help customers in the different channels to display the products.

E-commerce

E-commerce is continuing to grow globally in all types of industries, including food products and confectionery. Historically, the consumer goods industry has not been a leader in the e-commerce segment, but forecasts indicate that half of the growth in the next five years will be driven by online sales. Research shows that in 60 countries, 17 to 30 per cent of consumers are already buying groceries online and over 50 per cent say they are willing to do so in the near future.

The UK is the most mature market in Europe, closely followed by France and the Netherlands.

The typical online shoppers are families with small children, in urban and suburban areas. The main driver for buying groceries online is 'convenience'.

The fast-moving consumer goods industry has taken several initiatives to strengthen its e-commerce presence. Unilever has acquired Dollar Shave Club (shaving products for consumers) and Wal-Mart has both acquired JET.com (an online discount platform, including confectionery) and increased its holding in JD.com, a major Chinese online retailer that also offers food products. Alibaba (a Chinese e-commerce platform) has acquired a stake in a large Chinese offline retailer. In addition, the American e-commerce platform Amazon has purchased Wholefoods, an offline groceries player, clearly demonstrating their ambition to move into groceries. In Sweden Axfood has acquired Mat.se and in the Netherlands, Albert Heijn has acquired BOL.com, a local competitor to Amazon. Read more about Cloetta's e-commerce development on page 17.

Strategies for growth

Brand, category and product development

- Innovation
- Consumer and business gap identification
- Geographical expansion of existing brands
- Valorisation
- Development of package sizes and prices

How Cloetta creates continuous organic growth – read more on pages 21–23.

- When potential strategic opportunities arise, Cloetta will widen its footprint through the acquisition or development of new brands, expansion into new geographical markets or new initiatives/ business concepts

- Continuous support for core brands through effective marketing campaigns
- Leverage category development strategies and future key growth drivers with customers
- Excite the consumer with enchanting core brands through line extensions, new flavours and packaging innovations
- Develop pick & mix concepts
- Develop consumer and customer-centric concepts with a strong and competent sales force
- Maximum visibility in stores
- Sales and in-store campaigns

How Cloetta takes care of its strong porfolio of brands – read more on pages 16–20.

Brand and category leadership

Confectionery is the most impulse-driven category in retail. Consequently, good availability and visibility in stores, alongside strong brands with high recognition and loyalty, are critical to confectionery sales. Cloetta's continuous development of its brands and concepts, and having a strong sales force, are therefore of vital importance.

Brand management

Cloetta's ten largest brands account for around 49 per cent of the Group's sales. Read more about the leading brands on pages 26–29.

For each brand there is an individual development plan aimed at continuously contemporizing and developing the brand. To ensure strong and sustainable consumer connection with our brands, activities such as impactful and relevant communication, new flavours and line extension, package development and commercial campaigns are considered key drivers for growth.

Marketing communication

Effective and well-planned marketing communication across relevant touch-points, shaped by the audience profile and behaviour, is the key driver for building awareness, preference and emotional connection to Cloetta's brands. When combined with in-store promotion and visibility, marketing communication stimulates brand trial, loyalty and overall demand for Cloetta's products.

Cloetta's marketing is tailored to each brand's strategy and position. It is often characterized by image and emotion-creating brand advertisements, sponsorship and events directed at selected target groups.

Above all, it is a key ambition to ensure advertising effectiveness for the marketing investments Cloetta makes. It is about what is creating impact and is giving consumer impression, which must be carefully developed and planned for each campaign based on the defined performance objectives. See example on page 20.

Category development

Confectionery is a very important and profitable category in retail. Hence, category development and category management are key levers in developing penetration and loyalty through consumer experience and service.

Acceleration of brand strength

Awareness and loyalty

Tools to strengthen brands

- Impactful and effective brand communication.
- Consumer centricity: Actionable insights to drive relevance.

Opportunities

- Utilize technologies for enhanced consumer services and experience.
- Be visible where consumers are: optimize targeting of marketing and point-of-purchase campaigns.

Development

Tools to strengthen brands

- New flavour innovations and seasonal products to meet relevant consumer needs.
- Package development to expose the product and adapt it to different sales channels.

Opportunities

- Further cross-market developments create new opportunities, scale and cost synergies.

Availability

Tools to strengthen brands

- A large and competent sales force supports retailers.
- Cloetta offers stores a complete product range to satisfy consumer choice.

Opportunities

- Continuously identify new channels to reach consumers.
- Develop new sales solutions adapted to different customer categories.

Profitable growth for both Cloetta and its customers is supported by always having the best facts and insights.

Category vision and strategy

A long-term category vision supports the development of the shelf, the assortment and consumer experience from the current state towards tomorrow's future state. Powerful brands and a differentiated product portfolio that fit today's and future consumer and customer needs are important parts of the category vision. Thus, any category strategy to support this vision must be built on solid and relevant consumer and shopper insights.

New flavours

The launch of new and attractive product variants or flavours, in segments where there is consumer demand, strengthens Cloetta's offering to both customers and consumers.

Since successful innovations inspire trials of both the new product and often also the original product, good seasonal products and innovations normally generate incremental sales.

Pick & mix

Cloetta is the leading concept supplier in the pick & mix category in the Nordic region and the UK. This means that the Group offers retailers a total concept in pick & mix, under the brands Candyking, Karamellkungen, Parrots and Karkkikatu.

The concept consists of products, racks and merchandising as well as in-store and logistics services. A customer can choose from different concepts containing between 16 to 200 different articles. The pick & mix assortment consists of chocolates, gummy candies, hard-boiled candies, toffee, foam, liquorice and natural snacks that the consumer can pick in bags or cups. Today, pick & mix accounts for 28 per cent of the Group's sales.

Cloetta also provides the pick & mix concept under the private labels of certain retailers, and also sells pick & mix candy to other concept suppliers.

Through the Parrots brand, Cloetta is also a leading pick & mix player in the natural snacks market in Sweden and Finland.

Package development

An important part of brand management consists of package development to provide the best consumer experience. The packaging material must perform several functions, including protecting the product on its way to the consumer, enabling easy handling of the product, providing product information and communicating the brand. Package development also includes retail packaging for the various sales channels.

Visibility in stores

One decisive success factor for consumer sales is good exposure in the store, thus, how the retail trade receives new products and innovations is a crucial factor. Customers must perceive that the products are needed, easy to handle and profitable for their trade.

Cloetta has a large, trend-setting and innovative sales force in its main markets. Through good trade relations and extensive knowledge about the industry, market and products, Cloetta can present attractive sales solutions that support the customers' business objectives and create added value for both Cloetta and the customer.

The most important part of the sales force's day-to-day work consists of helping the individual retailers display Cloetta's products to achieve higher turnover rates and margins in the store. Through the sales organization's category knowledge and strong in-store presence, Cloetta can reach out with campaigns, monitor local compliance with centrally negotiated listings and distribution agreements, and ensure good visibility on the store shelves, in the checkout lines and in other places. Read more on page 19.

Sales-promotional activities

Cloetta typically combines marketing activities with in-store campaigns. New products are normally given sales support through campaigns, events, in-store activities and advertisements to reach consumers as quickly as possible.

E-commerce

Like many food producers, Cloetta has a clear strategy for how to grow its online business. A central e-commerce team supports the local markets in building the right capabilities and competencies and gaining a better understanding of digital retail, both in "Brick & Clicks" (e.g. ICA.se and AH.nl) as well as "Pure Play" (e.g. Mathem.se and PicNic.nl) retail.

Cloetta aims to achieve online growth in line with its market share. Online sales of confectionery are lower than for other categories, but are expected to catch up in the next few years. Although the share of confectionery sold online is still very low, the growth rate among consumers who have started to buy groceries online is around 30 per cent, year on year.

Cloetta has in-house skills in e-commerce from its online stores. For instance, in Finland, Cloetta has optimized and rebuilt the Xylitol Direct2Consumer web shop (www.ksylitolikauppa.fi) for mobile devices to deliver a better consumer experience.

Online sales are set to impact impulse-driven goods like confectionery. Hence, Cloetta will accelerate its focus on online confectionery sales to play a leading role with key customers in the future.

Measurement tools

Effective marketing is dependent on continuous monitoring and analysis of changes in consumer patterns. In-depth knowledge of consumer behaviour and media trends is essential for successful product development and marketing.

In addition to media, touch-point-specific tracking and general brand health measurement (e.g. brand consideration and preference), the success of our investment can be gauged by the detailed reactivity of immediate sell-out, the final truth in the fast-moving consumer goods industry.

Protection of intellectual property rights

To prevent infringement of its intellectual property rights, Cloetta uses a specific monitoring service that provides alerts about applications for both national and international registration of brands that are identical to, or can be confused with, Cloetta's key brands.

For example, Kexchoklad's chequered pattern has been design-protected for many years and the name "Kexchoklad" has been trademarked since 2004.

Examples of new flavours during the year

Jenkki pro fresh apple

Juleskum Kola

Aakkoset Choco

Good relations with customers at a central and local level

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.

The right products for 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 strong and effective, which provides good opportunities for a presence at many different sales points.

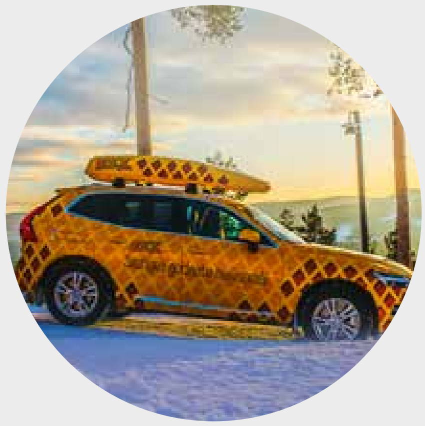
Good visibility for Cloetta's products

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.

Success factors for the sales organization

Effective sales campaigns in cooperation with the customers

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



Boost sales

To increase sales, Cloetta's products need to be where consumers are. The task for Cloetta's sales organization is therefore to continuously seek new non-traditional sales points for selected parts of the product range, and also to increase display space and sales in existing stores.

Ensure compliance with customer agreements

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

Impactful campaigns

Venco – an everyday Dutch favourite

The campaign for Venco established Venco as part of the everyday Dutch life and that everything becomes better and tastier with Venco. Three television campaigns were combined with campaigns in other media, according to the 360-degree model, to reach consumers through several channels simultaneously. The campaign strengthened the brand's leading position in the liquorice market.

Tupla Space Expedition

This year's major investment in adventurous Tupla started with the launch of a Tupla into space and the announcement of a competition looking for candidates for a space programme. Twenty fearless applicants were chosen to go to a camp to test their stress resistance and mathematical knowledge. The top five candidates had the opportunity to travel to the Yuri Gagarin Cosmonaut Training Center to experience the challenges of real cosmonauts. Finally, the winner was sent to Arizona, USA for a real Zero-G flight. The campaign generated a high level of engagement and Tupla increased its market share in Finland by 2 per cent during the year.

Major investment in the new Plopp chocolate bar

The launch of the new Plopp chocolate bar flavoured with Djungelvrål, Gott & Blandat and Kexchoklad was supported by a major four-week campaign during the autumn. Traditional media such as television and outdoor advertising were combined with digital media such as on-line videos, social media and display advertising. The film dramatizes the combined flavours of Plopp milk chocolate and the tasty familiar "friends" from Cloetta. Samples were also handed out in many places around Sweden.

Successful campaign for Pops in Norway

During 2018, Pops has moved from the number four to the number two market position for bagged chocolate in Norway. Aside from the product itself, the success of Pops can be explained by the media campaign to strengthen the brand combined with effective pricing campaigns. The communication concept has focused on the product itself and the new design. Facebook and Instagram were two important channels. The results were so good that Facebook has published the campaign as a success story on its global Facebook Business website.

The Jelly Bean Factory – in international airports

Together with Heinemann, Cloetta's Travel Retail has developed The Jelly Bean Factory "stands" for Ferihegy airport in Budapest, Gardermoen airport in Oslo and Stavanger Airport. Investments in The Jelly Bean Factory are part of the global brand strategy to increase awareness of the brand. The Jelly Bean Factory is sold in some 60 markets around the world and at several European airports.

Danes loves Malaco "Family Guf"

Malaco "Family Guf" (Family Candy) is the second-best selling confectionery product in Denmark. It is a mixed candy bag for the whole family. There are many different family structures in Denmark and to embrace these, Cloetta created a campaign around the candy bag. The campaign included changing the product to 6 different family structures ("Families with children", "Royal family", "Bonus family", "Rainbow family" etc.), encouraging consumers to interact with the brand and talk about their family. The campaign was hugely successful and sales increased by 22 per cent during the period . The campaign included outdoor, online advertising and TV commercials and involved influencers, instore activities and PR.

Strategic product development

Cloetta develops strong brands to maximize value accretive, organic growth through strategic product development based on consumer insights. Our strategic initiatives include brand extension, new geographical markets, the relaunch of brands and pure innovations. Strategic initiatives also include pricing strategies and the related changes in packaging sizes.

Innovation and trends

Product development is a key driver for the strength of Cloetta's brands and enables differentiation in the market. Cloetta's innovation work and optimization of the product development process create the conditions for new product launches and relaunches.

Fashion and trends are present in all areas, even in the confectionery industry, where they are primarily related to colours, packages, flavours and ingredients. Identifying the trends that could impact Cloetta is of major importance. Knowledge about market trends and consumer behaviour is necessary for the development of successful product innovations.

Market analysis, trend monitoring and interaction with consumers in social media provide the marketing department with valuable data for analysis of changes in consumption patterns.

Natural ingredients and consideration for environmental and ethical aspects are factors that are increasingly affecting the confectionery market. Cloetta continuously reviews all products and questions their ingredients. For example, sweeteners and fruit flavourings have been replaced with stevia and fruit juice. Stevia is used in Läkerol and xylitol is used in Läkerol Dents and DentaFresh. Cloetta has an ambition to launch all major brands with a sugar-free or less sugar alternative. Some examples are the recently launched Red Band and Malaco Gott & Blandat –30% sugar line and Venco liquorice with zero sugar, sweetened with Stevia.

Product development process

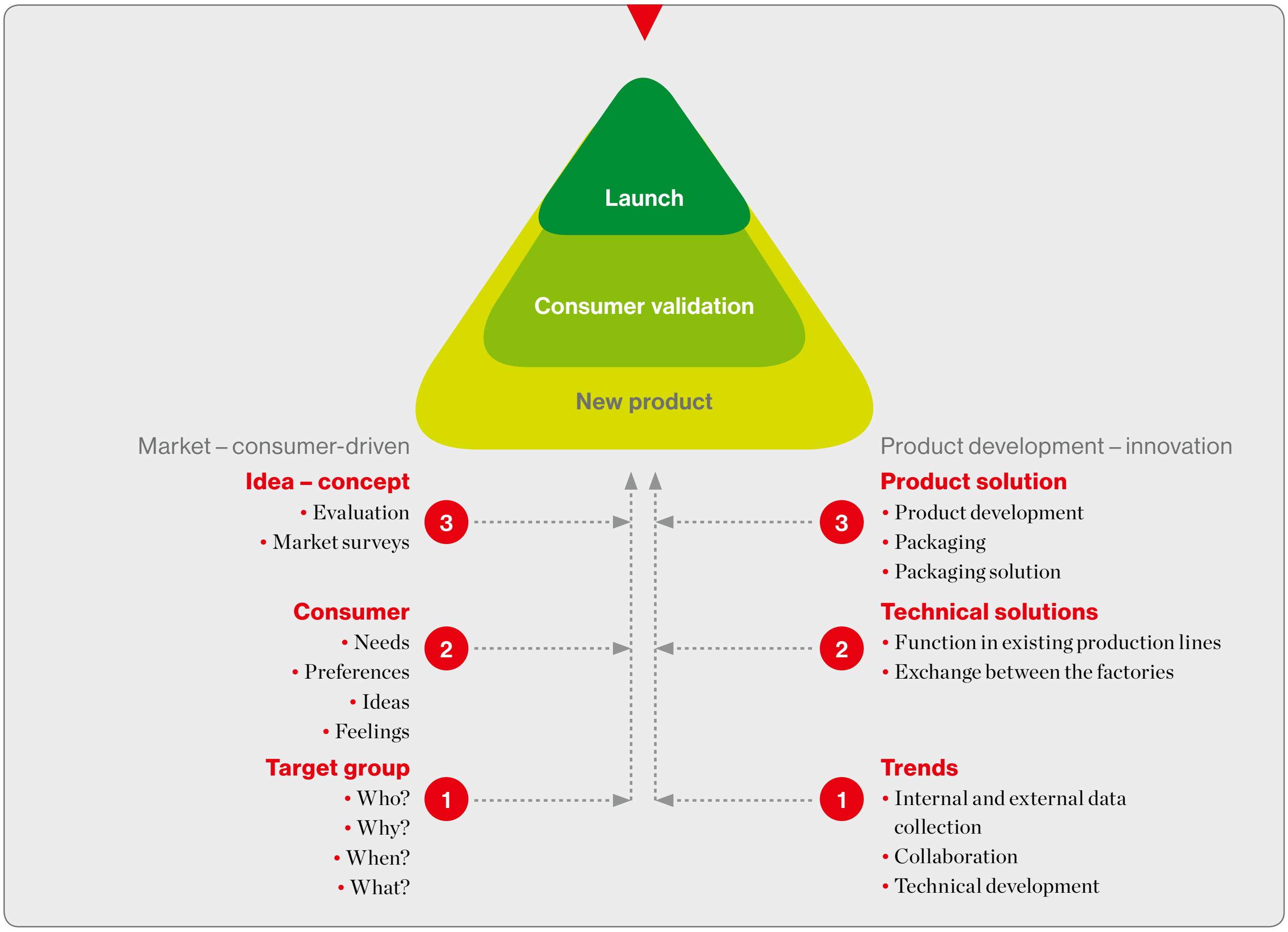
An effective product development process is essential for profitable growth. Product development is steered by combining market trends and consumer behaviour optimally with existing brands.

The biggest costs in product development arise in the product launch phase. They are primarily associated with marketing activities, but also with ensuring efficient production.

Cloetta carries out category projects in candy, chocolate, pastilles, chewing gum and nuts. This is the framework for Cloetta's product development process that combines consumer demand and needs with the possibilities of the existing production structure

Strategic product development during the year

The path to a new product



and the innovation activities on-going within the Group.

Tools for idea and concept generation and continuous follow-up create the pre-requisites for Cloetta to be even greater when it comes to innovation.

A focus on taste

Packages and marketing can tempt consumers to try a new product, but if the taste doesn't measure up there is rarely a second purchase. It is therefore critical that the new products launched by Cloetta meet consumer requirements and expectations. So when Cloetta develops new products, the focus is on taste. Before a product is launched, it undergoes both internal and external taste tests via consumer panels that assess factors such as flavour, consistency and overall impression.

To systematically gather consumer feedback, Cloetta uses a consumer panel that regularly provides feedback and ideas via the internet after receiving product samples to their homes. The ideas received have been highly valuable for Cloetta's innovation work.

Without approval from the consumer panel, products are not released on the market. A large database of earlier tests and reference values facilitates the necessary assessment.

The process from concept to a launch-ready product normally takes around one year, but can be accelerated through focused resources.

Launches in new markets

A product that is successful in one market can be launched in another market under an existing local brand. For Cloetta, with its many brands in different markets, economies of scale in production can be utilized effectively by matching brands. Some examples include:

- Sportlife Mints from the Netherlands sold as Mynthon ZipMint in Finland.
- Polly from Sweden sold as Pops in Norway, and Norwegian Pops Puffar sold as Polly Puffar in Sweden.

Package design

In addition to tasting good and being reasonably priced for the consumer, a new product must be commercially attractive to the retail trade and part of a category concept. Its weight, package and distribution are adapted to the various trade sales channels and markets. With the right packaging, many of the products that are strong in one market can also secure a good position in new markets.

Package sizes are often associated with pricing strategies for different customer categories and markets. Changing a package size is therefore a strategic decision for how a brand can be further developed in order to reach new customers and, thereby, also new consumers.

Travel retail

For many years Cloetta has had substantial sales to ferry lines, charter tour operators and airports, referred to as Travel Retail.

Well-known brands and unique packages in terms of both appearance and size are two of the most important competitive tools in this market.

6 distinct consumer trends

On-the-go

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

Natural raw materials and transparency

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. On packaging, E numbers are being replaced with the name of the additive in plain language. Natural sugar or stevia are preferred to artificial sweeteners.

Greater individualization

Consumers are increasingly seeking satisfaction of their individual needs. This means that they want the option of both choosing products, and also having 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.

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. In addition, Cloetta has launched sugar-free products or products with 30 per cent less sugar under the Red Band brand and Malaco Gott & Blandat brand.

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 strong growth of online sales. Alongside e-commerce, direct communication with consumers via social media is emerging as one of the most important channels for further developing brand personalities and capturing trends.

Responsibility for the environment and working conditions

One key trend is the 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 in terms of the origin of raw materials, quality and cultivation methods, by introducing different types of labelling and certification.

Consumer front and centre

Consumers must be able to feel confident that products are safe and of high quality, and that Cloetta is transparent in the information provided about product contents.

The importance of transparency

Cloetta gives consumers the possibility to make well-informed choices, by being clear and transparent about the contents of our products, their calorific value and the impact of the raw materials included.

Cloetta offers choices

Sugar is an important ingredient for providing products with great taste, structure and preservative properties.

Cloetta's mission "To bring a smile to your Munchy Moments" means that Cloetta provides alternatives in the form of sugar-free products, products with less sugar and products that are naturally free from sugar.

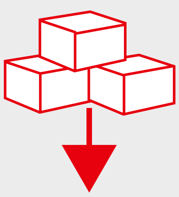
Cloetta is working to have key brands with a sugar-free alternative or an alternative with a reduced amount of sugar.

No artificial flavours, no artificial colours

There is an increasing consumer interest in natural ingredients. Different types of additives and chemically produced substances are being questioned from a health standpoint, even though they are safe and have been approved for food products. To respond to consumer demands, Cloetta is working to remove artificial flavours and colours from its assortment.

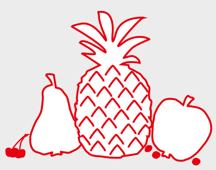
Cloetta's target is to have switched entirely to natural colours and flavours in its products by the end of 2020.

TARGETS



LESS SUGAR & SUGAR-FREE

Offer alternatives with less sugar



NAFNAC
No Artificial Flavours & No Artificial Colours

No Artificial Flavours (NAF) **or Colours** (NAC) **by 2020**

Nuts – full of 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 are rich in protein and contain high levels of Vitamin B3. Almonds are rich in Vitamin E and pistachios are very rich in antioxidants.

Less sugar

In response to the increasing demand for products with less sugar or sugar-free products, Cloetta offers products with less sugar. Cloetta's long-term goal is that all our larger brands will be able to offer both sugar-free and low sugar alternatives.

Dental benefits with xylitol

The sweetener xylitol, which has fewer calories than natural sugar, is extracted from various deciduous trees and maize. Xylitol prevents caries and is found in several of Cloetta's chewing gum products, such as Jenkki and Mynthon, and in the pastille Läkerol Dents.

Consumer front and centre

Natural raw materials

The Jelly Bean Factory is an example of product that only contains natural ingredients. Artificial colours and flavour agents have been replaced by natural fruit and plant extracts, and all other unnecessary 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 our website.

High quality and product safety

High quality and product safety are prerequisites for food production and are strictly adhered to in every step of Cloetta's production process, from inspection of raw materials to finished products. Good quality raw materials, correct handling and well-controlled processes create the right flavour, appearance and consistency and eliminate any risks to consumers.

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«.

Bridge

is a candy mix that was created in 1966 when some employees were playing bridge and ate a mixture of different tasting products that were made at the factory. One day someone came up with the idea of launching this mix of various delicious flavours in a bag. Bridge is the mature candy mix where everyone can find their favourite.

Sold in: Sweden, Norway, Denmark.

Ahlgrens bilar

is a fruit-flavoured foam that a large majority of the Swedes love and enjoy. The original taste and elegant design have remained unchanged since 1953, when Ahlgrens' candy factory decided to try to produce marshmallows. The result was not as expected; instead it was small foam pieces of candy in the shape of a car. Sweden's best tasting car was born! New car models have been launched since then, in flavours such as salty liquorice and sweet & sour.

Sold in: Sweden, Norway, Denmark, the US, Thailand, Poland, Cyprus, Guinea, Malta.

Center

has been around since 1941 when the roll was first launched in Sweden. Center is the tasty roll at the centre of attention – just unroll a piece and enjoy!

Sold in: Sweden, Norway, Denmark, Estonia, Finland, Cyprus, Poland.

Chewits

was launched in the UK in 1965 as a kids chewy sweet. Chewits is vegetarian, free from artificial colours and contains no hydrogenated fats. The stick's flavours are strawberry, cola, blackcurrant, orange, fruit salad and ice cream. The Chewits Xtreme range consists of sour apple, tutti frutti and pineapple. Newest to the range is the Chewits Crazy Face, an extreme candy based on well known bonbon technology, filled with extreme powder flavours. "Chewie the Chewitsaurus" is the brand mascot.

Sold in: the UK, Norway, Finland, the Baltics, Russia, Belarus.

The Jelly Bean Factory

offers 36 different flavours of gourmet jelly beans, made from 100 per cent natural flavours and fruit juices. Free from gluten, gelatine and nuts. The Jelly Bean Factory was established in 1998 in Ireland. Every day over 12 million gourmet jelly beans are produced at the factory in Dublin, packaged in a wide range of playful formats. "The most juicy, mouthwatering jelly beans on the planet."

Sold in: around 60 countries worldwide, mainly in the UK, Sweden, Germany, the Netherlands, Switzerland, Austria, the Baltics, Russia, Canada, the US, Cyprus, Portugal, Spain, Israel, China, Singapore, Australia, New Zealand.

Jenkki

is the market-leading chewing gum brand in Finland, where it was originally launched in 1951. Since 1975 the brand has been sweetened with the dental innovation xylitol, and has thus become a smart tooth-friendly habit for Finns: as a breath refresher or an enjoyable treat after each meal.

Sold in: Finland, Estonia, China.

Juleskum

is the original that has become a natural part of the Swedish Christmas traditions. Cloetta started making marshmallow Santas as early as the 1930s. Each year a limited edition is released, this year with a caramel taste. Although Juleskum is only sold for a limited period around Christmas, it is the fourth largest-selling candy bag in Sweden on an annual basis. Juleskum Original is a fluffy, two-coloured marshmallow Santa with a taste of strawberry.

Sold in: Sweden, Norway, Denmark.

Candyking/Karamellkungen

allows you to put together the most delicious sweets we can find and lets you mix things your way. Sour, sweet and salty. Hard, soft and chewy. The original brand, Candyking, in Sweden known as Karamellkungen, has been developed over 30 years. This pick & mix concept is currently offered at 8,000 sales points.

Sold in: Sweden, Denmark, Norway, Finland, the UK, the Baltics.

Kexchoklad

was launched as early as 1938 and is one of Cloetta's active Swedish classics. Sweden's best-tasting between-meal snack. Three layers of crispy, chocolate-covered filled wafers make Kexchoklad a snack for active people who need to quickly refill their energy.

Sold in: Sweden, Denmark, the Baltics, the US, Cyprus, Guinea, Malta, Russia.

King

The De Vries family started producing peppermint in 1902, and from 1922 under the brand name King. Over time, the brand has evolved from a simple throat lozenge into a modern breath freshener. Today, after more than 90 years, it still contains the same secret peppermint blend that makes King loved by many Dutch consumers.

Sold in: the Netherlands, Lithuania, Russia, Canada, the US, Italy, Germany, France, Belgium, Surinam, Australia.

Lonka

At Lonka, the focus is on soft and delicious sweets made with passion and high quality. Since the first Lonka factory opened in 1920 in the Netherlands, Lonka has been providing consumers with traditional favourites like caramel, fudge, soft nougat and chocolate. With Lonka products, consumers make their coffee and tea moment more indulging.

Sold in: around 40 countries worldwide, mainly in Benelux, Sweden, Denmark, the UK, Spain, Germany, France, Israel, Latvia.

Läkerol

is a classic brand and the tastiest refresher for all occasions. The first box was sold in 1909. Läkerol is available in a variety of flavours and is perfect when you want to soothe your throat, refresh your breath or just fancy something tasty. Läkerol makes people talk.

Sold in: Sweden, Norway, Denmark, Finland, Germany, Switzerland, the US, China, South-Korea, Singapore, Lebanon, Belgium, the Netherlands.

Läkerol Dents

is the world's first xylitol pastille with 50 per cent xylitol. In Finland it is market-leading and in Sweden and Norway it is new, and it is available in several flavours. Take two tablets after every meal to stop acid attack and strengthen your teeth. Läkerol Dents is the most delicious way to take care of your teeth. Läkerol DentaFresh – a smart habit for stronger teeth.

Sold in: Finland, Sweden, Norway.

Malaco

offers a wide variety of candy products. The name Malaco comes from the first letters of the company name Malmö Lakrits Compani, founded in 1934. Over the years, many new products have been launched under the brand, such as Gott & Blandat, TV MIX, Aakkoset, Familie Guf, Lagerman Konfekt and Kick. Quite simply – Saturday all week.

Sold in: Sweden, Finland, Norway, Denmark, Switzerland, Canada, the US, Germany, Thailand, Cyprus, Guinea, Malta, the Baltics.

Mynthon

is the leading pastille brand in Finland, where it was launched in 1976. Fresh and effective is Mynthon's brand essence. The product range consists of chewy, hard and compressed pastilles in a variety of fresh flavours. In 2012, chewing gum was also launched under the brand.

Sold in: Finland, Norway, Germany, the Baltics, Russia, Belarus.

Nutisal

is the Group's nut expert as of 2014. The business started in a shop in Beirut, Lebanon. There, back in 1948, a unique 'dry roasting' method was developed for roasting without oil. Nutisal took this technology to Europe and created a range of dry-roasted mixes that was launched in 2007. Since no oil is used in the process, the consumer can enjoy the genuine taste of nuts.

Sold in: Sweden, Denmark, Finland, the Netherlands, Switzerland, Saudi Arabia, Italy, Latvia.

Plopp

is the mini-bar for indulging yourself or someone close to your heart. Originally introduced in 1949, Plopp is personified by the little mini-bar that stands for nostalgia, fun and playfulness. Plopp is loved by many for its good milk chocolate and its sweet liquid toffee filling. In 2018, Plopp has expanded its brand by launching milk chocolate tablets with exciting flavours from the candy and chocolate portfolio.

Sold in: Sweden.

Pops

Pops are one of Norway's best-kept and tastiest secrets —bags of light and airy chocolate bites. Pops is fun to share, perfect for the weekend treat and enjoyed by the whole family.

Sold in: Norway (and in Sweden as Polly Pops).

Polly

was launched in 1965 and is the leading brand of bagged chocolate on the Swedish market. It's impossible to eat just one. Polly is delightfully chewy foam drops, covered with chocolate. The original is flavoured with vanilla, arrack and butter toffee. Polly is also the candy that surprises, for example Polly with a taste of Ahlgrens bilar.

Sold in: Sweden, Finland, Denmark, Poland.

Red Band

has roots going back to 1928. Since its start, the Red Band brand has built up a leading position in the Dutch and German confectionery markets with a promise to deliver fun, quality and pleasure. The classic Winegum Mix, the original Drop Fruit Duos and Pret Mix are some of the well-known products that are sold under the Red Band brand. Today Red Band also offers the consumer more alternatives with the sugar-free version, the 30% less sugar and the vegetarian version.

Sold in: more than 25 countries, mainly the Netherlands, Switzerland, Belgium, Germany, France, the Baltics, Canada.

Sisu

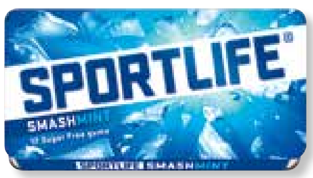
is a liquorice pastille flavoured by a secret Sisu-aroma that was launched in Finland in 1928. Sisu is named after the true nature of the Finnish people – the word 'sisu' means guts, endurance or relentless courage. For the Finns, the Sisu brand is part of the Finnish spirit that no other brand can replace. With Sisu, you can do it. Sisu is available in several flavours packaged in boxes.

Sold in: Finland.

Sportlife

was launched in the Netherlands in 1981 as the first chewing gum in "blister" packaging. Since its start, Sportlife has been a leader in the Dutch market and also has a strong position in Belgium. Sportlife is based on the brand essence of unexpected freshness and has an international brand profile. In 2015 Sportlife launched the core flavors in jars.

Sold in: the Netherlands, Belgium, Surinam.



Sportlunch

is a crispy wafer generously coated with pure milk chocolate in easy-to-break pieces. Sportlunch was launched in Sweden in 1937, under the name "Mellanmål" and changed name to Sportlunch in 1996.

Sold in: Sweden, Norway, Estonia, Lithuania.

Tupla

was launched in 1960 and is the number one chocolate countline in Finland. Tupla means ´double´ in Finnish and Tupla original countline contains two pieces that are filled with energy and easy to share. The original Tupla countline has a cocoa nougat filling covered with milk chocolate, with a twist of saltiness and roasted almond crush. The taste and texture of Tupla is fuel for the body and attitude. Tupla is available in different flavours and sizes, and since 2015 also as a sport bar Tupla+, which contains protein.

Sold in: Finland, the Baltics, Russia.

Venco

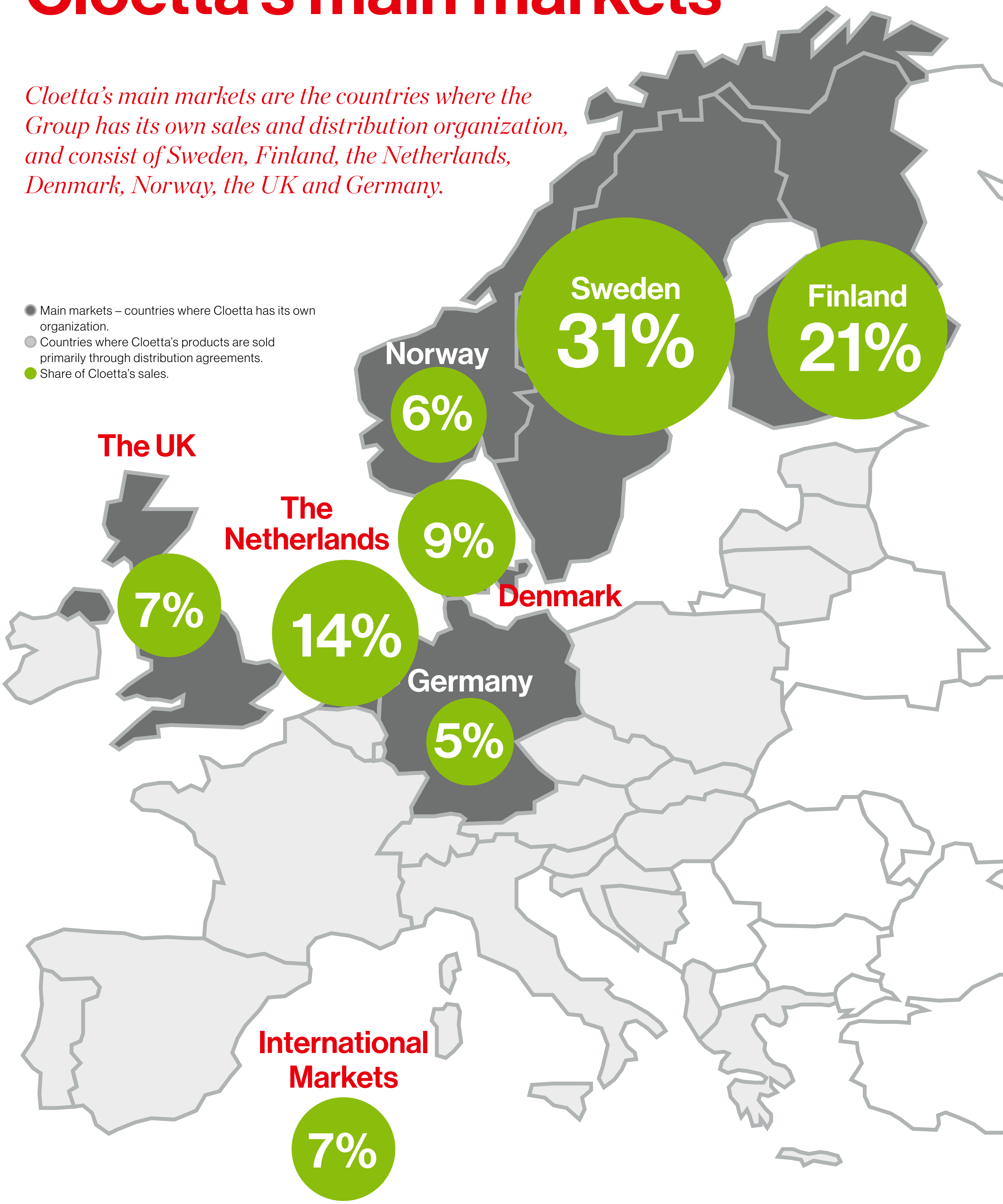
Venco was launched as early as 1878 and is the leading liquorice brand in the Netherlands. Venco has 'a passion for liquorice', which is delivered in a wide range of unique, iconic and top-selling items like chalk and honey liquorice. When the Dutch think of liquorice, they think of Venco.

Sold in: the Netherlands, Canada, Germany, Israel, Spain, Italy, Surinam, South Africa, Belgium.

LEADING BRANDS

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, the UK and Germany.



Sweden

Sweden is the largest single market in the Nordic region, with around one third of the total confectionery consumption. In 2018 the total market grew.

Share of Cloetta's sales

31%

SWEDEN

Population

10.1 million

Top-selling brands

Market size

Consumer sales of approx. SEK **16.6** bn

Cloetta's largest customers

Axfood, Coop, ICA, Bergendahls and Privab

CAGR 2013–2018

2.3%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
✓	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

In Sweden Cloetta is the market leader in candy and pastilles, Mondelez (including the Marabou brand) in chocolate and Wrigley's in chewing gum. Overall, Cloetta is the second largest player in the Swedish market for packaged confectionery, with a share of around 23 per cent (23). Mondelez has approximately 30 per cent (31) of the market. The private labels of retail chains have a share of around 5 per cent (5) of the confectionery market and 42 per cent (42) within nuts.

Pick & mix, an important category that accounts for 30 per cent of the total market, is not included in the market shares above, but through contracts with retailers Bergendahls and ÖoB, the acquisition of Candyking and delivery of candy to other pick & mix players, Cloetta is the market leader in this category.

Sales channels

The Swedish grocery retail trade is concentrated and increasingly centrally steered, but with good opportunities to influence at a local store level. The task for Cloetta's sales force is to ensure distribution as well as placement and space in the stores in compliance with central agreements, and also to provide the trade with support in implementing campaigns and launches. The pick & mix concepts are handled by a dedicated sales and merchandising organization.

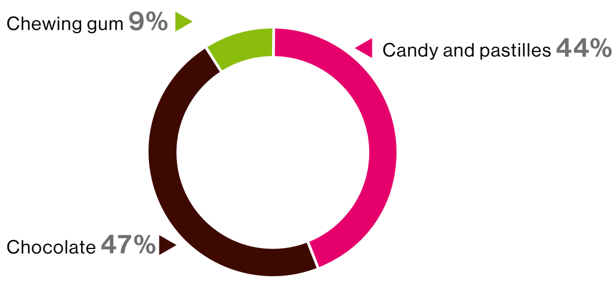
The service trade is a vital sales channel. In recent years, alternative sales channels like building supply stores, movie theatres, arenas, etc., have become increasingly important.

Organization

In Sweden, there are around 300 employees in the sales and merchandising organization and at the Swedish head office in Malmö.

Categories, Sweden

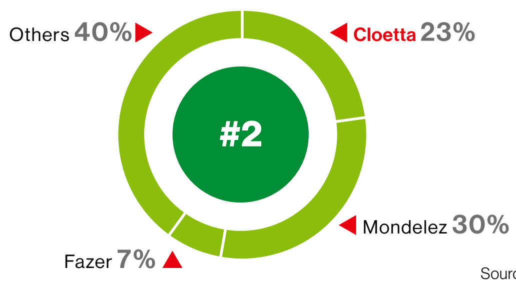
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Sweden

Confectionery market excl. pick & mix



Source: Datamonitor

Finland

Finland is the third largest market in the Nordic region, with around one fifth of the region's total confectionery consumption. The Finnish market grew in 2018.

Share of Cloetta's sales
21%

FINLAND

Population
5.5 million

Top-selling brands

Market size
Consumer sales of approx. SEK 9.1 bn

Cloetta's largest customers
S-Group, Kesko and Tokmanni

CAGR 2013–2018
0.4%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
✓	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the second largest player in the Finnish market, with a share of around 25 per cent (25) of packaged confectionery. The market leader is Fazer, with approximately 40 per cent (40) of the confectionery market. The private labels of retail chains have a share of around 8 per cent (8) of confectionery sales in the Finnish market. Cloetta is the market leader in pick & mix which represents about 10 per cent of the total market value.

Sales channels

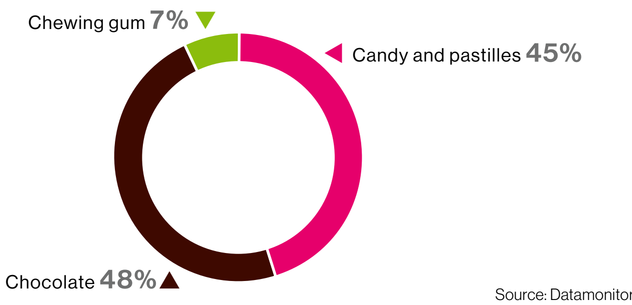
The Finnish grocery retail trade is dominated by two players, Kesko and S-Group. Lidl has a larger share of retail trade compared to the other Nordic countries with 10 per cent. Finland has the most centralized purchasing of all the Nordic region markets. This centralized purchasing enables new products to achieve wide distribution and become quickly available to consumers.

Organization

In Finland, there are around 200 employees in the sales and merchandising organization and at the office in Turku. Cloetta Finland has one of the strongest and largest sales organizations in the country, with 130 people in field sales, visiting stores every day.

Categories, Finland

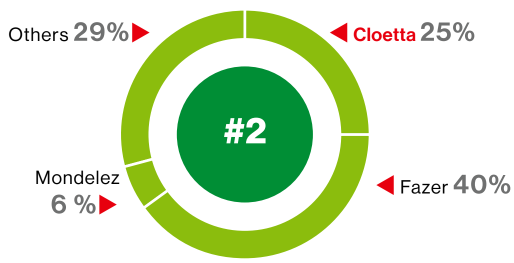
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Finland

Confectionery market excl. pick & mix



Source: Datamonitor

The Netherlands

The Netherlands is the sixth largest market in Western Europe with regard to confectionery consumption. The Dutch confectionery market grew slightly in 2018 mainly driven by chocolate, candy and pastilles.

Share of Cloetta's sales

14%

NETHERLANDS

Population

17.1 million

Top-selling brands

Market size

Consumer sales of approx. SEK 15.8 bn

Cloetta's largest customers

Albert Heijn, Superunie, Jumbo Supermarkten and Maxxam

CAGR 2013–2018

0.9%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
✓	Chewing gum
✓	Nuts
	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the second largest player in the candy market in Holland with a market share of 20 per cent, following closely behind its main competitor Perfetti van Melle. Cloetta holds a number one or two position in the liquorice, other candy and chewing gum markets, which has enabled the company to build strong relationships with the Dutch trade. Other competitors like Mondelez and Haribo have a couple of strong products in the market. Cloetta's share in the overall chocolate and sugar confectionery market is 10 per cent (10).

The private labels of retail chains, including hard discount, have a share of around 9 per cent (9) of total candy sales in the Dutch market.

Sales channels

The grocery retail trade is concentrated around a few major players. Primarily centralized purchasing allows for wide and rapid distribution of new products that are launched.

The hard discount retail chains have increased their share of the market during the year, with a high proportion of private labels. Other important channels for confectionery are pharmacy and out-of-home.

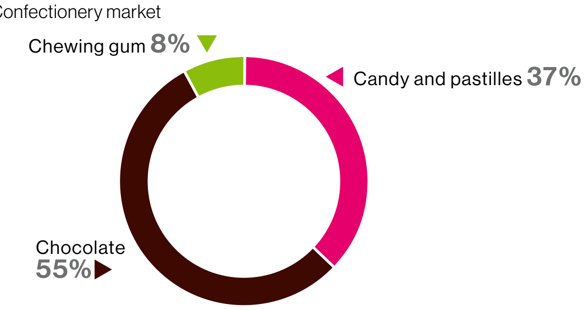
Online grocery shopping has a stronger position in the Netherlands than in any of Cloetta's other main markets.

Sales organization

Cloetta has around 85 employees in the commercial organization at the office in Oosterhout mainly focusing on the Dutch market. The Oosterhout office also supports the Cloetta International Markets division through back-office and support activities including demand, customer service, marketing, business controlling and finance & accounting.

Categories, the Netherlands

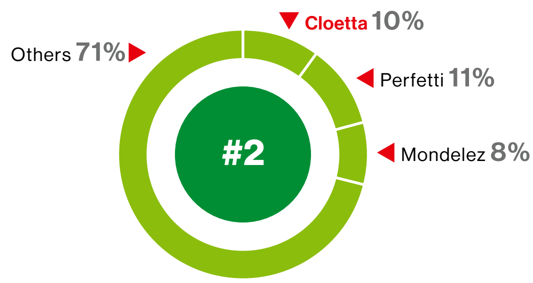
Confectionery market



Source: Datamonitor

Largest players, the Netherlands

Confectionery market



Source: Datamonitor

Denmark

Denmark accounts for around a quarter of the Nordic region's total confectionery consumption. The confectionery market grew during the year.

Share of Cloetta's sales

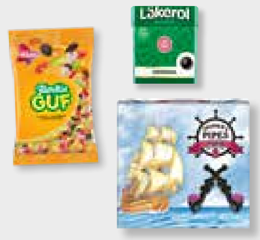
9%

DENMARK

Population

5.8 million

Top-selling brands



Market size

Consumer sales of approx. SEK 10.3 bn

Cloetta's largest customers

Coop, Salling Group and Reitan

CAGR 2013–2018

1.0%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the second largest player in the Danish market for candy and pastilles, with a market share of around 19 per cent (16). Haribo is the market leader with around 24 per cent (29). The private labels of retail chains have a market share of around 6 per cent (6). Cloetta is the leading pick & mix player in Denmark and has strong positions in both candy and nuts.

Sales channels

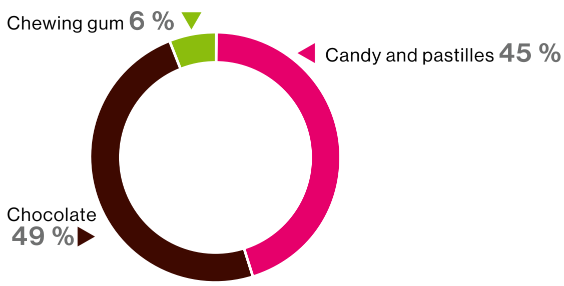
The grocery trade in Denmark is moving towards greater centralization, albeit with a combination of centrally driven chains and a more decentralized approach than in the other Nordic countries. Extensive efforts are therefore required at an individual store level to achieve distribution and sales of in-store display racks. Growth in the discount channel has ceased and new channels such as non-food outlets and DIY stores are growing in importance.

Organization

In Denmark, there are around 100 employees at the offices in Brøndby and Randers and in the sales and merchandising organization.

Categories, Denmark

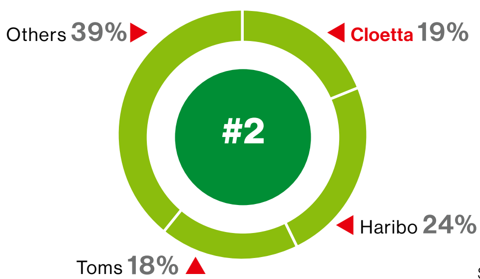
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Denmark

Candy and pastilles excl. pick & mix



Source: Datamonitor

Norway

Norway is the smallest market in the Nordic region, with just under a fifth of the region's total confectionery consumption and accounted for 6 per cent of Cloetta's sales. The volumes in the Norwegian confectionery market declined in 2018.

NORWAY

Market size

Consumer sales of approx. SEK **9.2** bn

Cloetta's largest customers

Coop, NorgesGruppen and Rema 1000

Top-selling brands

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the third largest player in the Norwegian confectionery market, with a market share of 9 per cent (9). The market leaders are Mondelez with 38 per cent (38) and Nidar (owned by Orkla) with 22 per cent (22). Cloetta is the leading player in the market for candy. Cloetta is the leading pick & mix concept provider with approximately one third of the market.

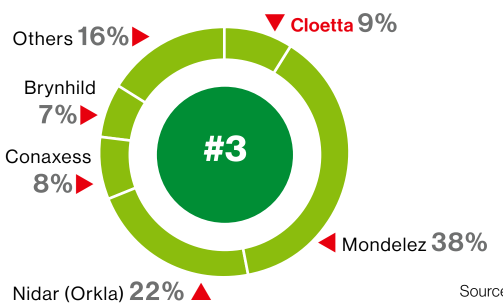
In January 2018, the sugar tax was increased substantially, which changed the dynamics in the confectionery category and thereby had a negative impact on Cloetta's sales during the year. In 2019, the sugar tax has been reduced again to the level it was at prior to the 2018 increase.

Organization

In Norway, Cloetta has around 65 employees at the office in Høvik just outside of Oslo and in the sales and merchandising organization.

Largest players, Norway

Confectionery market excl. pick & mix



Source: Datamonitor

UK

The UK is the second largest market in Western Europe and accounted for 7 per cent of Cloetta's sales. It is a market characterized by fierce competition from all international confectionery companies.

UK

Market size

Consumer sales of approx. SEK **74.5** bn

Cloetta's largest customers

Hancocks, Wilko's and Tesco

Top-selling brands

Candyking
The Jelly Bean Factory
Chewits
Lonka

Cloetta's sales

Cloetta is the market leader in pick & mix in the UK with the Candyking concept. However, pick & mix is still a very small segment of the confectionery market in the UK. In addition, Cloetta is a strong niche player with the premium brand The Jelly Bean Factory. Cloetta also sells the Chewits brand to multiple channels and Lonka to discount and Cash & Carry in the UK.

The Candyking concept is sold and delivered direct-to-trade whereas a distributor model is used for Chewits and Lonka. The Jelly Bean Factory is distributed via multiple distributors.

Organization

Both the pick & mix business and the branded packaged products business are commercially managed out of Cloetta's office in Fareham. Cloetta has a sales and merchandising team of approximately 130 people.

Germany

Germany is the largest market in Western Europe and accounted for 5 per cent of Cloetta's sales. The market is characterized by its large proportion of discounters and hard discounters.

GERMANY

Market size

Consumer sales of approx. SEK **90.0** bn

Cloetta's largest customers

Lekkerland, Edeka and Rewe

Source: Datamonitor

Top-selling brands

Red Band
The Jelly Bean Factory
Lonka
Nutisal

Cloetta's position and organization

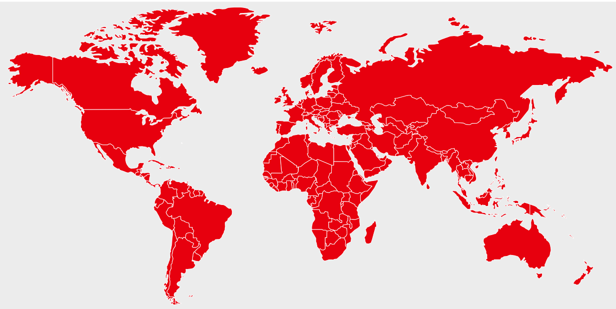
Cloetta is primarily active with the wine gum brand Red Band and the premium brand The Jelly Bean Factory. In addition, Lonka and Nutisal are sold in Germany. Through its strong heritage in wine gum products, Cloetta Germany has built a sustainable position with a candy portfolio covering different segments in the market. The Red Band standing, resealable pouch product line is clearly seen as a differentiator by both the German consumer and trade buyers.

Organization

Cloetta has its own small organization in Bocholt, Germany with 8 employees. The office takes care of customer contact and the brands and also has direct contact with all the large customers, which are supplied directly out of the Bocholt logistics centre. To ensure full country coverage, Cloetta Germany works with 6 different agents and over 60 sales representatives representing Cloetta.

International Markets

International Markets accounted for 7 per cent of Cloetta's sales in 2018.



Cloetta's largest distributors

Continental Sweets (Belgium), **Tosuta** (Canada) **and Spiwag** (Switzerland)

Top-selling brands

Red Band
The Jelly Bean Factory
Läkerol

Cloetta's sales

International Markets consist primarily of sales to countries where Cloetta does not have its own sales and marketing organization, a total of more than 50 markets. Sales to International Markets are split into four regions, Americas, Asia-Pacific (APAC), Middle East and Europe (including Africa).

The main markets are Switzerland, the Baltics, Canada, USA, Middle East and Hong Kong/Singapore. In these markets Cloetta focuses on three categories, candy, chocolate (indulgent) and pastilles which includes six strategic Cloetta brands including The Jelly Bean Factory and Red Band plus some strong regional Cloetta brands.

Organization

All markets within International Markets are serviced by external distributors managed out of regional hubs, which Cloetta has in APAC, the Baltics and Switzerland. A new hub for Middle East is being established in Dubai. All other distributors are managed by local Cloetta staff in Oosterhout, The Netherlands.

Supply chain

Cloetta has eight factories in Sweden, Slovakia, the Netherlands, Belgium and Ireland. The company produced a total of approximately 102,000 tonnes of candy, chocolate, chewing gum, pastilles and nuts in 2018.

Cloetta's supply chain is responsible for production, purchasing, planning, logistics, quality, technology and safety. During 2018, the top priorities have been to implement and drive the Lean 2020 programme to increase efficiencies, initiate the implementation of a new organisation, insource volumes from Candyking and drive a culture of safety.

New production line

Following an explosion and a fire, which destroyed one production line in the factory in Turnhout, Belgium in 2017, Cloetta acquired and installed a new starch moulding line in the factory. The line started production during the second quarter of 2018 and during the second half of the year the new line reached its target production capacity.

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 of the Group was transferred in some way.

Two factories were part of the acquisition of Lonka in 2015, of which the one in Dieren, The Netherlands was closed and transferred in 2016.

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

Occupational safety

Employee safety is fundamental to Cloetta and the top priority in every production facility. The focus for Cloetta is on a programme to improve the safety culture so as to 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. Cloetta will continue to transform its safety culture and performance by increasing safety awareness and encouraging good safety behaviour from everyone in the organization.

In 2018, the Lost Time Injury Rate (LTIR), which is absence due to accidents, increased to 6.2 compared with 5.5 during 2017. The 2018 target of 4.6 was not achieved. In the focus areas of machine isolation, hazardous chemical management, fork lift trucks and ATEX (EU Directive on explosive atmospheres containing gases or dust, which in Cloetta's case is relevant due to

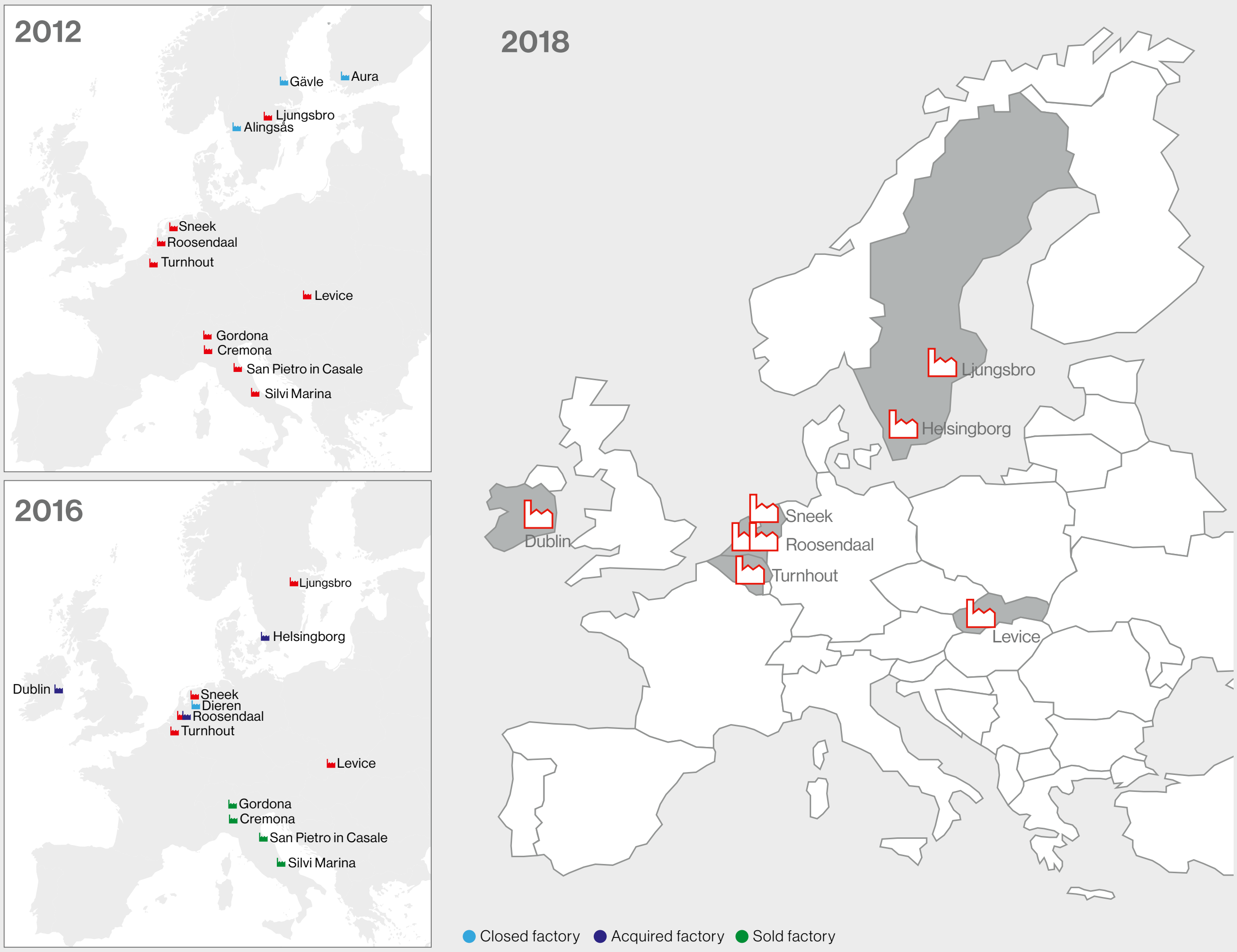
102 thousand tonnes produced 2018

8

1,645 FACTORY EMPLOYEES

Lean 2020

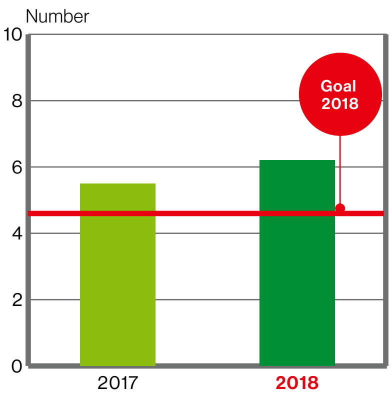
Changes in the production structure 2012–2018



dust from flour, for example), accidents fell by 33 per cent, down to 4 in 2018 from 6 in 2017. However accidents due to slips, trips and falls increased to 5, compared with 3 during 2017.

In 2019, Cloetta will continue to work towards risk reduction in ATEX and machine isolation while increasing its focus on engaging front line leaders and operators to address unsafe acts and conditions that increase daily work risks.

Lost Time Injury Rate (LTIR)
(LTIR is absence due to accidents (for more than 24 hours) per 1,000,000 hours worked.)



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 a 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 factories, to provide knowledge about the current situation, which helps to raise 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 44–45.

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 high-quality confectionery.

Continuous efforts are made to ensure that products meet the requirements and expectations of consumers and retailers.

Quality and safety of raw materials

Suppliers are selected, evaluated and approved against a defined set of criteria. The performance of suppliers is monitored through a risk-based supplier audit programme carried out by an audit team, and through a risk-based control plan that checks that raw material is delivered in conformance with the specifications and EU regulation requirements.

Cloetta has also established a Food Safety & Fraud Team to ensure timely knowledge of emerging risks coming from the supply chain.

Production

Management of food safety in production is based on the HACCP method (Hazard Analysis Critical Control Points) whereby the

risks of chemical, biological, microbiological, and physical contaminants are identified and managed to ensure that safe products reach the consumers.

All of Cloetta's factories are certified according to the BRC 'Global Standard for Food Safety,' an international standard that outlines requirements for managing product safety, integrity, legality and quality, and the operational controls in the food industry.

To support and facilitate compliance with BRC and EU regulations, Cloetta has also developed its own Good Manufacturing Practice (GMP) Manual, aligned and updated with the best reference standards in the food industry, which will be implemented in all factories. Internal independent audits are conducted by trained auditors to monitor effective implementation; each factory receives a score and improvement plans along with a new target score to be achieved (continuous improvement).

Products

For each product there is a quality specification describing the required flavour, aroma, appearance, consistency and package.

A central sensory panel ensures training and alignment across the Cloetta sites to ensure qualified tasters are in place to monitor the organoleptic performance of our products and their conformity.

The Cloetta traceability system enables tracing of all raw material lots from the suppliers through all stages of manufacturing and product shipping to the customers, and vice versa.

Cloetta has established a detailed process which enables rapid recall of a product from the market if needed.

Consumer and customer feedback

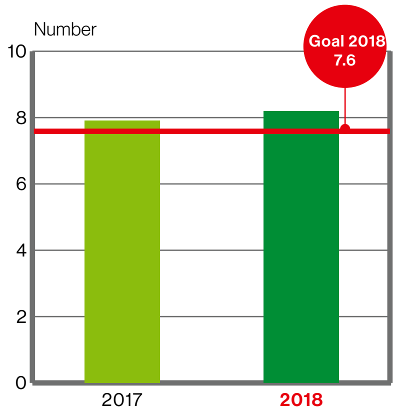
Feedback from individual consumers is extremely valuable in Cloetta's pursuit of continuous improvement.

Each market has a Consumer Service unit that receives, evaluates and responds to consumer and customer feedback and complaints.

In the event of quality defects, Consumer Service contacts the relevant factory where an investigation can be initiated to identify the root cause and take the necessary action to eliminate the issue and prevent re-occurrence.

Most of the complaints are related to the mix of products in the bags and damaged packaging.

Complaints, feedback per million sold consumer units



Planning and logistics

Effective production planning leads to lower capital being tied up in the form of inventories of both raw materials and finished products, at the same time as it increases the service level. Delivery reliability is one of the most critical parameters for the retail trade. Cloetta has a shared planning system for all factories, which covers the whole range of planning from material deliveries from suppliers to distributors to the markets. The system provides input to financial planning to ensure alignment of all functions in the Group.

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 59 per cent of production costs, are raw materials and packaging.

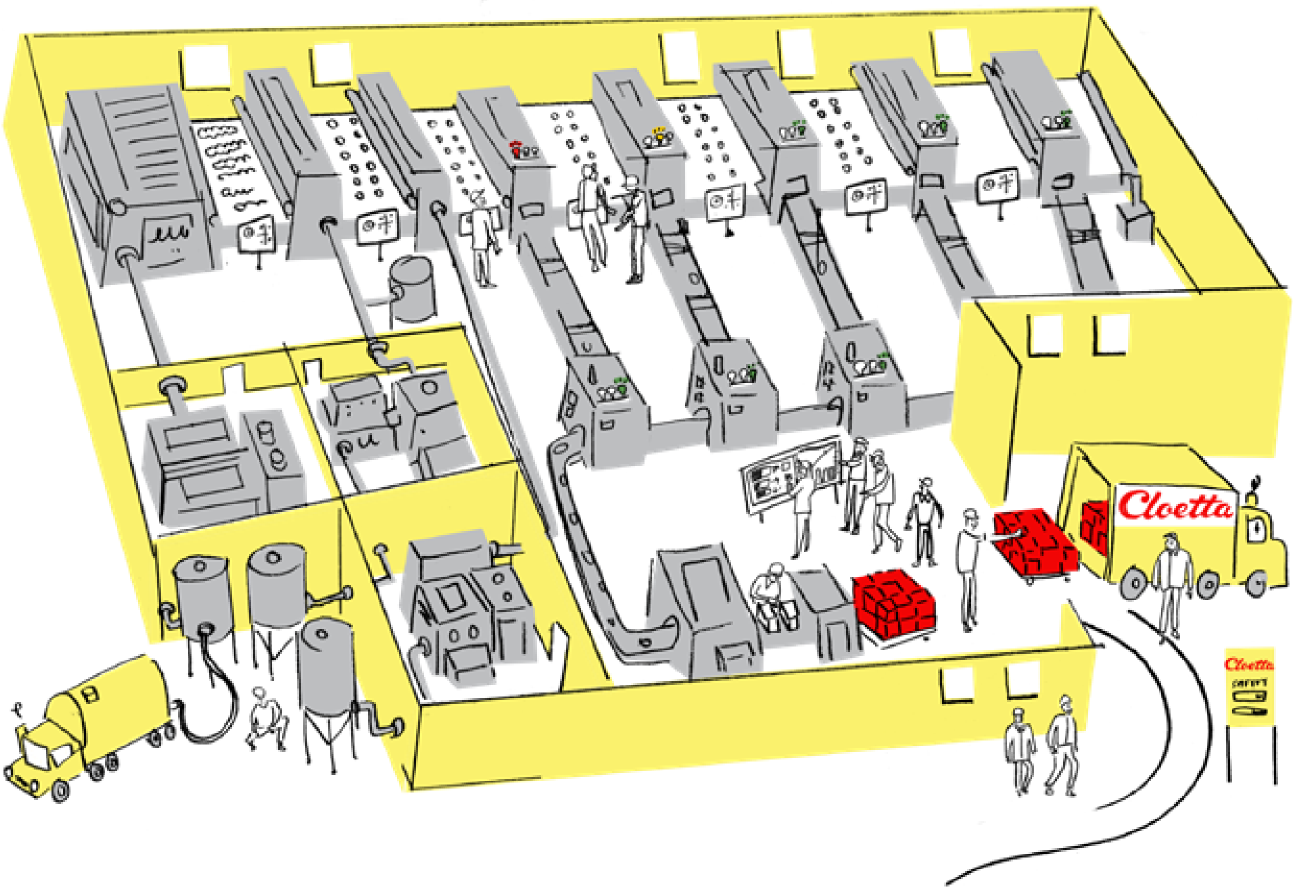
Cloetta collaborates closely with its largest raw material suppliers, for example through automated order and delivery processes that are adapted to raw material consumption in each factory.

Cloetta's range includes products that are produced by other manufacturers. External production is outsourced to manufacturers only after approval from Cloetta, according to the same high quality standards that apply to production in Cloetta's own factories. External manufacturers are evaluated and tested regularly.

From Lean 2020 to the Perfect Factory through Cloetta's Leading Performance Programme

The Lean 2020 programme has been successful during the last couple of years and has increased reliability and flexibility, improved resource efficiency per line, reduced waste and decreased inventory levels. In 2019 Cloetta will take the next step towards creating the Perfect Factory.

Cloetta's vision for the Perfect Factory



- Team-centric, activity-based staffing.
- Engaged, cross-trained employees, relentlessly driving improvement using Lean tools.
- Stable processes operated with up-to-date standard work instructions. Use of statistical process control to ensure predictability and to identify and correct deviations.
- Reliable equipment that is proactively maintained based on defined standards, and repaired efficiently when down.
- Digitalized information visualisation from every line. Real-time metrics and timely dialogues that correct gaps between current and target performance.
- Engaged, visible site leadership team that reinforces the desired culture with frequent performance dialogues and improvement events.

Success factors for production

Employee safety

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

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.

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.

Cost-efficiency

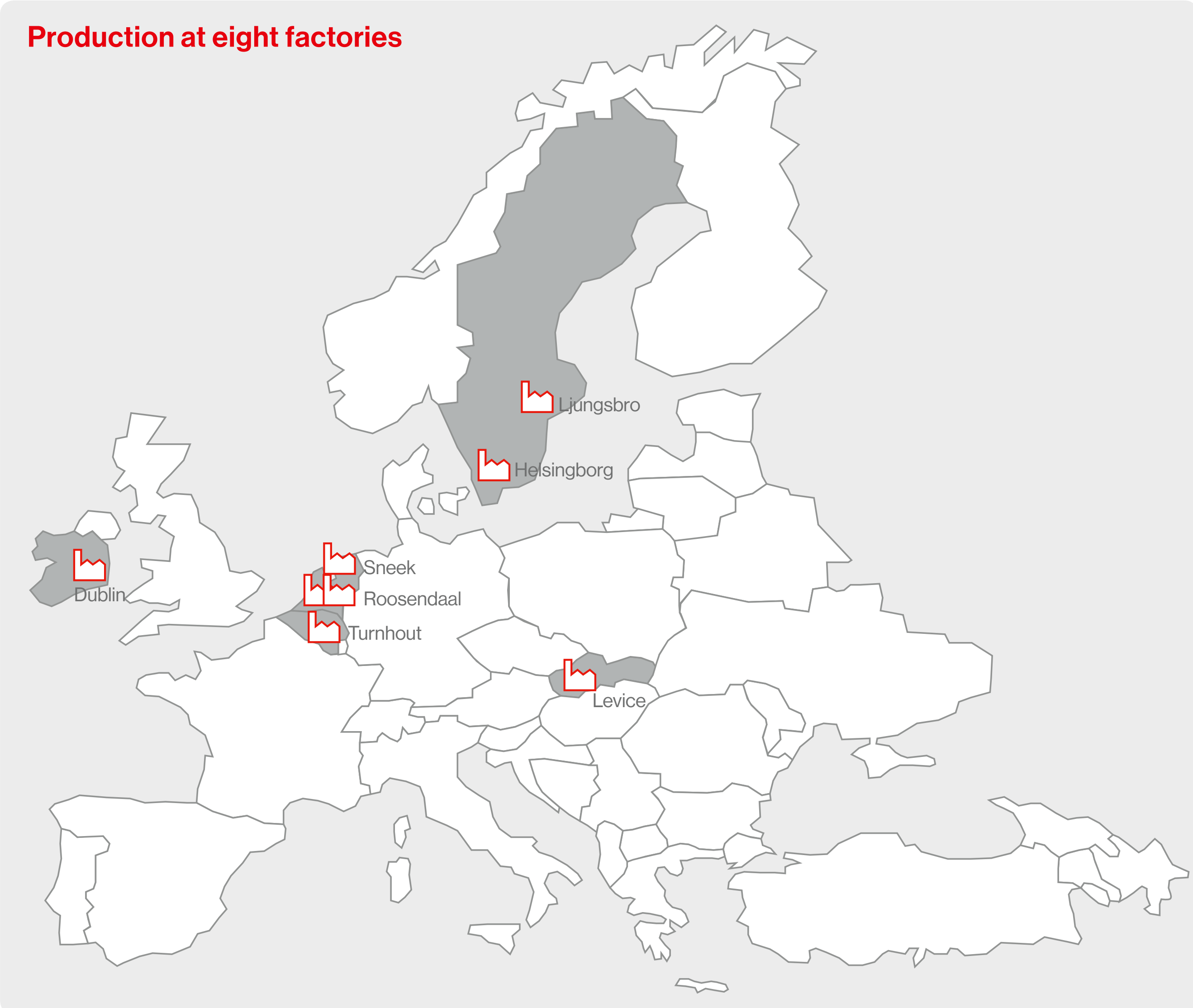
Cloetta's sales are based on large volumes. Cost efficiency is necessary in order to stay competitive.

Delivery reliability

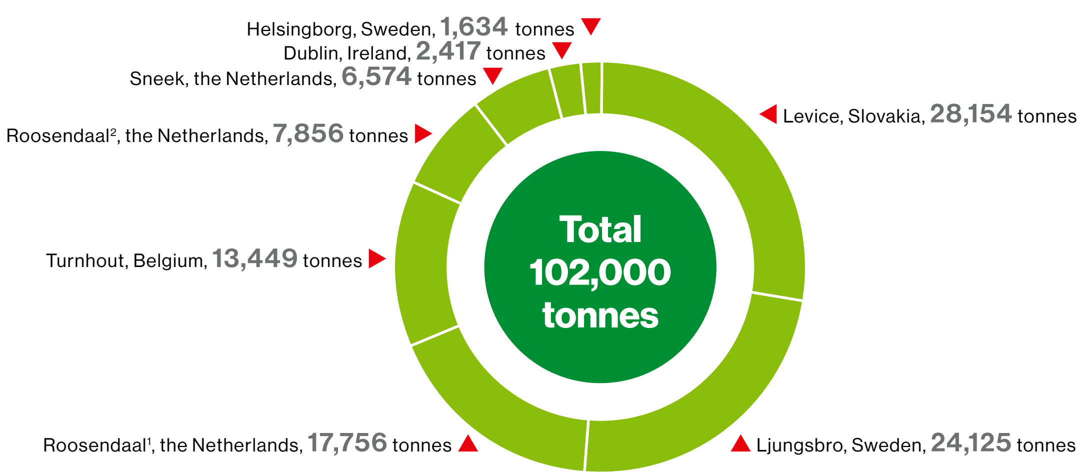
Good production planning is essential for effective production and low warehousing costs, but also for delivery reliability to the customers.

Factories

Production at eight factories



Production by factory in 2018, tonnes



1) Spoorstraat
2) Borchwerf

Levice, Slovakia
Production volume 2018: **28,154 tonnes**
Number of plant employees: **Approx. 750**
Number of machine lines: 12 production lines, 35 packaging lines
Largest brands: Malaco, Red Band, Läkerol, Chewits, Venco, Läkerol Dents, Mynthon
Manufacturing methods: Starch moulding, extrusion, coating, hard and soft-boiled candy and toffee, chocolate enrobing
Certifications: BRC Global Standard for Food Safety and IFS Food

Ljungsbro, Sweden
Production volume 2018: **24,125 tonnes**
Number of plant employees: **Approx. 320**
Number of machine lines: 12 production lines with in-line packing, 3 separate packaging lines and 1 chocolate production centre
Largest brands: Kexchoklad, Ahlgrens bilar, Center, Polly, Plopp, Sportlunch, Juleskum, Tupla
Manufacturing methods: Chocolate moulding, starch moulding, coating and wafer production
Certifications: BRC Global Standard for Food Safety and ISO 14001

Roosendaal (Spoorstraat), the Netherlands
Production volume 2018: **17,756 tonnes**
Number of plant employees: **Approx. 180**
Number of machine lines: 5 production lines, 10 packaging lines
Largest brands: Red Band, Malaco, Venco, Lakrisal
Manufacturing methods: Starch moulding, coating and compression of pastilles
Certifications: BRC Global Standard for Food Safety

Turnhout, Belgium
Production volume 2018: **13,449 tonnes**
Number of plant employees: **Approx. 125**
Number of machine lines: 2 production lines, 4 packaging lines
Largest brands: Malaco, Red Band
Manufacturing methods: Starch moulding
Certifications: BRC Global Standard for Food Safety and ISO 14001

Roosendaal (Borchwerf), the Netherlands
Production volume 2018: **7,856 tonnes**
Number of plant employees: **Approx. 80**
Number of machine lines: 7 production lines, 14 packaging lines
Largest brands: Lonka, Red Band
Manufacturing methods: Toffee, fudge and nougat manufacturing
Certifications: IFS, GMP and BRC Global Standard for Food Safety

Sneek, the Netherlands
Production volume 2018: **6,574 tonnes**
Number of plant employees: **Approx. 100**
Number of machine lines: 5 production lines, 14 packaging lines
Largest brands: Sportlife, Jenkki, XyliFresh, King
Manufacturing methods: Chewing gum, coating, hard-boiled candy and lozenge manufacturing
Certifications: BRC Global Standard for Food Safety, IFS and ISO 14001

Dublin, Ireland
Production volume 2018: **2,417 tonnes**
Number of plant employees: **Approx. 60**
Number of machine lines: 1 production line, 10 packaging lines
Largest brands: The Jelly Bean Factory
Manufacturing methods: Starch moulding and coating
Certifications: BRC Global Standard for Food Safety and ISO 14001

Helsingborg, Sweden
Production volume 2018: **1,634 tonnes**
Number of plant employees: **Approx. 30**
Number of machine lines: 6 production lines, 4 packaging lines
Largest brands: Nutisal, Parrots
Manufacturing methods: Dry roasting, frying and coating of nuts
Certifications: BRC Global Standard for Food Safety

Increased resource efficiency

Cloetta manages its negative impact on the environment by reducing energy consumption and using resources more effectively during manufacturing, in packaging and during transportation.

Improved resource effectiveness

Cloetta uses resources responsibly by focusing on the energy effectiveness of its production facilities and reducing the company's carbon dioxide emissions and waste generated from its factories.

Cloetta considers the environmental impact of both its products and packaging, throughout their entire life cycle, from the raw materials used, manufacturing and transportation to recycling of packaging. Cloetta also applies the principle of caution; acting responsibly, even though we do not have the full scientific knowledge concerning the adverse effects.

All the factories have systematic environmental work ongoing including action plans and follow-up within a number of different areas. Cloetta's management system is based on BRC, ISO 14001 and OHSAS 18001. Material local environmental aspects, goals and activities are defined within the management system. Cloetta has set Group-wide goals for 2020 regarding energy, climate, sewage and COD. Processes and instructions for data collection are in place and will be updated in 2019 to ensure good quality of collected data. Data is reported monthly and consolidated at a Group level.

Cloetta's goal is to reduce energy consumption by 2020 and CO_2 emissions in relation to produced volume by 5 per cent and the amount of waste in relation to produced volume by 25 per cent compared to 2014 levels.

Sustainable packaging

To reduce the environmental impact of packaging, and use resources more effectively, Cloetta has defined a programme to develop more sustainable packaging solutions with improved environmental performance.

By no later than 2025 Cloetta's packaging will be 100 per cent recyclable/recoverable.

The definition used for determining that a form of plastic packaging is recyclable is either that it has been manufactured from one single type of material, or in cases where a laminate is composed of at least 80 per cent polythene- (PE) and/or polypropene- (PP) plastic, that it does not contain polyvinyl chloride (PVC), polyvinylidene chloride (PVDc), fibres, polyethylene terephthalate (PET), aluminium or more than 10 per cent of any other polymer material. Cloetta focused on removing metallised films from plastic laminates during 2018, and a total of 70 per cent of plastic packaging is now recyclable.

In 2019 Cloetta will work to remove metallised films and also plans to start introducing recycled material into packaging.

Energy efficiency

During 2018 Cloetta conducted energy audits at all eight factories. The audit result includes details about consumption for specific applications as well as energy balance for the factory and forms the basis for defining actions for more effective energy usage at each factory.

Despite the cold winter and extreme hot and long summer in 2018, which required extra energy for heating as well as cooling, energy efficiency measures resulted in a total increase in energy consumption of 5 per cent while production volumes increased by 6 per cent. In 2018 energy consumption in relation to the amount produced decreased from 1.85 MWh/tonne to 1.83 MWh/tonne. However, the amount of carbon dioxide in relation to the produced amount increased from 0.25 kg CO_2/kg to 0.30 kgCO_2/kg.

TARGETS

5% energy reduction by 2020

5% CO_2 reduction by 2020

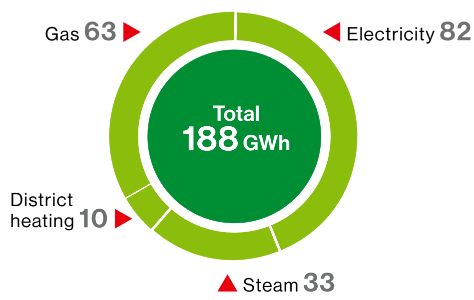
25% waste reduction by 2020

100% recyclable/recoverable packaging material by 2025

Environmental key performance indicators	2018	2017[1]	2016[1]	2015	2014
Total energy consumption, GWh	188	179	180	215	216
Energy consumption per produced tonne, MWh	1.83	1.85	1.80	1.85	1.88
CO_2e (Scope 1 + 2) per produced kilo, kg[3]	0.30	0.25	0.27	0.35	0.34
Waste per produced tonne, kg[2]	64	67	64	67	66
Recycled waste, %[2]	88	82	81	81	80
Wastewater per produced tonne, m³, [2]	1.7	1.7	1.5	2.9	2.9
COD* per produced tonne, kg[2]	15.6	14.2	15.0	17.6	16.6

1) The sold Italian operations have been excluded from the 2016 and 2017 figures. Roosendaal Borchwerf is included as of 2016. For this reason, the Group's targets have been adjusted slightly.
2) The factories in Dublin, Helsingborg and Roosendaal Borchwerf are included as of 2016.
3) The figures for 2016 and 2017 have been adjusted.

Sources of energy
GWh



Direct Scope 1 emissions related to combustion of oil, gas and LPG increased by 3 per cent, from 11,700 tonnes CO_2e to 12,079 tonnes CO_2e compared to last year, which corresponds well with the increased production volumes. Indirect Scope 2 emissions from usage of electricity and district heating increased by 55 per cent, from 12,392 tonnes CO_2e to 19,206 tonnes CO_2e. The increase in CO_2e is due to the fact that emission factors have been updated and also that a smaller portion of renewable electricity has been purchased compared to the previous year.

Transportation

In order to reduce its climate impact from transportation and to optimise freight costs, Cloetta endeavours to have high fill rates and uses stackable crates and transportation with larger load capacity. To the greatest extent possible, a combination of trains, ships and lorries are used to achieve a transportation solution with the best possible environmental performance. In 2018, 6 per cent more products were transported and the total CO_2 emissions (Scope 3) due to transportation from the factories to the customers' central depots increased by 5 per cent, indicating an improved efficiency. This equates to 38 kg of CO_2e per transported tonne of product.

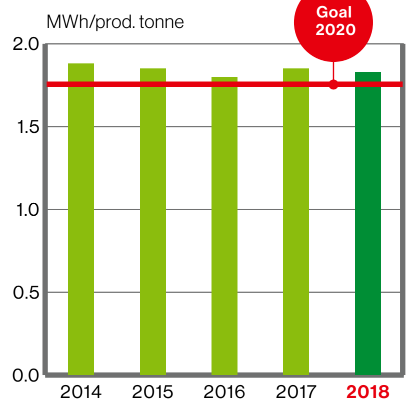
Recycling

All eight factories sort their waste. During the year, focus has been on improving the rate of recycling of waste from production. As a result, 88 per cent of waste was recycled in 2018, compared with 82 per cent the previous year.

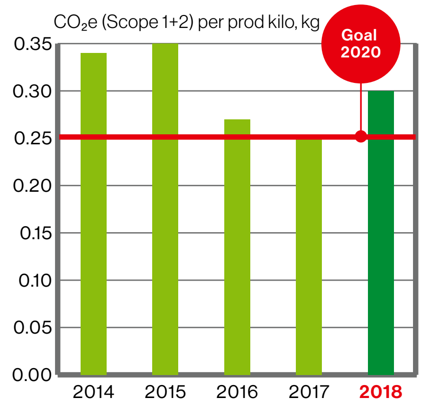
Sewage

Within the framework of the factory management systems, initiatives are underway to reduce the amount of sewage as well as improve the quality of sewage. In 2018, the quantity of water per tonne of produced product that was released into sewers was 1.7 m³, which corresponds to the previous year's amount. COD, a measurement of the quality of sewage, increased during 2018 to 16 kg oxygen per tonne of produced product.

Energy consumption



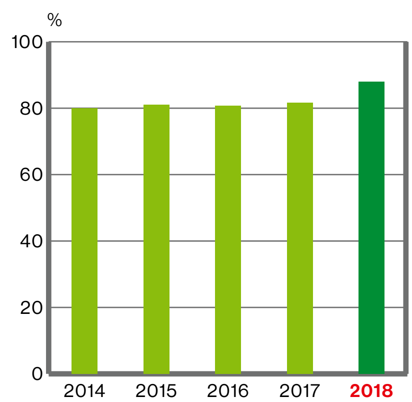
Carbon dioxide emissions



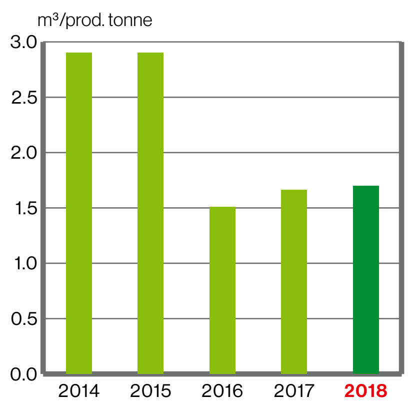
The figures for 2016 and 2017 have been adjusted.

Waste

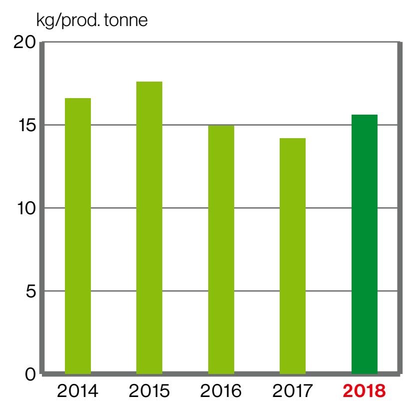
Recycled waste



Wastewater



COD*



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

Raw material

Raw materials and packaging account for around 59 per cent of total production costs. In terms of value, the most significant raw materials are sugar, cocoa, nuts, glucose syrup and polyols.

The prices of Cloetta's most important raw materials are set on the international European commodities exchanges, either directly, as is the case for cocoa, or indirectly such as with glucose syrup, whose price is influenced by the price of wheat and corn. This means that Cloetta's purchasing costs for these items are dependent on market pricing. Aside from the production volume, the total cost for raw materials is also affected by factory efficiency.

Cloetta has a central purchasing unit that can carry out more effective purchasing, both by consolidating and by maximizing local purchasing opportunities. As a rule, the central purchasing unit pre-purchases the most important raw materials so that they are accessible for a period equal to six to nine months of production. This also creates predictability in prices and financial outcomes, since cost changes affect Cloetta's purchasing costs with a certain delay. In this way, Cloetta can most often avoid temporary price swings in the commodities market.

Agricultural policy

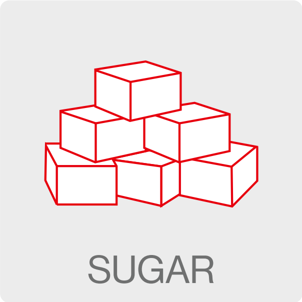
The prices of many of Cloetta's raw materials are affected by agro-political decisions regarding subsidies, trade barriers and such. The EU's new agricultural policy reform, which ended the system of sugar quotas, was implemented in 2017.

The prices of agricultural commodities are naturally also affected by supply and demand, i.e. the size of the harvest and consumption of food products in relation to production capacity. In recent years, speculative trading of agricultural commodities has increased dramatically, which has contributed to greater price volatility.

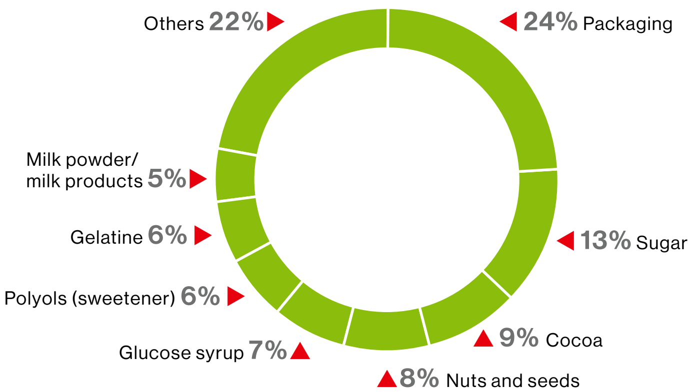
Suppliers

Cloetta uses several suppliers for the majority of its raw materials, but significant consolidations have taken place among the suppliers and this has sometimes made it difficult to find alternative suppliers. The ten largest suppliers of raw materials and packaging account for around 27 per cent (35) of the total purchasing volume.

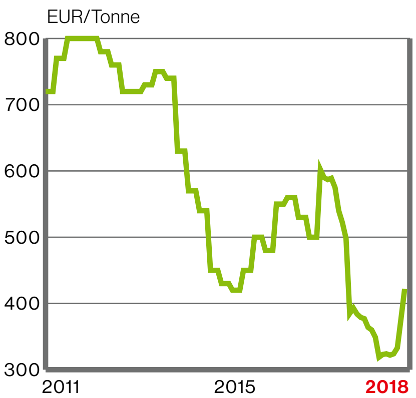
Suppliers to Cloetta are evaluated and approved before they are permitted to deliver to the factories. Read more on page 48.



Breakdown of raw material and packaging costs

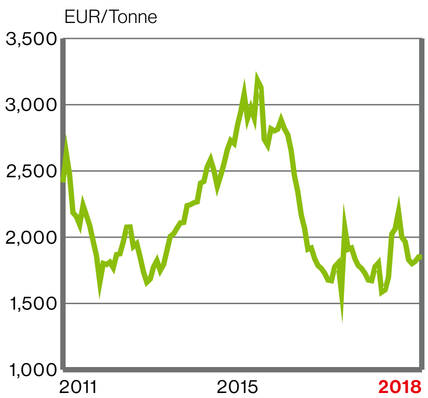


Sugar
Cost trend



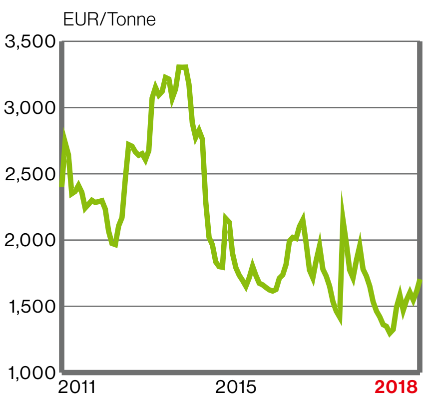
Source: Data Commodity

Cocoa beans
Cost trend



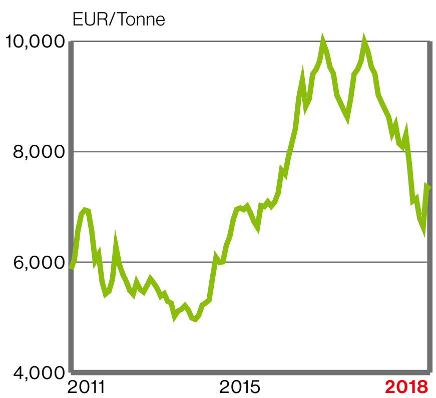
Source: Data Commodity

Milk powder
Cost trend



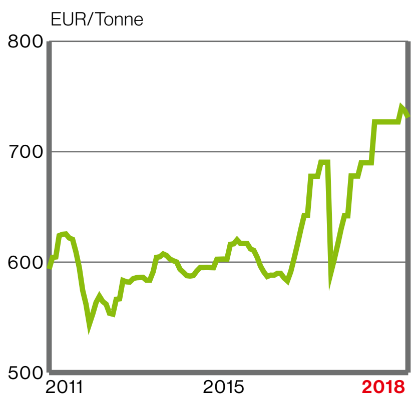
Source: Data Commodity

Cashew nut
Cost trend



Source: Data Commodity

Corrugated
Cost trend



Source: Data Commodity

Cost trend

Sugar

Sugar prices continued to decline in 2018 due to the abolition of the European sugar quota system in 2017. European sugar prices are now more closely aligned with the development of global market prices for sugar, although import duties to Europe remain unchanged.

Cocoa

The price of cocoa derivatives increased during 2018 as a result of uncertainty regarding the rainy season and speculation. The cocoa price is often subject to sharp fluctuations that are partly explained by the fact that the cocoa exchange is comparatively small and therefore of interest for speculation. The price of cocoa is naturally also dependent on the level of supply, i.e. the harvest and trends in demand.

Nuts

Nut prices are affected mainly by supply/demand, the harvest (weather conditions) and exchange rates, since most nut prices are quoted in US dollars. The cost of nuts, particularly cashews, decreased somewhat during 2018 while the cost of almonds was higher than in 2017.

Milk powder

After a price decrease in 2017, prices increased in 2018 due to low availability of fresh milk and higher demand for fresh milk powder that was balanced by EU stock management.

Other raw materials and packaging

The price of wheat and corn has a powerful influence on the price of glucose syrup. The supply of and demand for glucose were unbalanced during 2018, leading to price movements. The price of polyols (sweetener) is less affected by grain prices. The price of Xylitol rose substantially during 2018 due to a lower supply.

Purchase costs for packaging materials, especially paper-based packaging material, such as corrugated material, increased during 2018.

Responsible sourcing

Cloetta manages risks in its supply chain by integrating and controlling compliance with environmental, social and food safety-related requirements in its sourcing process.

Supplier controls are integrated into the sourcing process

Cloetta has processes in place to approve and control the compliance with requirements placed on suppliers. These requirements are defined in the BRC Global Standards for Food Safety and in the company's Code of Conduct, and they are integrated into the sourcing process. Compliance with these requirements and fulfilment of Cloetta's expectations are pre-requisites for the approval of any new suppliers. All new suppliers are assessed in terms of their food safety, product quality, environmental considerations, working conditions and human rights. Cloetta carries out a risk analysis based on country-specific and sector-specific circumstances to be able to identify high-risk suppliers. This informs the prioritisation of supplier food safety audits. New suppliers with operations in a high-risk country must also be able to verify that they fulfil Cloetta's environmental and social requirements. If any supplier does not fulfil Cloetta's expectations and requirements, no business relationship is initiated.

In 2018, the food safety, product quality, environmental considerations, working conditions and human rights aspects of all (85) new suppliers were assessed. Of these, 32 suppliers had operations in a high-risk country and 22 audits were carried out by Cloetta's auditors.

Sustainability programme for prioritized raw materials

Many of the raw materials that are used in Cloetta's products originate in countries where the risk of deviation from our Code of Conduct is higher. Cloetta's sustainability programme for prioritized raw materials is based on third-party certified raw materials. Cloetta purchases certified raw materials and cooperates with raw material suppliers so as to improve traceability, work to a common set of requirements and carry out training that can contribute to positive change in countries where the raw materials are grown.

Cloetta's sustainability programme includes cocoa, palm oil and shea butter.

TARGETS

Goal **100%** of suppliers approved according to Cloetta's Code of Conduct

Sustainability programmes include cocoa, palm oil and shea butter

UTZ certified cocoa

Through UTZ the cocoa farmers receive

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

UTZ Certified cocoa

COCOA

Cocoa is cultivated by around 5 million farmers and employs some 40 million people, close to 70 per cent of these are found in West Africa, primarily Ghana and Ivory Coast.

Source: UTZ impact report 2016

Since 2014 Cloetta has been buying cocoa solely from UTZ certified farmers. By buying cocoa from UTZ certified farmers, Cloetta creates a platform for securing a supply of high quality cocoa to its factories, while certification is aimed at creating the conditions for sustainable production of cocoa and contributing to long-term positive change for the cocoa farmers.

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 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, one of the most significant of these is low productivity on the farms. Limited knowledge about how to grow high quality cocoa efficiently is a root cause of the farmers' low productivity. The farmers are also struggling with ageing cocoa trees and declining soil fertility while often lacking the means to finance investments in new plants, fertilizers, etc.

Certified palm oil

8
principles that farmers must respect

1. Transparency.
2. Compliance with laws and regulations.
3. Commitment to long-term economic and financial viability.
4. Use of best farming practices.
5. Environmental responsibility and conservation of natural resources and biodiversity.
6. Responsible consideration of employees, and of communities and individuals affected by palm oil production.
7. Responsible development of new plantations.
8. Commitment to continuous improvement.

PALM OIL

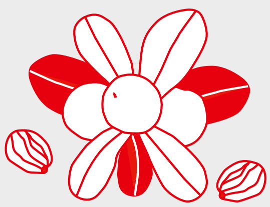
Around **85%** of all palm oil in the world comes from Malaysia and Indonesia.

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.

Palm oil

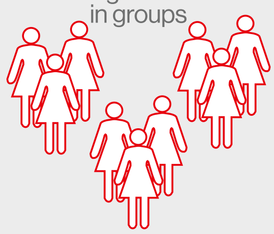
A number of Cloetta's products contain palm oil. However, Cloetta does not buy pure palm oil, but oils and fats that contain derivatives of palm oil. Suppliers must comply with Cloetta's requirement that palm oil extraction must not be permitted in primary forest, peatlands, areas with protected forest or areas where slash and burn farming is used in plantation operation. To improve traceability, Cloetta has started the transition to RSPO segregated palm oil, which means that Cloetta will receive information about which mills the palm oil comes from. RSPO certification of Cloetta's factories is planned for 2019 to ensure traceability all the way to the finished product.

Sustainable shea butter – empowering women in rural West Africa



SHEA BUTTER

Women organized in groups



More than **100,000** women engaged.

In 2017 Cloetta decided to partner up with AAK (a supplier in oils and fats solutions) regarding sustainable shea butter. In a number of West African countries, AAK has set up a sustainability programme for direct sourcing of shea kernels aimed at empowering women in rural areas. Since July 2018 Cloetta has only sourced segregated and traceable shea butter covered by the AAK direct sourcing programme.

The programme setup

From Tamale (Ghana), AAK runs 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 intermediaries, which means the women cannot influence the prices.

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 into 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 are paid the same price that AAK would otherwise have paid to the intermediaries. 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.

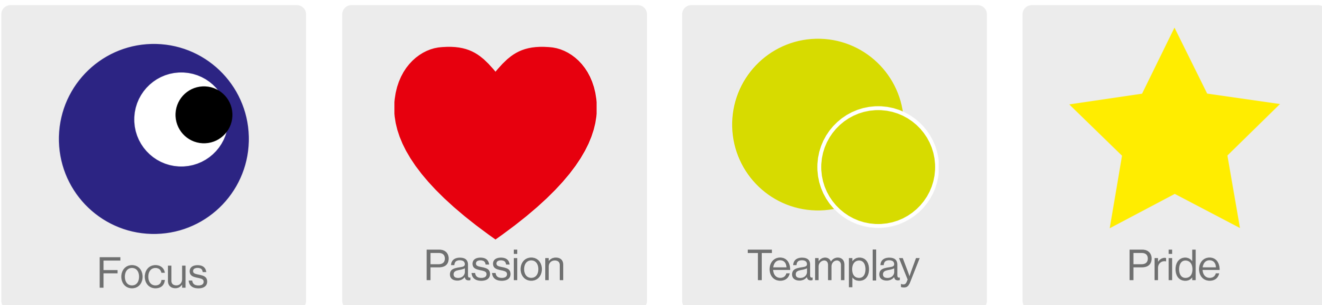
Another important benefit for the women is the possibility of obtaining pre-financing. At the beginning of the season, AAK extension officers visit the producer groups to discuss the women's outlook for the season. Part of the volume is then pre-financed and the women are paid this money at a time of the year when they have little or no other source of income. It is also a guarantee that AAK will return and buy all their shea kernels. The pre-financing is interest-free – it is 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

Cloetta is driven by a conviction that value is created by its 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 Cloetta's employees is continuously improved.

Cloetta has four core values that guide how its people work and act, 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.

Cloetta – a great place to work

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, upholding an inspiring corporate culture and building a clear corporate identity.

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

Human Resources strategy

Cloetta's Human Resources strategy is built on four main pillars:

- Build Cloetta's Image
- Fuel a winning culture
- Develop our organization and our people
- Build the HR platform to support managers and the organization

Build Cloetta's image

Employer branding

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

All recruitment is supported by centrally developed tools that contain both skills tests and self-assessment tests. For all positions, selection is based on a job description with a specific set of competencies against which candidate performance is measured, in combination with analysis of the various tests and interview material.

Cloetta has commenced work on building a common communication platform for Employer Branding, which consists of a common career portal, a common recruitment tool and integration with LinkedIn and other social media to reach the identified target groups.

An important aspect of building Cloetta's image internally is a thorough, harmonised induction programme. During 2019, existing programmes will be brought together into one stronger, a common programme, which will be called "Cloetta Tasting". These are important components in the continued work to build "One Cloetta".

Fuel a winning culture

Continuously working with the core values is an important part of creating a shared culture within Cloetta. Presentations and workshops are held on various occasions, for example during induction programmes and different types of conferences.

Employee survey – Great Place to Work

To create a winning culture, it is essential that there is a genuine interest in understanding how the employees perceive their place of work, what they appreciate and what they find lacking, or what they are simply dissatisfied with.

The best workplaces are built through day-to-day relationships. From the employees' perspective, a good workplace is one where people:

- Trust the people they work for
- Have pride in what they do
- Enjoy working with their colleagues

Cloetta's goal is that the Great Place to Work Trust Index at Cloetta will be in line with or exceed the previous year's level. During the year Cloetta conducted a recurring employee survey "Great Place to Work" within its commercial units. For the first time in Sweden, Norway, Denmark and the UK, teams of in-store candy merchandisers participated – employees that had joined Cloetta since the acquisition of Karamellkungen/Candyking. The response rate was 80 per cent and the Trust Index result was 73 per cent, a slightly lower result compared to the previous year when the Trust Index was 75 per cent. The drop was primarily seen amongst the field sales force in Finland where the merger of Cloetta and Candyking had recently entailed significant organizational and employment changes. The Netherlands, Denmark and Sweden continue to have a high Trust index.

In 2018, Cloetta Holland was also voted the third most attractive employer of all consumer goods companies in the Netherlands.

Diversity

One vital part of a good 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 included regardless of gender, religion, ethnic background, age, race or 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".

Expertise

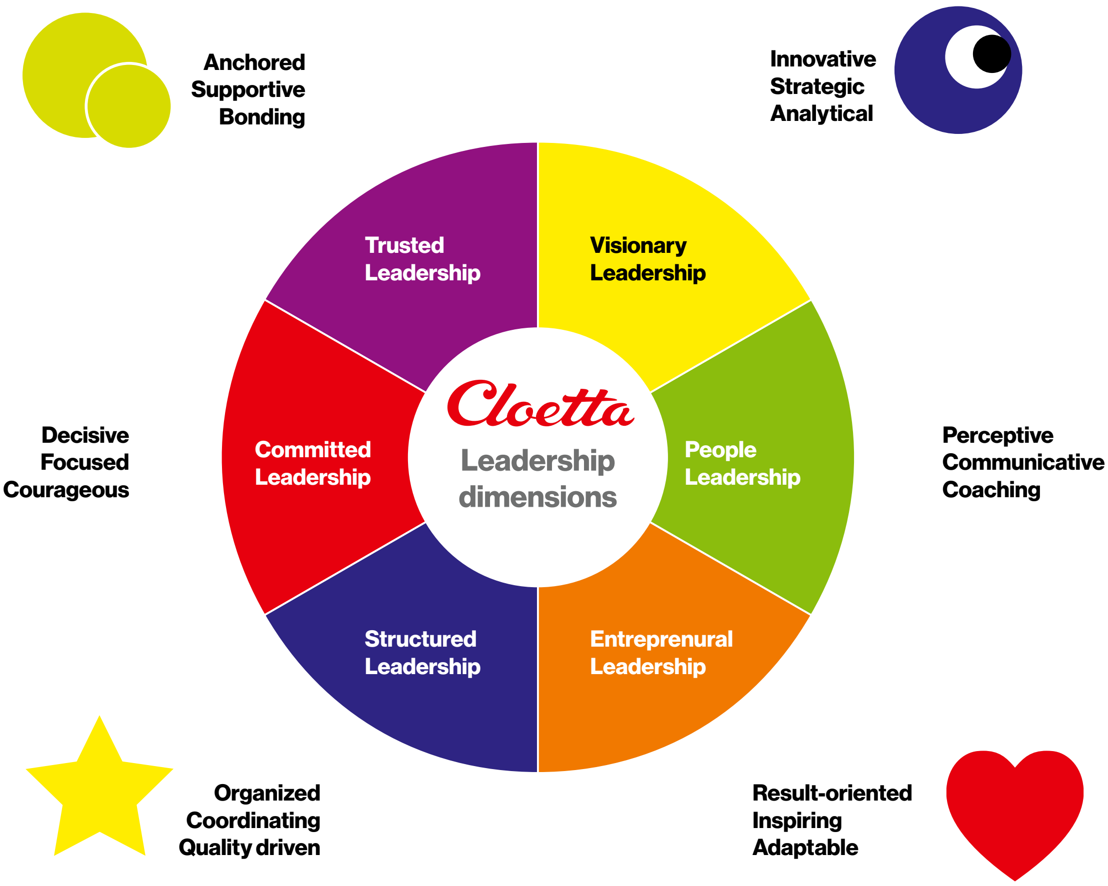
Cloetta is committed to continuously renewing and utilizing the Group's collective expertise. Competent employees that are given scope to realize their full potential create the conditions for Cloetta to maintain its position as an attractive and innovative partner, not only for its employees but also for customers, suppliers and business partners. A learning-driven organization that works in project form and uses 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, be business-oriented and promote the individual's professional interests and needs.

Cloetta's 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.

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.

Over several years Cloetta has made comparisons with other companies to ensure a clear framework and strategy for its remuneration and 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.



Develop our organization and our people

Leadership

As a leader, it is vital that you dare to trust in both your own leadership and in others. It is 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 an analytic tool that, among other things, identifies what drives 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. Two years ago, the company further developed its leadership tool into leadership training - Cloetta's Leadership Dimensions.

Cloetta's Leadership Dimensions

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 what type of leaders and employees Cloetta wants to have. 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. Linking Cloetta's Leadership Dimensions with Management Drives has provided the company with a common language and tool that can be used in areas such as people development, conflict management and team-building activities.

Health and a safe working environment

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

During the last few years the "Cloetta Energy" programme has been rolled out in certain parts of the organization – a health promotion programme 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 as an overarching programme for the whole of Cloetta in 2019.

In 2018, work commenced to develop a policy and expertise in the area of Safe driving. In the Nordic countries in particular, Cloetta has a large number of salespeople and merchandisers who drive long journeys as part of their work, and the programme focuses on developing a safe approach to daily driving. The policy and knowledge about safe driving naturally apply to all employees who drive to and from work for example. The policy was launched in January 2019.

Safety first – new safety standard in all factories

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 reported and followed up. 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 has developed a tool to help managers to detect early signals that may indicate potential illness and long-term sickness absence.

In 2017, a new safety standard was drawn up for immediate implementation in all factories, an effort that has also remained a high priority in 2018. All incidents and accidents are reported and followed up.

With effect from 2018, the metric used for occupational accidents is 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 of absence) for each million hours per year worked by a group of employees or contractors.

Relationship between the company and its 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 Council, local company councils and trade union 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 such as flex-time and part-time hours, when possible.

Cloetta's whistleblower service gives all of Cloetta's employees the opportunity to report concerns, either anonymously or via a manager, about conduct that does not align with the company's values or ethical principles. Read more on page 149.

Build the HR platform to support managers and the organization

New HR organization "One Cloetta"

In 2018, the organizational structure of the HR function changed as Cloetta transitioned from a local, decentralised HR organization to bringing everything into one common HR function. The objective of this change is to harmonise the way of working and make it more efficient, and thereby be able to support local resources while using shared expertise and resources in a better, more effective way. The shared activities that have already commenced and those that will be built up during the coming years are an important part of the journey towards "One Cloetta".

During 2018, the main focus has been on procuring and implementing a new digital support system for HR processes. An important part of this work has been a review and harmonisation of these main processes. The system will be rolled out during 2019 and will entail significant improvements in work methods for HR, employees and managers at Cloetta.

Employee journey

2019 will see the launch of Cloetta's "Employee Journey". This is a way to clarify the strategic focus areas as well as Cloetta as an employer.

Number of employees

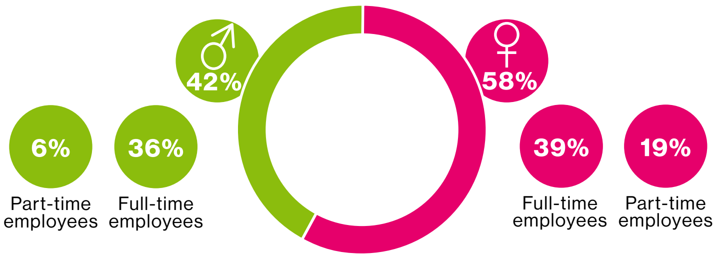
The average number of employees in 2018 was 2,458 (2,467). Of the average number of employees, a collective labour agreement was applicable for 78 per cent of the employees.

In production there are certain periods with a higher workload, such as Easter and Christmas, when extra staff is hired. Other areas of operation also use temporary and extra staff. 11.8 per cent of the employees (headcount per year end) were temporary workers.

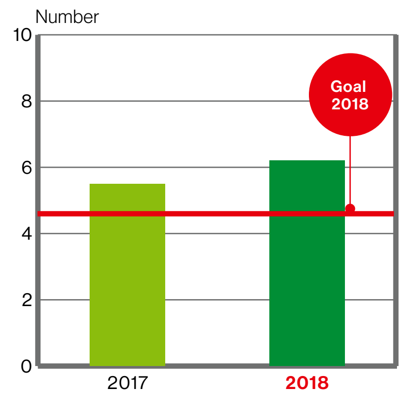
Goals and facts

Gender distribution, all employees

31 December 2018

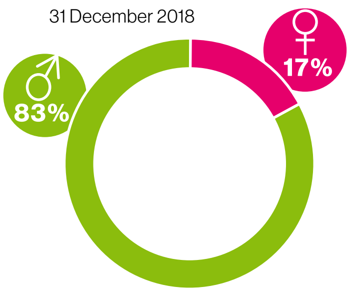


Lost Time Injury Rate (LTIR)
(LTIR is absence due to accidents (for more than 24 hours) per 1,000,000 hours worked.)



Gender distribution, Group Management Team

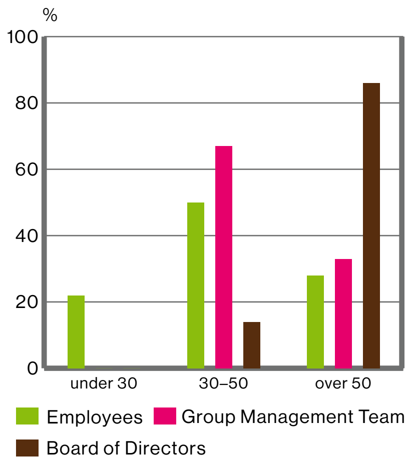
31 December 2018



Gender distribution, Board of Directors

31 December 2018

Age distribution



Number of employees by category and region as per 31 December 2018

Employees	Slovakia	Sweden	The Netherlands	Finland	UK	Belgium	Denmark	Ireland	Norway	Germany	Italy	Other	Total
Total number of employees													
- Women	490	464	159	288	166	25	64	27	32	8	1	3	1,727
- Men	255	373	300	52	62	93	49	51	28	5	2	1	1,271
Total number of permanent employees													
- Women	432	390	129	282	160	19	63	24	30	8	1	3	1,541
- Men	208	320	256	52	59	80	48	44	27	5	2	1	1,102
Total number of temporary employees													
- Women	58	74	30	6	6	6	1	3	2	–	–	–	186
- Men	47	53	44	–	3	13	1	7	1	–	–	–	169

See full-time employee data in Note 5.

Share and shareholders

Cloetta's class B shares have been listed on Nasdaq Stockholm since 16 February 2009. However, Cloetta was originally introduced on the stock exchange in 1994 and has been listed in a number of different owner constellations since then. Cloetta's shares are part of the OMX Stockholm Mid Cap index, and also the Nordic and Swedish industry sector index for Food Producers, Food & Beverage and Consumer Goods.

Six reasons to invest in Cloetta

Strong local brands 1

Cloetta has an extensive portfolio of strong local brands that are well established in the minds of the consumers. The brands have been cherished for generations and consumers have a personal relationship with the brands they have grown up with.

Clear strategy to deliver growth 2

In order to drive growth, the most important daily activities include broadening distribution, updating packaging, promotional and advertising activities, line extensions and launching of seasonal products. In addition to these, strategic activities such as innovation, geographical roll-outs, brand extensions and brand re-launches are also given priority. Acquisitions are also part of the growth strategy.

Attractive non-cyclical market 3

The confectionery market is relatively insensitive to economic fluctuations and shows stable growth that is primarily driven by population trends and price increases. Historically, annual market growth has been between one and two per cent.

Focus on continued margin expansion 4

Cloetta's profitability has improved over the past few years. In order to push towards Cloetta's financial target to reach an EBIT margin, adjusted of 14 per cent, there will be a continued focus on cost-effectiveness, growth and profitability.

Strong market positions and distribution 5

In its core markets, Cloetta has strong sales and marketing organizations that have excellent relations with the retail trade. Cloetta's wide portfolio of market-leading products creates economies of scale, and its brands are often highly important to the retail trade.

Attractive cash flow generation and dividend 6

Cloetta's business has a very strong cash-generating capacity. Low and stable capital expenditure combined with effective management of working capital generate robust cash flows and thereby allow for share dividends in accordance with the goal to distribute 40 to 60 per cent of profit after tax.

Shareholders[1]

At 31 December 2018 Cloetta AB (publ) had 23,956 (20,125) shareholders, an increase of 19 (24) per cent since the previous year-end. Of the shareholders, 1,147 were financial and institutional investors and 22,809 were private investors. Financial and institutional investors held 90.0 per cent of the votes and 88.2 per cent of the share capital. There were 802 foreign shareholders who held 42.3 per cent of the votes and 49.8 per cent of the share capital. The 15 largest shareholders accounted for 71.1 per cent of the votes and 66.0 per cent of the share capital. At 31 December 2018, AB Malfors Promotor was Cloetta's largest shareholder with a holding representing 37.8 per cent of the votes and 26.7 per cent of the share capital in the company. The second largest shareholder was Wellington Management, with 8.4 per cent of the votes and 10.0 per cent of the share capital, and the third largest shareholder was Franklin Templeton with 7.3 per cent of the votes and 8.6 per cent of the share capital.

Share price and trading[2]

Between 1 January to 31 December 2018, 139,778,861 Cloetta shares were traded on Nasdaq Stockholm for a total value of SEK 4,021m, equal to around 49 per cent of the total number of class B shares at the end of the period. Trading on Nasdaq Stockholm accounted for 48.7 per cent, and other markets where the Cloetta share was traded include Cboe Global Markets (38.7 per cent), LSE Group (5.9 per cent), Liquidnet (2.5 per cent), Aquis (2.2 per cent), ITG (1.3 per cent), UBS (0.5 per cent), Nomura Group (0.2 per cent) and Sigma-X (0.04 per cent). The highest quoted bid price during the period from 1 January to 31 December 2018 was SEK 34.00 on 30 January 2018 and the lowest bid price was SEK 22.80 on 26 October 2018. The share price on 31 December 2018 was SEK 24.30 (last price paid). During the period from 1 January to 31 December 2018, Cloetta's share price decreased by 18.2 per cent, while Nasdaq OMX Stockholm PI decreased by 7.7 per cent.

The share's beta and standard deviation[3]

The price volatility of an individual share compared to the market as a whole is known as its beta. A beta of greater than 1 indicates that the share price is more volatile than the market average. The Cloetta share's beta in 2018 was 0.68 (0.69), which means that the Cloetta share was less volatile than the average on Nasdaq Stockholm. The Cloetta share had a standard deviation of 1.6 per cent (1.9) in 2018. Standard deviation is a measure of the share's variability from its average value for the measurement period, i.e. how volatile the share was during the year.

Share capital and capital structure

Cloetta's share capital at 31 December 2018 amounted to SEK 1,443,096,495. The total number of shares is 288,619,299, divided between 5,735,249 class A shares and 282,884,050 class B shares, equal to a quota value per share of SEK 5. According to the Articles of Association, the share capital shall amount to not less than SEK 400,000,000 and not more than SEK 1,600,000,000, divided between no fewer than 80,000,000 shares and no more than 320,000,000 shares.

Dividend policy

Cloetta's long-term goal is a dividend payout of 40–60 per cent of profit after tax. Neither the Swedish Companies Act nor Cloetta's Articles of Association contain any restrictions regarding the right to dividends for shareholders outside Sweden. Aside from any limitations related to banking or clearing activities in the affected jurisdictions, payments to foreign shareholders are carried out in the same manner as to shareholders in Sweden. A dividend of SEK 433m was transferred to the shareholders in 2018. The ambition is for the cash flow to be used for dividends, but that it should also provide financial flexibility for complementary acquisitions. For 2018 the Board proposes an ordinary dividend of SEK 1.00 (0.75) per share, which is equal to 60 per cent of the profit for the period. The dividend is resolved on by the Annual General Meeting (AGM) and disbursement is handled by Euroclear Sweden AB. The right to a dividend is granted to those persons who are listed as shareholders in the share register maintained by Euroclear Sweden AB on the record date.

Articles of Association

Cloetta's Articles of Association contain a Central Securities Depository (CSD) provision and its shares are affiliated with Euroclear Sweden AB, which means that Euroclear Sweden AB administers the company's share register and registers the shares to owners. Each A share grants ten votes and each B share one vote in shareholder meetings. All shares grant equal entitlement to the company's profits and an equal share in any surplus arising from liquidation. Should the company issue new shares of class A and class B through a cash or set-off issue, holders of class A and class B shares have the right to subscribe for new shares of the same class in proportion to the number of shares already held on the record date. If the issue includes shares of only class B, all

1 Source: Euroclear och Monitor
2 Source: Nasdaq Stockholm and Fidessa
3 Source: SIX

holders of class A and class B shares have the right to subscribe for new class B shares in proportion to the number of shares already held on the record date. Corresponding rules of apportionment are applied in the event of a bonus issue or issue of convertibles and subscription warrants. The transference of a class A share to a person who is not previously a holder of class A shares in the company is subject to a pre-emption procedure, except when the transfer is made through division of joint property, inheritance, testament or gift to the person who is the closest heir to the bequeather. After receiving a written request from a holder of class A shares, the company shall convert the class A shares specified in the request to class B shares.

Shareholder agreement

Oy Karl Fazer Ab, Conclo Ab, Oy Cacava Ab and certain private individuals affiliated with Oy Karl Fazer Ab have in relation to Hjalmar Svenfelt Foundation (which owns shares in Cloetta through AB Malfors Promotor), previously undertaken to refrain from acquiring, directly or indirectly, shares in Cloetta during a 10-year period. The 10-year period started on the first date of trading for Cloetta's class B shares on Nasdaq OMX First North on 8 December 2008, and ended in December 2018.

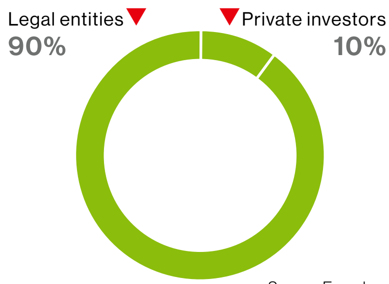
Individuals with an insider position

Persons discharging managerial responsibilities for Cloetta and persons or legal entities closely associated with them are obliged to notify Cloetta and the Swedish Financial Supervisory Authority of every transaction conducted related to changes in their holdings of Cloetta shares once a total amount of EUR 5,000 has been reached within a calendar year, according to the regulation of the European Parliament and of the Council on Market Abuse. Listed companies are required to record a logbook of individuals who are employed or contracted by the company and have access to insider information relating to the company. These can include insiders, and also other individuals who have obtained inside information. Cloetta records a logbook for each financial report or press release containing information that could affect the share price. The Board adopted a new, stricter insider policy in 2017.

Silent periods

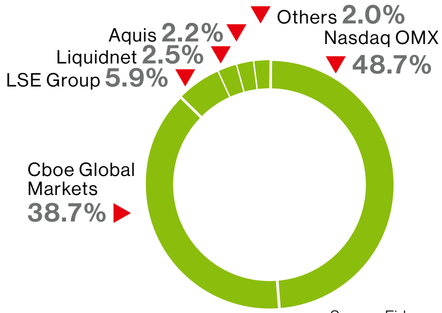
Cloetta maintains a silent period of at least 30 days prior to the publication of its quarterly financial reports. During this period, representatives of the Group will not meet with financial media, analysts or investors.

Shareholder categories, % of votes
31 December 2018



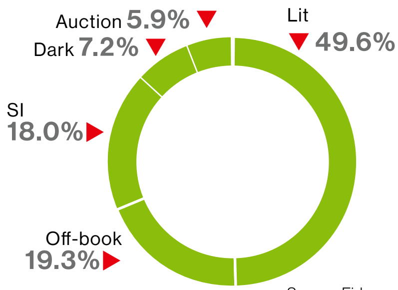
Source: Euroclear

Marketplaces, %
1 January – 31 December 2018



Source: Fidessa

Trading categories, %
1 January – 31 December 2018

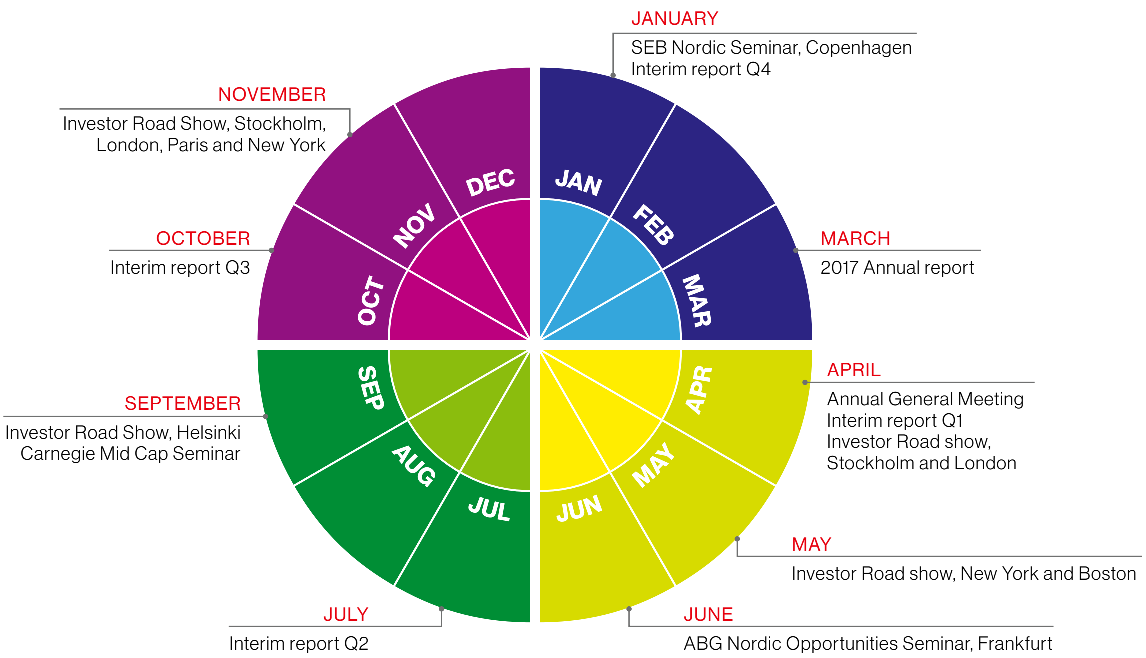


Source: Fidessa

LIT, i.e. buy and sell orders are public. Traditional exchange trading.
Off-book, stock trades that are executed away from the exchange and are registered later.
SI, Systematic Internalisers, outside regulated markets or trading platforms.
Dark, buyers and sellers trade shares anonymously, without public transparency. Not registered on any public exchange.
Auction, auction trading process on an exchange.

Investor relations 2018

Cloetta meets regularly with investors and analysts. In 2018, Cloetta had more than 130 individual investor meetings in which the CEO, CFO or IR took part. At least twice a year, trips are made to Europe and the USA to meet investors and shareholders. In addition, Cloetta regularly attends major investor club meetings, lunches and evening meetings organized by banks and the Swedish Shareholders Association (Aktiespararna).



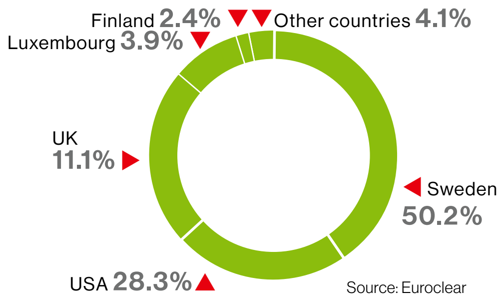
15 largest shareholders at 31 December 2018

	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
AB Malfors Promotor	37.8	26.7	77,044,804	5,729,569	71,315,235
Wellington Management	8.4	10.0	28,720,678	–	28,720,678
Franklin Templeton	7.3	8.6	24,903,807	–	24,903,807
Columbia Threadneedle	2.5	2.9	8,479,462	–	8,479,462
Dimensional Fund Advisors	2.3	2.7	7,758,614	–	7,758,614
Norges Bank	2.2	2.6	7,586,583	–	7,586,583
Vanguard	1.6	1.9	5,602,327	–	5,602,327
Ulla Håkanson	1.5	1.7	5,000,000	–	5,000,000
AXA	1.5	1.7	4,974,712	–	4,974,712
Florida Retirement System Trust Fund	1.3	1.5	4,274,621	–	4,274,621
Försäkringsbolaget PRI	1.2	1.4	4,012,045	–	4,012,045
Carnegie fonder	1.0	1.2	3,491,494	–	3,491,494
Evli Fonder	0.9	1.1	3,183,266	–	3,183,266
Olof Svenfelt	0.8	0.9	2,700,030	30	2,700,000
Black Rock	0.8	0.9	2,670,252	–	2,670,252
Total, 15 largest shareholders	**71.1**	**66.0**	**190,402,695**	**5,729,599**	**184,673,096**
Other shareholders	28.9	34.0	98,216,604	5,650	98,210,954
Total	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Monitor by Modular Finance AB. Data collated and processed from Euroclear, Morningstar, Finansinspektionen and others.
Trustee-registered accounts/shareholders are not included in this list. Current holdings for the 15 largest shareholders can be found at www.cloetta.com

Shareholder countries, % share of capital

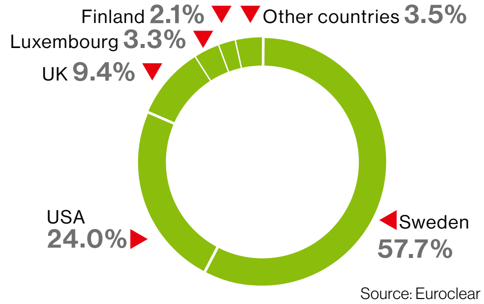
31 December 2018



Source: Euroclear

Shareholder countries, % of votes

31 December 2018



Source: Euroclear

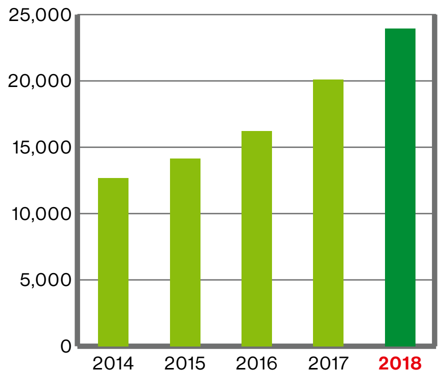
Size categories at 31 December 2018

	No. of shareholders	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
1–500	17,781	0.6	0.8	2,240,618	2,704	2,237,914
501–1 000	2,453	0.6	0.6	2,053,930	500	2,053,430
1 001–5 000	2,658	1.9	2.2	6,395,144	2,332	6,392,812
5 001–10 000	439	1.0	1.2	3,314,621	–	3,314,621
10 001–15 000	136	0.5	0.6	1,751,359	–	1,751,359
15 001–20 000	91	0.5	0.6	1,701,546	–	1,701,546
20 001 –	398	94.9	94.0	271,162,081	5,729,713	265,432,368
Total	**23,956**	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Euroclear

Number of shareholders

31 December



Source: Euroclear

Shareholders by country at 31 December 2018

	No. of share-holders	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
Sweden	23,154	57.7	50.2	144,756,493	5,735,249	139,021,244
USA	58	24.0	28.3	81,683,680	–	81,683,680
UK	73	9.4	11.1	31,929,170	–	31,929,170
Luxembourg	21	3.3	3.9	11,110,579	–	11,110,579
Finland	156	2.1	2.4	6,993,811	–	6,993,811
Other countries	494	3.5	4.1	12,145,566	–	12,145,566
Total	**23,956**	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Euroclear

Shareholder categories at 31 December 2018

	No. of share-holders	% of share-holders	% of votes	% of share capital
Private investors	22,809	95.2	10.0	11.8
Of which, Swedish residents	*22,675*	*94.7*	*9.9*	*11.7*
Legal entities	1,147	4.8	90.0	88.2
Of which, Swedish residents	*479*	*2.0*	*47.8*	*38.4*
Total	**23,956**	**100**	**100**	**100**
Of which, Swedish residents	*23,154*	*96.7*	*57.7*	*50.1*

Source: Euroclear

Development of the share

Year	Event	Increase in share capital	Total share capital	Increase in no. of shares	Total no. of shares
1998	Opening share capital, par value of the share is SEK 100	–	100,000	–	1,000
2008	Non-cash issue in connection with demerger of Cloetta Fazer	99,900,000	100,000,000	999,000	1,000,000
2008	Share split, quota value of the share changed from SEK 100 to SEK 4	–	100,000,000	23,119,196	24,119,196
2008	Bonus issue, quota value of the share changed from SEK 4 to SEK 5	20,595,980	120,595,980	–	24,119,196
2011 – 2012	Conversion of convertible debenture loan	2,836,395	123,432,375	567,279	24,686,475
2012	Issue in kind	825,934,620	949,366,995	165,186,924	189,873,399
2012	Rights issue	493,729,500	1,443,096,495	98,745,900	288,619,299

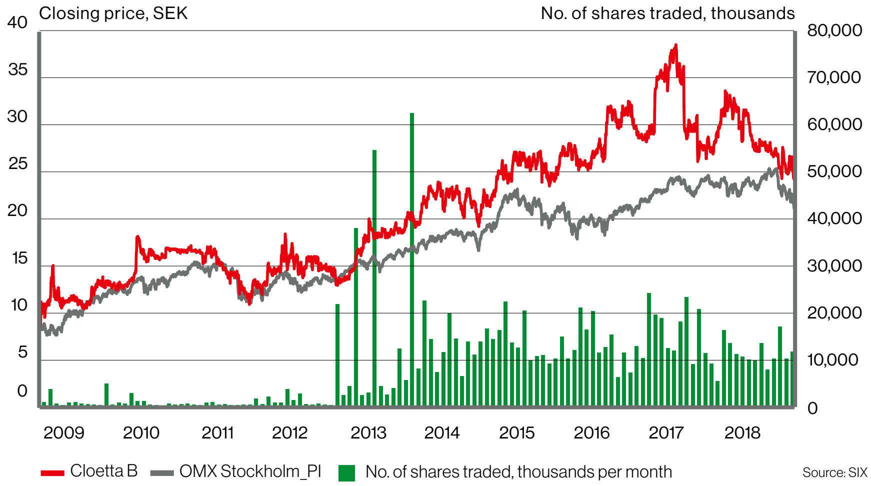
Source: Euroclear

Incentive schemes

The table below represents the main characteristics of the share-based long-term incentive plans that have been approved by the AGM. For more information about the incentive plans, see page 81, and Note 25 on pages 120–121.

	LTI 2018	LTI 2017	LTI 2016	LTI 2015	LTI 2014
AGM approval date	15 April 2018	4 April 2017	12 April 2016	23 April 2015	29 April 2014
Maximum number of B shares to be allocated	1,201,602	1,221,698	1,524,100	2,000,000	1,773,840
as percentage of total shares	0.4	0.4	0.5	0.7	0.6
as percentage of voting rights	0.4	0.4	0.4	0.5	0.5
Number of employees offered the opportunity to participate	54	70	73	74	66
Number of participants at inception date	44	49	49	46	49
Estimated number of B shares to be allocated, subject to possible recalculation	932,980	351,279	120,000		
as percentage of total shares	0.3	0.1	0.0		
as percentage of voting rights	0.3	0.1	0.0		
Number of participants at reporting date	40	36	33		
Vesting date				25 April 2018	8 May 2017
Realized performance target, %				59.9	39.4
Actual number of matching shares granted on vesting date				100,542	151,053
Actual number of performance shares granted on vesting date				237,940	210,976
Total number of B shares granted on vesting date				**338,482**	**362,029**
as percentage of total shares				0.1	0.1
as percentage of voting rights				0.1	0.1
Number of participants at vesting date				29	36

Share price performance



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NASDAQ STOCKHOLM

Share data

Marketplace	Nasdaq Stockholm
Date of listing	16 February 2009
Segment	Mid cap
Sector	Food Producers, Food & Beverage and Consumer Goods
Ticker symbol	CLA B
ISIN code	SE0002626861
Currency	SEK
Standard trading unit	1 share
No. of shares in issue	288,619,299
Highest price paid in 2018	SEK 34.00 (30 January 2018)
Lowest price paid in 2018	SEK 22.80 (26 October 2018)
Last price paid 2018	SEK 24.30
Share price growth in 2018	–18.2 per cent
The share's beta against SIXGX	0.68 (0.69)
The share's standard deviation	1.6 (1.9)

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, and at the same time the necessary marketing investments can be so high that the products would not be profitable.

How will you meet your margin target?
Profitable growth and increased cost efficiency will contribute to higher earnings. Additionally, the integration of Candyking will create substantial synergies and we are currently also implementing the Perfect Factory programme in the supply chain, which will help to boost profitability.

When will you meet your 14 per cent margin target for EBIT margin, adjusted?
During 2018 we have continued once again to strengthen our margin. Our target EBIT margin, adjusted remains the same, 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 in raw materials. Sometimes we also adjust prices in conjunction 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 current product portfolio. This means that we acquire brand-driven companies within the same categories, preferably in countries where we are already active. We may also acquire brands within our categories but in countries that are close to our main markets.

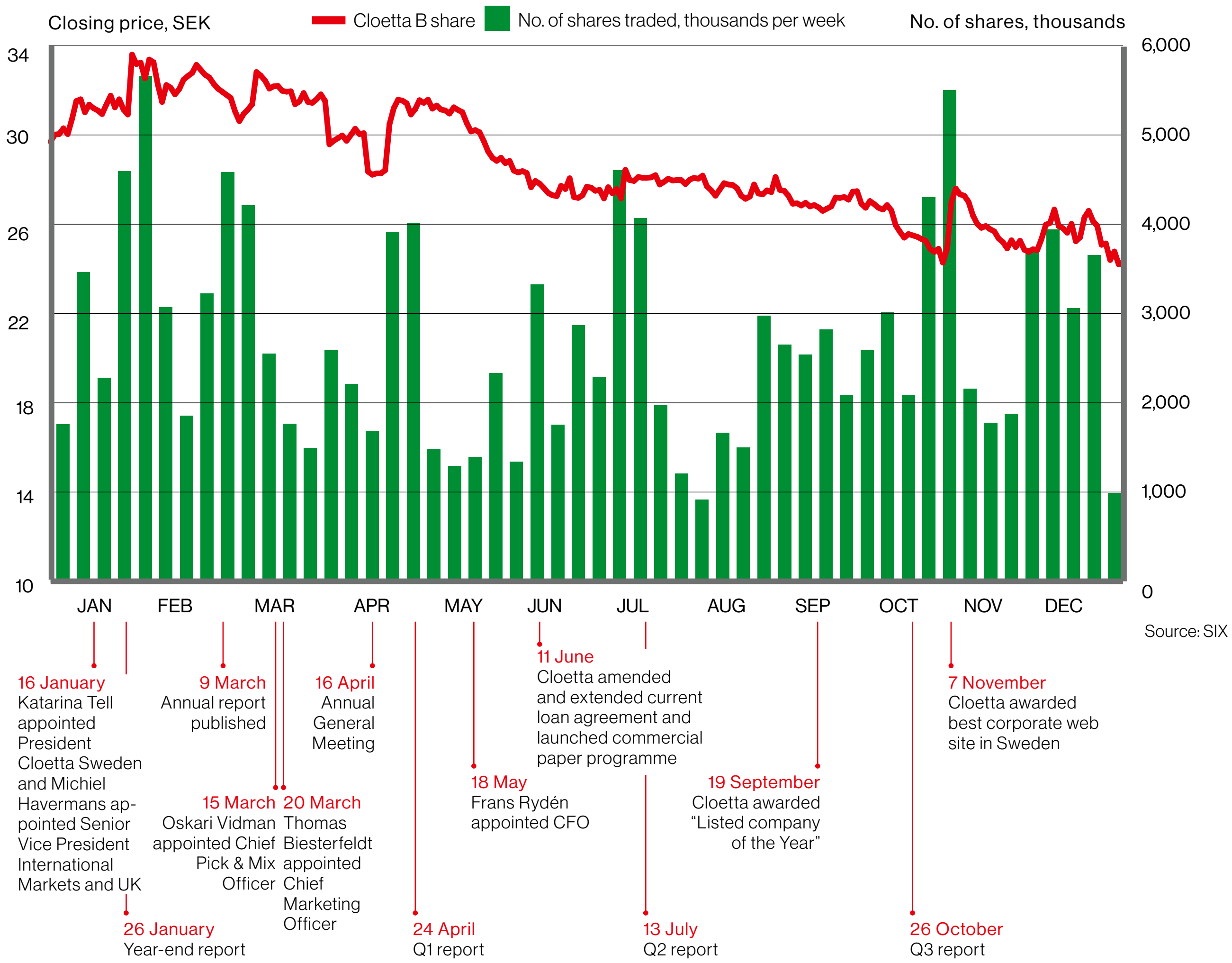
Will you use your strong cash flow for acquisitions, to reduce debt or to pay dividends to shareholders?
In 2018 we reached our target net debt/EBITDA ratio of 2.5x and we therefore deem that we have the capacity for both acquisitions and share dividends. The dividend payout ratio should be 40 to 60 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 primarily 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. Additionally, 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 count on 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 despite price increases.

Why do you use palm oil in your products?
As of 2018, we have eliminated palm oil from the majority of our products with the exception of certain chocolate and fudge products and certain products from the recently acquired Candyking. In those products where there is no satisfactory alternative to palm oil, mainly chocolate, we have started the transition towards RSPO-segregated palm oil.

Share price performance during 2018



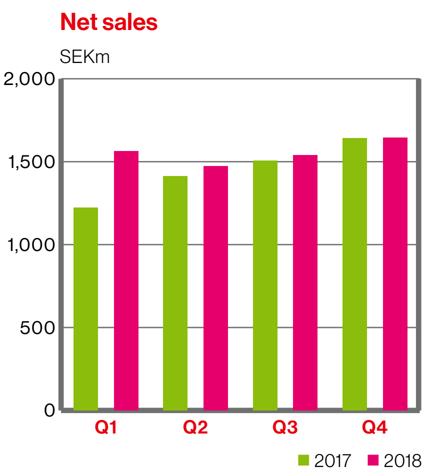
Source: SIX

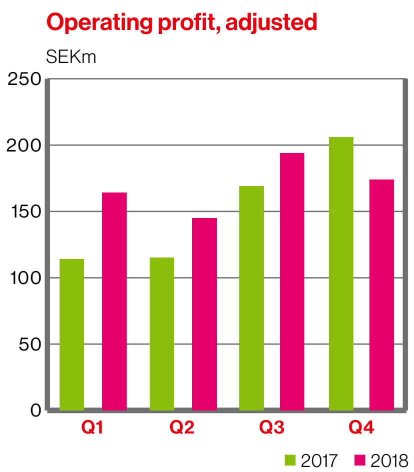
Financial performance

Net sales and profit

Condensed consolidated profit and loss account

SEKm	2018	2017
Net sales	6,218	5,784
Cost of goods sold	–3,934	–3,678
Gross profit	2,284	2,106
Other income	4	6
Selling expenses	–1,025	–972
General and administrative expenses	–603	–613
Operating profit	660	527
Net financial items	–98	–84
Profit before tax	562	443
Income tax	–79	–206
Profit from continuing operations	483	237
Loss from discontinued operation, net of tax	–	–334
Profit/loss for the year	483	–97





Net sales

Net sales for the year increased by SEK 434m to SEK 6,218m (5,784) compared to last year. Organic growth was –2.8 per cent, structural growth 6.5 per cent and exchange rate differences 3.8 per cent. Sales of branded packaged products grew by 1.5 per cent. Pick & mix sales declined by 12.8 per cent.

Sales of branded packaged goods account for 72 per cent of total sales, and pick & mix accounts for 28 per cent of total sales. Divided by category, candy accounts for 58 per cent (58) of sales and chocolate accounts for 18 per cent (17). Pastilles account for 12 per cent (12), chewing gum for 6 per cent (7), nuts for 4 per cent (4) and other products for 2 per cent (2).

Sales in seven main markets

Cloetta has seven main markets, of which Sweden is the largest with around 31 per cent (34) of the Group's sales. The second largest market is Finland with 21 per cent (21). The Netherlands accounts for 14 per cent (14), Denmark for 9 per cent (7), the UK for 7 per cent (5), Norway for 6 per cent (6) and Germany for 5 per cent (5).

Sales of branded packaged products grew in Sweden, Finland, Denmark, The Netherlands and Germany, but declined in Norway and the UK. Sales of pick & mix grew in Denmark and the UK, but declined in other markets.

Other markets

In addition to the main markets, Cloetta's products are sold through distributors in some 50 additional markets. Other markets accounted for 7 per cent (8) of the Group's sales. In 2018, sales declined somewhat.

Pricing strategies

In Cloetta's main markets the grocery trade is consolidated with few, very large retail chains. In total, Cloetta's ten largest customers accounted for around 46 per cent (42) of the Group's sales.

Concentration of the grocery retail trade exerts strong price pressure on all of its suppliers. To a large extent, Cloetta has handled this through efficiency improvements. To offset changes in raw material costs and exchange rates, Cloetta's strategy is to pass these on by adjusting its prices.

Gross profit

Gross profit amounted to SEK 2,284m (2,106), which is equal to a gross margin of 36.7 per cent (36.4). The improvement in gross profit is due to higher production volumes, growth in branded packaged products and a positive retranslation effect from foreign exchange rates, partly offset by higher production costs. In addition, the improvement in gross profit is also driven by structural growth from Candyking (January – April).

Operating profit

Operating profit amounted to SEK 660m (527). Operating profit, adjusted for items affecting comparability, amounted to SEK 677m (604).

Items affecting comparability

Operating profit for the year includes items affecting comparability of SEK –17m (–77) which mainly includes a negative impact related to the integration of Candyking and a positive impact of remeasurement of the contingent earn-out consideration for Candyking.

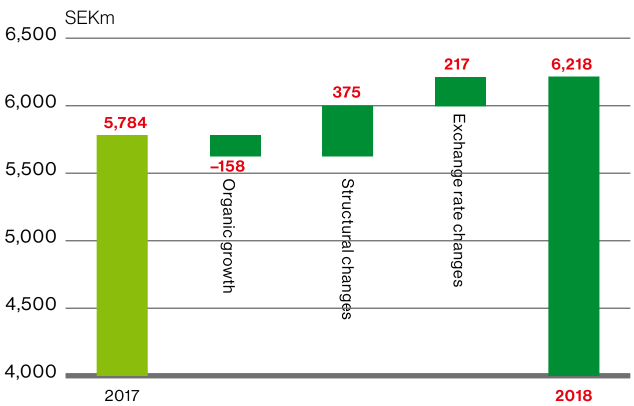
Employees

The average number of employees was 2,458 (2,467). The decrease is attributable to the impact of the Candyking integration.

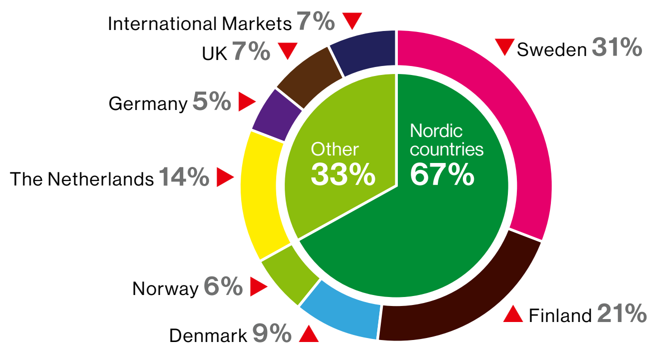
Research and development

Costs for research and development (R&D) were charged to operating profit in an amount of SEK 22m (37) and are primarily attributable to the development of new product and brand varieties as well as packaging solutions within the framework of the existing product range. No expenses for research and development have been capitalized.

Net sales – change

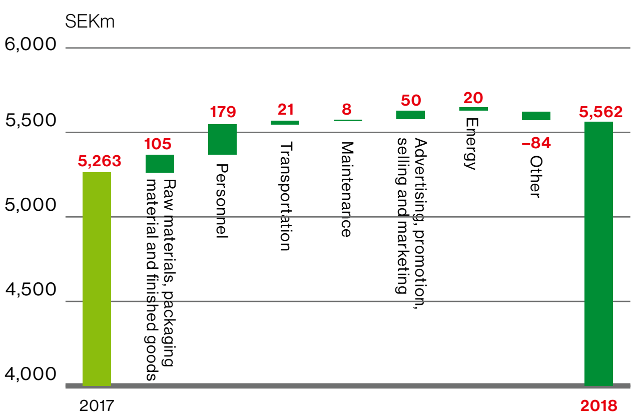


Cloetta's net sales by country

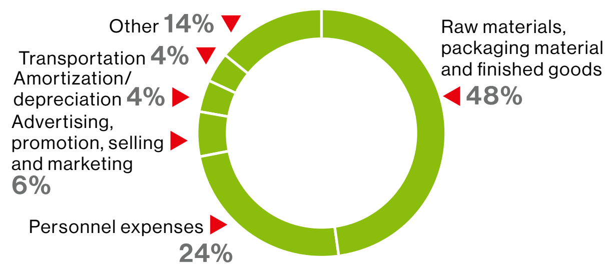


Total operating expenses – change

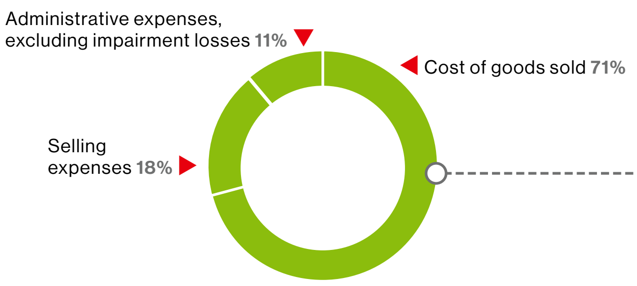
including cost of goods sold and excluding impairment losses



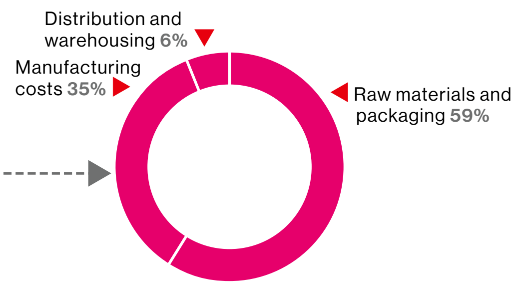
Operating expenses, excluding impairment losses



Total operating expenses, excluding impairment losses



Cost of goods sold



Quarterly data

	2018	Q4	Q3	Q2	Q1	2017	Q4	Q3	Q2	Q1
Net sales, SEKm	6,218	1,646	1,538	1,472	1,562	5,784	1,643	1,505	1,414	1,222
Operating profit, SEKm	660	159	180	155	166	527	171	169	90	97
Operating profit, adjusted, SEKm	677	174	194	145	164	604	206	169	115	114
Operating profit margin, %	10.6	9.7	11.7	10.5	10.6	9.1	10.4	11.2	6.4	7.9
Operating profit margin, adjusted, %	10.9	10.6	12.6	9.9	10.5	10.4	12.5	11.2	8.1	9.3

Seasonal variations

Cloetta's sales and operating profit are subject to some seasonal variations. Sales in the first and second quarters are affected by the Easter holiday, depending on the quarter which it occurs. In 2018, Easter was in the first quarter and in 2017 in the second quarter. In the fourth quarter, sales are usually higher than in the first three quarters of the year, which is mainly attributable to the sale of products in Sweden in connection with the holiday season.

Net financial items

Net financial items for the year amounted to SEK –98m (–84). Interest expenses related to external borrowings were SEK –31m (–33), exchange differences on borrowings and cash and cash equivalents were SEK –16m (–17) which mainly related to the development of the Swedish krona against the euro during the year. Other financial items amounted to SEK –51m (–34) of which SEK –7m relates to the full amortization of the capitalized transaction costs due to the amendment and extension of the facility agreement and the launch of commercial papers. Of the total net financial items, SEK –63m (–47) is non-cash in nature.

Net financial items

SEKm	2018	2017
Exchange differences in borrowings and cash and cash equivalents in foreign currencies	–16	–17
Other financial income	5	3
Unrealized losses on single currency interest rate swaps	–2	–
Unrealized gains on single currency interest rate swaps	–	4
Interest expenses on third-party borrowings and realized losses on single currency interest rate swaps	–31	–33
Interest expenses, third-party pensions	–10	–11
Interest expenses, contingent earn-out liabilities	–25	–15
Other financial expenses	–19	–15
Total	**–98**	**–84**

Profit for the year

Profit from continuing operations was SEK 483m (237). Income tax for the period was SEK –79m (–206). The effective tax rate from continuing operations for the year was 14.1 per cent (46.5). The reason for the higher effective tax rate in 2017 was the recognition of a valuation allowance on deferred tax assets in Slovakia. The effective tax rate for 2018 was low, mainly due to changes in enacted tax rates in several countries resulting in a remeasurement of deferred taxes based on lower enacted tax rates as from 2019. Profit for the year was SEK 483m (–97), which equates to basic earnings per share of SEK 1.69 (–0.34) and diluted earnings per share of SEK 1.68 (–0.34).

Key ratios

%	2018	2017
Gross margin	36.7	36.4
Operating profit margin	10.6	9.1
Operating profit margin, adjusted	10.9	10.4
Return on capital employed	9.5	8.2
Return on equity	12.2	6.2

For definitions, see page 156.

Sensitivity analysis

The effects on profit before tax of changes in selected key factors are shown below. These are estimated effects which could occur with an isolated change in each variable and should be interpreted with caution. The calculations are hypothetical and should neither be considered as an indicator of either of these factors being more or less likely to change, nor the size of the magnitude of the change. Real changes and their effects may be larger or smaller than presented below. In addition, it is likely that the real changes will affect other items, and that actions by Cloetta and others, as a result of the changes, may thereby affect other items.

Sensitivity analysis	Change	Profit before tax
Currency risk		
If the Swedish krona weakens/strengthens against the euro	–/+ 10%	–/+ SEK 50m
Interest rate risk		
Interest rate	+/- 1%	SEK –5m/ SEK 1m
Commodity price risk		
Average raw material prices	+/– 10%	–/+ SEK 150m

Cloetta's development is affected by multiple factors, which include those accounted for in the section Risks and risk management on pages 69–72.

Financial position

Condensed consolidated balance sheet

SEKm	31 Dec 2018	31 Dec 2017
ASSETS		
Non-current assets		
Intangible assets	5,626	5,490
Property, plant and equipment	1,354	1,338
Deferred tax asset	16	20
Other financial assets	11	11
Total non-current assets	**7,007**	**6,859**
Current assets		
Inventories	765	745
Trade and other receivables	838	881
Current income tax assets	6	8
Derivative financial instruments	1	0
Cash and cash equivalents	551	759
Total current assets	**2,161**	**2,393**
TOTAL ASSETS	**9,168**	**9,252**
EQUITY AND LIABILITIES		
Equity	**3,968**	**3,818**
Non-current liabilities		
Long-term borrowings	2,076	1,715
Deferred tax liability	754	703
Derivative financial instruments	3	2
Other non-current liabilities	–	138
Provisions for pensions and other long-term employee benefits	419	374
Provisions	9	5
Total non-current liabilities	**3,261**	**2,937**
Current liabilities		
Short-term borrowings	500	999
Derivative financial instruments	61	71
Trade and other payables	1,342	1,394
Provisions	23	3
Current income tax liabilities	13	30
Total current liabilities	**1,939**	**2,497**
TOTAL EQUITY AND LIABILITIES	**9,168**	**9,252**

Assets

Total assets at 31 December 2018 amounted to SEK 9,168m (9, 252), which is a decrease of SEK 84m compared to the previous year.

Non-current assets

Intangible assets totalled SEK 5,626m (5,490). The change consists mainly of exchange differences related to intangible assets recognized in foreign subsidiaries of SEK 152m (81). Investments for the year amounted to SEK 23m (21) and amortization to SEK –45m (–45).

Of total intangible assets, 97 per cent (97) or SEK 5,460m (5,306) pertained to goodwill and trademarks at 31 December 2018. Goodwill and trademarks are tested at least yearly for impairment. Cloetta recorded an impairment loss of SEK 0 m (167) during 2018. The impairment loss during 2017 refers to SEK 159m for goodwill relating to the Italian operations sold in 2017.

Property, plant and equipment amounted to SEK 1,354m (1,338). The year's investments amounted to SEK 161m (136). The year's investments in property, plant and equipment referred primarily to continuous efficiency-enhancing and replacement investments on the existing production lines. Depreciation amounted to SEK –184m (–201). Exchange differences related to tangible assets recognized in foreign subsidiaries amounting to SEK 38m (32) during the year.

Current assets

Current assets amounted to SEK 2,161m (2,393). This change is due to somewhat larger inventories of SEK 20m, lower trade receivables of SEK –43m, and reduced cash and cash equivalents of SEK –208m.

Equity and liabilities

Equity

Consolidated equity at 31 December 2018 amounted to SEK 3,968m (3,818), which equates to SEK 13.7 (13.2) per share. On the balance sheet date the share capital amounted to SEK 1,443m (1,443). The equity/assets ratio on the same date was 43.3 per cent (41.3).

Liabilities

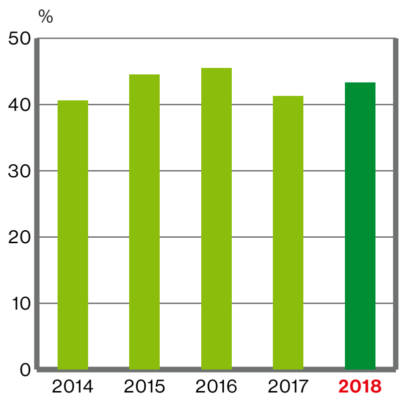
Non-current liabilities, consisting mainly of loans from credit institutions, amounted to SEK 3,261m (2,937), which is an increase of SEK 324m compared to the previous year. Long-term borrowings totalled SEK 2,076m (1,715) and consisted of SEK 2,078m (1,719) in gross loans from credit institutions and SEK –2m (–4) in capitalized transaction costs. The deferred tax liability increased by SEK 51m to SEK 754m. Pension provisions increased by SEK 45m to SEK 419m. Other non-current liabilities amounted to SEK 0m (138). In the previous year, other non-current liabilities consisted of contingent considerations related to the acquisition of Candyking.

Total short-term borrowings amounted to SEK 500m (999) and consisted of commercial papers as per 31 December 2018 and of gross loans from credit institutions of SEK 1,000m, capitalized transaction costs of SEK –3m and accrued interest on borrowings from credit institutions of SEK 2m as per 31 December 2017.

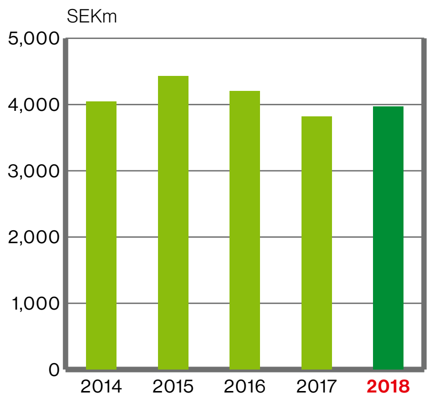
Borrowings

In July 2016 Cloetta entered into a term and revolving facilities agreement with a group of four banks, in total amounting to the equivalent of SEK 3,700m. The facilities have been used to refinance existing bank loans and to redeem the senior secured notes. In June 2018, Cloetta entered into an amendment and restatement of the term and revolving facilities agreement, in combination with the launch of a commercial paper programme. The amendments to the term and revolving facilities agreement comprised a EUR 50m

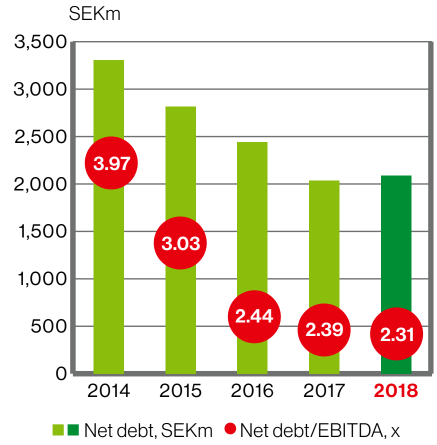
Equity/assets ratio
at 31 December



Equity
at 31 December



Net debt/EBITDA



reduction (equivalent to SEK 519m) in the multi-currency loan and a SEK 200m reduction in the single-currency term loan.

The facilities agreement bears variable interest at a rate based on STIBOR, plus an applicable fixed margin for loans in SEK, and variable interest at a rate based on EURIBOR plus an applicable fixed margin for loans in EUR. The applicable margin at 31 December 2018 was 0.9 per cent (1.0) for the outstanding loans in SEK and 0.8 per cent (1.0) for the outstanding loans in EUR. Interest on the commercial paper amounted to 0.22 per cent. The supplementary charge on the bank overdraft facility was 1.0 per cent. Further, an additional 35 per cent (35) of the fixed applicable margin on the unutilized amounts of the credit revolving loans is paid as a commitment fee.

The combined effective interest rate for loans from credit institutions and the commercial paper was 0.86 per cent (0.94) for the year.

Change in capital employed

Capital employed during the year increased from SEK 6,979m to SEK 7,027m, i.e. SEK 48m.

Net debt

Interest-bearing liabilities exceeded cash and cash equivalents and other interest-bearing assets by SEK 2,091m (2,035). The net debt/equity ratio on the balance sheet date was 52.7 per cent (53.3).

Net debt

SEKm	31 Dec 2018	31 Dec 2017
Gross non-current loans from credit institutions	2,078	1,719
Gross current loans from credit institutions	–	1,000
Commercial papers	500	–
Derivative financial instruments (current and non-current)	63	73
Interest payable	1	2
Gross debt	**2,642**	**2,794**
Cash and cash equivalents	–551	–759
Net debt	**2,091**	**2,035**

Comments on the cash flow statement

Condensed consolidated cash flow statement

SEKm	2018	2017
Cash flow from operating activities before changes in working capital	792	532
Cash flow from changes in working capital	–164	180
Cash flow from operating activities	628	712
Cash flow from acquisition of subsidiaries	–	–249
Cash flow from divestment of subsidiaries	–	378
Cash flow from investments in property, plant and equipment and intangible assets	–184	–157
Cash flow from other investing activities	0	6
Cash flow from investing activities	–184	–22
Cash flow from operating and investing activities	444	690
Cash flow from financing activities	–665	–238
Cash flow for the period	–221	452
Cash and cash equivalents at beginning of period	759	298
Cash flow for the period	–221	452
Foreign exchange differences	13	9
Cash and cash equivalents at end of period	551	759

Operating activities
Cash flow from operating activities before changes in working capital was SEK 792m (532). The increase compared to the prior year is mainly the result of the higher operating result and lower utilizations of provisions. The cash flow from changes in working capital was SEK –164m (180).

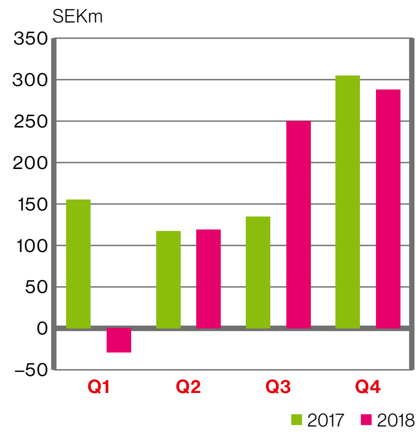
Working capital
Cash flow from changes in working capital was SEK –164m (180). The cash flow from changes in working capital was negatively impacted by the decrease in payables amounting to SEK –213m (140) and an increase in inventories of SEK –1m (–40) partly offset by the decrease in receivables of SEK 50m (80).

Investing activities
Cash flow from investing activities was SEK –184m (–22), of which SEK –184m (–157) is attributable to investments in property, plant and equipment and intangible assets. The acquisition of Candyking Holding AB and its subsidiaries was included at a net amount of SEK –249m and SEK 378m was related to the divestment of Cloetta Italia s.r.l. in 2017. Other cash flows from investing activities amounted to SEK 0m (6).

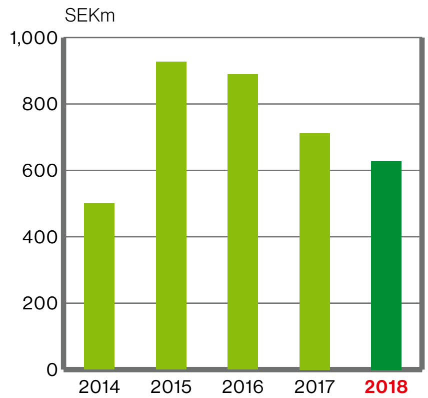
Financing activities
Cash flow from financing activities was SEK –665m (–238). Cash flow from financing activities was related to the dividend distribution of SEK –433m (–216), the repayments related to the amendment and restatement of the facilities agreement of SEK –719m (0) which were partly offset by the proceeds coming from the launch and roll-forward of commercial papers of SEK 500m (0). Other cash flow from financing activities amounted to SEK –13m (–22).

Cash and cash equivalents
The net cash flow was SEK –221m (452), which together with exchange differences decreased cash and cash equivalents by SEK 208m to SEK 551m, compared to SEK 759m in the previous year. In addition, Cloetta had unutilized overdraft facilities totaling SEK 1,227m (1,179). Cloetta's working capital requirement is exposed to seasonal variations, partly resulting from a build-up of inventories in preparation for increased sales ahead of the Christmas holiday. This means that the working capital requirement is normally highest during the autumn and lowest at year-end.

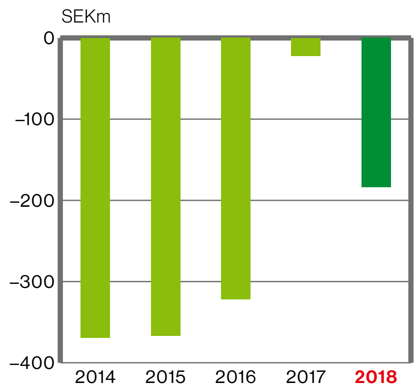
Cash flow from operating activities



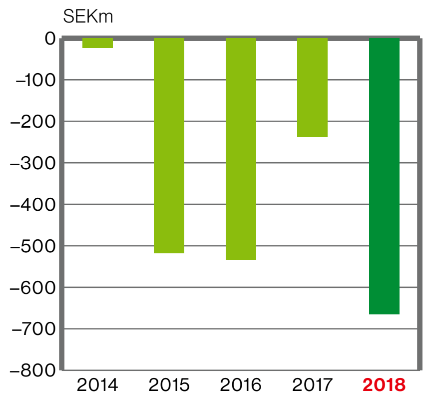
Cash flow from operating activities



Cash flow from investing activities



Cash flow from financing activities



Future outlook

During 2018, profits and margins once again improved after 2017, which had been a year of major change for Cloetta including the acquisition of Candyking and divestment of Cloetta Italy. Improved profitability was driven by increased sales of branded packaged products, higher production volumes and cost efficiencies. Despite the increased sales of branded packaged products, there was a decline in organic growth due to decreased pick & mix sales.

Goal attainment

The Group's target is an EBIT margin, adjusted of at least 14 per cent. In 2018, the EBIT margin, adjusted improved to 10.9 per cent (10.4). The improvement is due to growth in branded packaged products, good cost control and higher production volumes.

In terms of growth, the target is to increase sales organically at least in line with market growth. Historically, annual growth in the markets has been one to two per cent. In 2018, Cloetta's organic growth was –2.8 per cent. Sales of branded packaged products grew by 1.5 per cent. Pick & mix sales declined by 12.8 per cent.

Another of the Group's long-term targets is to keep the net debt/EBITDA ratio at around 2.5x. At 31 December 2018 the net debt/EBITDA ratio was 2.31x (2.39).

Profitable growth

The strategy and financial targets for Cloetta stand firm. The focus in 2019 will be on profitable organic growth, investments and efficiencies in the production network and cost savings throughout the organization.

The Board proposes an ordinary dividend of SEK 1.00 per share (0.75), corresponding to around 60 per cent of profit for the year. In 2017, the ordinary dividend was 54 per cent of profit for the year excluding the impact of the impairment loss discontinued operation including income tax effects and other items affecting comparability. The ambition is to continue using future cash flows for payment of dividends while at the same time providing financial flexibility for complementary acquisitions. The long-term target of a payout ratio of 40 to 60 per cent of profit after tax remains unchanged.

Financial outlook

As in earlier years, Cloetta is not issuing any financial forecast for 2019.

Environmental impact and environmental management

Cloetta works to reduce its environmental impact through systematic environmental management. Cloetta's greatest direct environmental impact comes from water and energy consumption, wastewater emissions, waste and transportation. Over the entire life cycle of the products, the most significant environmental impact arises during raw material and packaging production. Cloetta complies with the statutory environmental requirements and the Group is not involved in any environmental disputes. At 31 December 2018, Cloetta conducted operations at eight factories in five countries. The two Swedish factories in Ljungsbro and Helsingborg are subject to reporting requirements according to the Swedish Environmental Code. These permits apply until further notice. There are no injunctions in respect of the Swedish Environmental Code.

The manufacturing units outside Sweden adapt their operations, apply for the necessary permits and report to the authorities in accordance with local legislation.

All of Cloetta's factories conduct systematic environmental management that includes action plans and monitoring in a number of areas. Environmental management is an integral part of Cloetta's operations and environmental aspects are taken into account when making decisions. Frequent evaluation and follow-up of measures increase awareness about the effects of operations on the environment.

The Group's environmental policy and environmental management are described in more detail on pages 44–45 and 148–152.

Sustainability Report

Pursuant to the Swedish Annual Accounts Act, chapter 6, §11, Cloetta AB (publ) has chosen to prepare the statutory sustainability report as a separate report from the annual report with contents specified on the inside front cover page.

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 may 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 risk management within Cloetta or among its suppliers or customers.

Organization for risk management

Cloetta's Board of Directors has a responsibility to the shareholders to handle 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 continually reports to the Board of Directors on risk areas such as the Group's financial status and compliance with the Group's finance policy. Operational risk management that takes place at all levels of the organization is regulated by Cloetta's Code of Conduct and a number of other 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, is of fundamental importance for operations and is 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 disturb operations must be monitored and minimized. This takes place through business intelligence and dialogue with various stakeholders, amongst other things.

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. Where 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 impossible to eliminate or transfer. These are often an active part of business operations.

Risk overview

A number of risk areas have been identified through Cloetta's risk management process.

A selection of these, and a brief description of how each risk area is handled, is presented on the following pages. The Group's financial risk management is also described in more detail in Note 29, on pages 122–124.

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

Management of risks in the working environment is described on page 37–38.

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	Financial crises can have a negative impact on consumption patterns. This can affect operations if Cloetta's customers suffer from lower profitability, which leads to price pressure.	Historically, the confectionery market has been comparatively mildly affected by market downturns among consumers as well as trade conflicts. This applies broadly across Cloetta's products, which most people can afford to buy. To support the customers' business and promote sound pricing development, Cloetta cooperates with its customers on in-store sales activities and other measures.
Competition	The confectionery market is highly competitive and includes several major players. Furthermore, grocery retailers offer private labels that compete with certain Cloetta products. This competition can limit Cloetta's ability to increase prices to compensate for higher raw material costs. Cloetta may also need to increase its investments in marketing and product development in order to maintain or expand its market shares. Cloetta is a significant pick & mix player, which by its nature is a market that 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.	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. It is important that Cloetta's products are perceived as providing the consumers with greater added value than the cheaper alternatives. Cloetta strives for effective marketing and to offer the best pick & mix concepts in terms of the customer and consumer experience. Furthermore, an integrated production chain enables Cloetta to be cost-effective in pick & mix.
Retail trade development	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. E-commerce is challenging the current retail structure and over time, will most likely change the retail landscape substantially. The introduction of self-scanning services in stores might impact sales of Cloetta's products since they are often placed next to regular store checkouts.	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 2018 Cloetta's ten largest customers accounted for around 46 (42) per cent of the Group's total sales. Cloetta is working actively with retailers with E-commerce helping them to learn how to sell impulse confectionery products online. By supporting retailers in learning how to sell products in self-scanning areas, Cloetta is able to keep up with sales in the checkout area.
Consumer trends **Health** **Social responsibility**	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. 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 indicating that Cloetta, or Cloetta's suppliers, do not take adequate environmental or social responsibility could damage Cloetta's brand.	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). Cloetta strives to include the Code of Conduct in all agreements as far as possible. 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.
Laws and taxes	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 bring about 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 change, possibly with retroactive effect.	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. 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 available.
Raw material prices	Price development for raw materials is steered mainly by supply and demand, and is beyond Cloetta's control. The prices of sugar and many of the other raw materials purchased by Cloetta can also be affected by agro-political decisions in the EU regarding quotas, support, subsidies and trade barriers, and also by rising living standards and the activity of financial investors on the commodities exchanges.	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 ahead. If the average raw material prices had been 10 per cent higher/lower at 31 December 2018, profit before tax for the year would have been around SEK 150m lower/higher. Cloetta's policy is to compensate for higher raw material costs by raising prices to its customers.

Operational risks

Operational risks can often be influenced, which is why they are normally regulated by policies, guidelines and instructions. Operational risks are part of Cloetta's day-to-day work and are managed by the operating units. Operational risks include those 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	Demand for Cloetta's well-known brands is driven by consumers' association of these brands with positive values. If Cloetta or any of the Group's partners takes any measures that conflict with the values represented by the brands, the Cloetta brands could be damaged.	Cloetta has a proactive approach by implementing a Code of Conduct, ethical guidelines and routines.
Sustainability risks in the supply chain	Cloetta uses several raw materials that originate from countries with an increased risk of social, ethical and human rights violations. Further, extreme weather conditions caused by climate change could negatively affect supply and political instability can have a negative impact on costs.	As far as possible, Cloetta endeavours to include supplier codes of conduct in all agreements. Cloetta has evaluated all raw material groups and prioritized them based on climate, social and human rights related risks and Cloetta's ability to address these risks. Cloetta purchases UTZ-certified cocoa for its entire range of chocolate products. Most 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). During the year, Cloetta started to buy segregated palm oil in accordance with RSPO principles for the entire range of chocolate and fudge products. Certification of Cloetta's factories according to this standard will take place in 2019. During 2018 Cloetta changed to sustainable and traceable shea butter. Cloetta is a member of Bonsucro, which is a multi-stakeholder initiative that works to achieve a sustainable sugarcane industry.
Product safety risks	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 the handling of food products can lead to lower confidence in Cloetta and the Group's brands.	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.
Insurable risks	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 incur substantial costs, resulting from both direct costs and damage to Cloetta's reputation.	Cloetta has an insurance programme for property and liability risks, and works systematically to reduce the risk of incidents and to have robust contingency plans in place to limit the effects of any incidents.
Relocation of production lines	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.	Cloetta has an experienced and efficient organization with well-established routines for handling relocation of production lines.
Access to the right expertise	To a large extent, Cloetta's future is dependent on its capacity to recruit, retain and develop competent senior executives and other key staff. Cloetta occasionally reorganizes and streamlines its operations, which in the short term may have an impact on its performance.	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. Cloetta has a strong and experienced organization that is well equipped to handle organizational changes.
Environmental risks	Environmental risks arise mainly through water and energy consumption, wastewater emissions, raw material and packaging waste, production waste and transportation.	Cloetta sets environmental requirements for its production, regularly monitors the company's impact on the environment and carries out systematic measures to reduce its environmental impact.

Financial risks

The primary financial risks are composed of foreign exchange, financing, interest rate and credit risks. Financial risks are managed by the Group's central finance function according to the guidelines in the financing policy established by Cloetta's Board of Directors. Financial risk management primarily aims to identify the Group's risk exposure and, with a certain degree of foresight, to attain predictability in the financial outcome and minimize possible unfavourable effects on the Group's financial results in close cooperation with the Group's operating units. Consolidating and controlling these risks centrally enables the Group to minimize the level of risk while at the same time reduce the cost of measures such as currency hedging. Financial risk management is described in detail in Note 29, on pages 122–124.

	Risks Probability	Management Impact
Foreign exchange risks	Exchange rate fluctuations affect Cloetta's financial results partly in connection with buying and selling in different currencies (transaction exposure), and partly through translation of the profit and loss accounts and balance sheets of foreign subsidiaries to Swedish kronor (translation exposure). Cloetta's presentation currency is the Swedish krona, while many subsidiaries have the euro as their functional currency, thus translation exposure is significant. Aside from SEK and EUR, Cloetta also has exposure to DKK, NOK, GBP and USD.	The objective of Cloetta's foreign exchange management is to minimize the effects of exchange rate fluctuations by utilizing incoming currency for payments in the same currency. If the Swedish krona had weakened/strengthened by 10 per cent against the euro, the year's profit before tax would have been around SEK 50m higher/lower. The Group hedges parts of its translation exposure through borrowing in EUR. In addition, the Group has forward foreign currency contracts in USD.
Refinancing risks	Refinancing risk refers to the risk that it will not be possible to obtain financing or that financing can only be obtained at a significantly higher cost.	In 2018 Cloetta met its financial target related to a net debt/EBITDA ratio of 2.5x. In 2018 the Group also amended and extended its current term and revolving facilities agreement with four banks. Additionally, a commercial paper programme was launched. This means that Cloetta now has a favourable situation for accessing financing for potential acquisitions, for example.
Interest rate risks	Cloetta is exposed to interest rate risks in interest-bearing current and non-current liabilities. Although some of the Group's bank loans are hedged via interest rate swaps, there is still exposure to interest rate risk for the parts that are not hedged or when hedges expire.	The Group continuously analyses its exposure to interest rate risk and performs regular simulations of interest rate movements. Interest rate risk is reduced by hedging a share of future interest payments through interest rate swaps. In 2018, if the interest rate had been 1 percentage point higher with all other variables held constant, profit before tax for the year would have been approximately SEK 5m lower. If the interest rate had been 1 percentage point lower with all other variables held constant, profit before tax for the year would have been approximately SEK 1m higher.
Credit risks	Credit risk refers to the risk that a counterparty to Cloetta will be unable to meet its obligations and thereby cause a loss. Financial transactions also give rise to credit risks in relation to financial and commercial counterparties.	Credit risk in trade receivables is relatively limited in that the Group's customer base is diverse and consists mainly of large customers, and that distribution takes place primarily through the major grocery retail chains. The customers are subject to credit assessments in accordance with the credit policy, and the receivables balance is monitored continuously. The Group's counterparties in financial transactions are banks and credit institutions with good credit ratings (between AA– and A-2).
Valuation risks	The Group has a number of assets and liabilities that have been valued with the help of various experts. These include goodwill and trademarks on the asset side and the pension liability and tax liabilities on the liability side.	Assets and liabilities are tested for impairment yearly or when there is an indication that such testing may be necessary. Read more in Note 12, Intangible assets on pages 107–108 and Note 33, Critical accounting estimates and judgements on pages 127–128.

Letter from the Chairman

In 2018 the integration of Candyking and the related synergies have been in focus while branded packaged products returned to growth, contributing to increased profitability. Within the important pick & mix area more needs to be done to improve profitability.

Corporate governance creates systematic order

The Board's most important responsibility is to ensure that the company is run as efficiently as possible on behalf of the shareholders, and that the company complies with any laws and regulations required by law-makers, authorities and stock exchanges. Corporate governance aims to create systematic order for both the Board and Group Management Team. A distinctive structure and clear rules and processes ensure that management and employee focus remains on developing the business and strengthening the company.

The work of the Board

During the year, the Board has focused on how the integration of Candyking has progressed, as well as on how the focus areas in Cloetta's strategy have developed and have been implemented.

Following the acquisition of Candyking in 2017, pick & mix now constitutes around a quarter of Cloetta's sales, but profitability has not yet reached the desired level. Consequently, in addition to following up the work related to integrating Candyking and the synergies this creates, the Board has focused on improvements that the company is working on within pick & mix.

Furthermore, the Board has worked together with the President and CEO and the Group Management Team to follow up and develop the focus areas that are aimed at improving growth and profitability.

More and new shareholders

During 2018 Cloetta has gained 4,000 new shareholders and by the end of the year we had almost 24,000 owners of company shares. This means that the number of shareholders increased for the seventh year in a row. It is encouraging that so many people want to invest in Cloetta shares. The Board intends to deliver on this entrusted confidence so that all shareholders may continue to have confidence in Cloetta.

Cloetta stands strong

Following the extensive structural changes resulting from the acquisition of Candyking and the divestment of Cloetta Italy in 2017, Cloetta has been able to work more with developing and building a strong foundation for the future during the course of 2018. Clarified focus areas and new ways of working have contributed to the growth of the company in packaged branded products and a simultaneous increase in profitability.

For the third year running we have met our net debt/EBITDA target. Our stable cash flow and improved profitability mean that we can propose an increase in dividends to SEK 1 per share. This shows that Cloetta stands strong. Cloetta's ambition is to continue paying dividends that correspond to 40–60 per cent of profits while simultaneously allowing us to make acquisitions.

I would like to greatly thank the President and CEO, the Group Management Team and all employees for their great work during the year to develop and improve Cloetta. I would also like to thank my colleagues on the Board of Directors for their superb work during the year.

Stockholm, March 2019

Lilian Fossum Biner
Chairman of the Board

Lilian Fossum Biner
Chairman of the Board

"During the year, the Board has focused on how the integration of Candyking has progressed."

Corporate governance report

The purpose of corporate governance is to ensure that the company is managed as effectively as possible in the interests of its shareholders, and that Cloetta complies with all applicable rules. Corporate governance is also aimed at creating order and establishing systems for both the Board and the Group Management Team. Well-defined structures, rules and processes allow the Board to ensure that the Group Management Team and employees focus on developing the business thereby creating shareholder value.

Cloetta AB (publ) is a Swedish public limited company, with corporate identification number 556308-8144. The company's 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 2018 Cloetta complied with the Code.

1 Share and shareholders

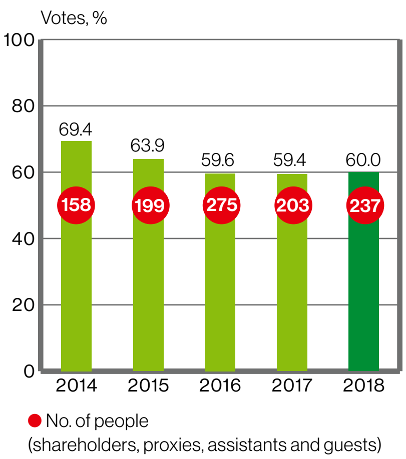
The class B shares of Cloetta AB (publ) have been listed on Nasdaq Stockholm since 16 February 2009 and have been traded on the Mid Cap list since 2 July 2012. However, Cloetta was originally introduced on the stock exchange in 1994 and has been listed in a number of different owner constellations since then. The number of shares at 31 December 2018 was 288,619,299 of which 282,884,050 were class B shares and 5,735,249 were class A shares. 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 2018 was 23,956 (compared to 20,125 at 31 December 2017). On 31 December 2018 AB Malfors Promotor was Cloetta's largest shareholder, with a holding corresponding to 37.8 per cent of the votes and 26.7 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 56–61.

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 by the Swedish Companies Act and the Articles of Association, amongst others.

Cloetta's financial year runs from 1 January to 31 December. The Annual General Meeting (AGM) must be held within a period of six months after the end of the financial year. The date and location of the AGM must be communicated on the company's website no later than the date of publication of the third quarter report. Notice of the AGM must 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 must 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, at a general meeting of shareholders all shareholders have the right 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.

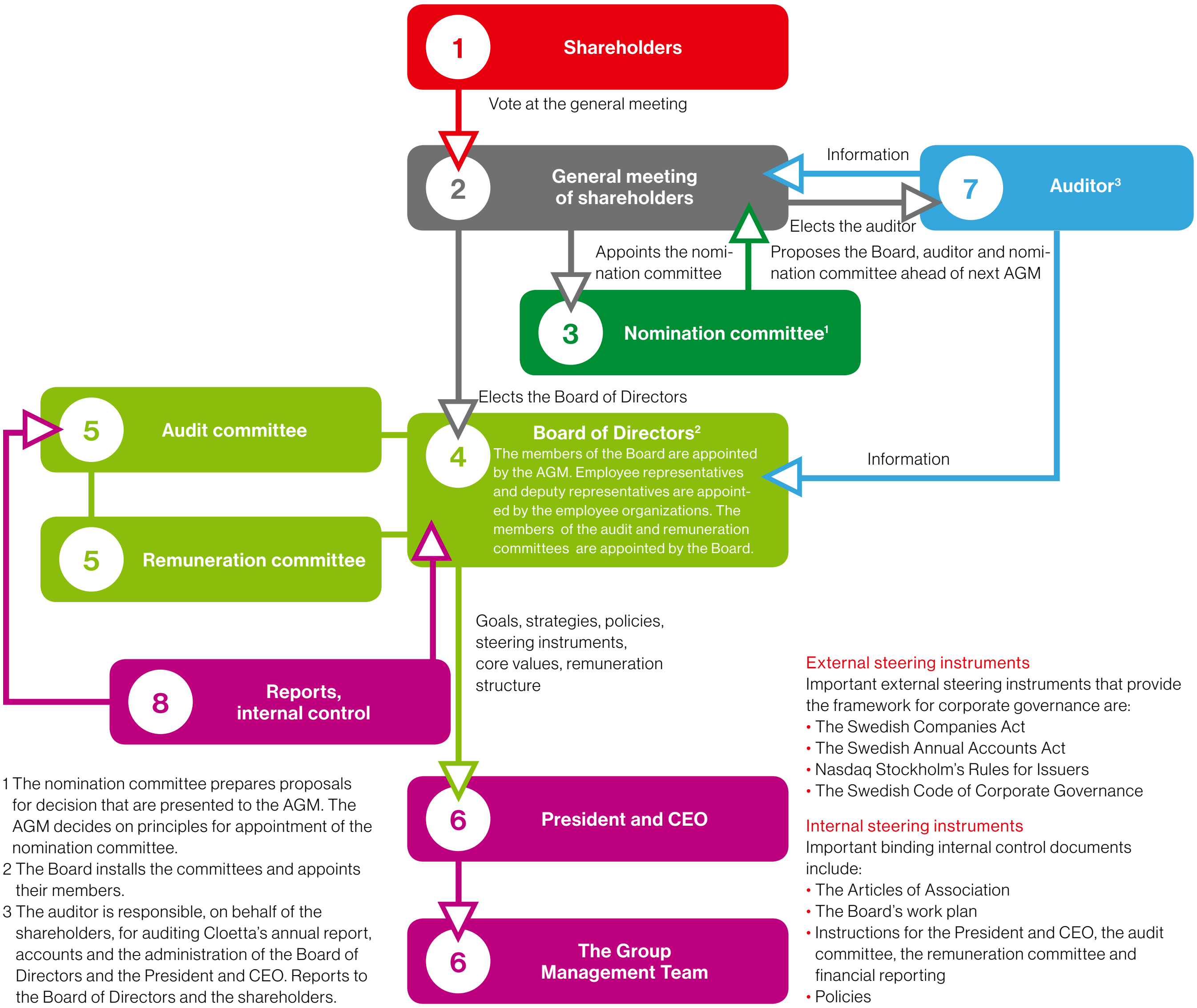
Attendance at AGMs/EGMs



2018 AGM

The most recent AGM was held on 16 April 2018 in Stockholm. The AGM was attended by 237 individuals representing 60 per cent of the votes in the company. The President

Governance structure



1 The nomination committee prepares proposals for decision that are presented to the AGM. The AGM decides on principles for appointment of the nomination committee.
2 The Board installs the committees and appoints their members.
3 The auditor is responsible, on behalf of the shareholders, for auditing Cloetta's annual report, accounts and the administration of the Board of Directors and the President and CEO. Reports to the Board of Directors and the shareholders.

External steering instruments

Important external steering instruments that provide the framework for corporate governance are:
- The Swedish Companies Act
- The Swedish Annual Accounts Act
- Nasdaq Stockholm's Rules for Issuers
- The Swedish Code of Corporate Governance

Internal steering instruments

Important binding internal control documents include:
- The Articles of Association
- The Board's work plan
- Instructions for the President and CEO, the audit committee, the remuneration committee and financial reporting
- Policies

and CEO, a majority of the Board members, the company's independent auditor, the chairman of the nomination committee, and the Group's 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 and an extra dividend of SEK 0.75 per share, in total SEK 1.50 per share;
- Discharge from liability for the Board of Directors and President and 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, Mikael Svenfelt, Lottie Knutson, Mikael Aru and Mikael Norman. Alan McLean Raleigh was elected as a new Board member. The AGM elected Lilian Fossum Biner as the Chairman of the Board. Former Board member Adriaan Nühn resigned in conjunction 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, SEK 150,000 for the Chairman of the audit committee, SEK 100,000 for each member of the remuneration committee and SEK 150,000 for the Chairman of the remuneration committee;
- Fees for 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 of 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.

2019 AGM

The 2019 AGM will be held on Monday, 4 April 2019, 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 February 2019 and contained the Board's proposals. For more information, see section on "Annual General Meeting" on page 161 and 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 for 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 of 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 Team, 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 Team 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.

Nomination committee ahead of the 2019 AGM

Member	Appointed by	Independent[1]	Share of votes at 31 Dec. 2018, %
Olof Svenfelt, Chairman	AB Malfors Promotor	No	37.8%
Isabelle De Gavoty	Axa IM	Yes	1.5%
Johan Törnqvist	Ulla Håkanson	Yes	1.5%
Lilian Fossum Biner	The Board of Cloetta AB	Yes	0%

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

Meetings of the nomination committee

During 2018, the nomination committee held two meetings ahead of the 2019 AGM.

No fees have been paid for the work of 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 CEO and ensure that the company complies with all 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 and 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 16 April 2018 resolved that the Board shall have seven members appointed by the AGM. On 16 April 2018, the AGM elected the following Board members to serve for the period until the end of the next AGM, to be held on 4 April 2019: Lilian Fossum Biner (Chairman), Lottie Knutson, Mikael Norman, Mikael Aru, Mikael Svenfelt, Camilla Svenfelt and Alan McLean Raleigh. 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 boards and management. The average age of the Board members elected by the AGM was 55 at year-end 2018, 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 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 and 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 Team 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 Team and five are independent in relation to the company's major shareholders.

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 and 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 and 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 whistleblowing, trade controls, anti-bribery and anti-corruption.

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 and CEO
- 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 anti-corruption policy
- Trade control policy

Evaluation of Board performance

The performance of the Board is evaluated yearly in order to continuously improve 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, the measures that 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 2018, one of the board members has conducted interviews on behalf of the Chairman with 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 2018 the Board held nine scheduled meetings, of which one was a statutory meeting. The President and CEO, the CFO and the Senior Vice President Corporate Communications & IR, who is also the Board Secretary, take part in the Board's meetings. Other members of the Group Management Team participate as needed as rapporteurs for special items of business.

5 Board committees

Audit committee

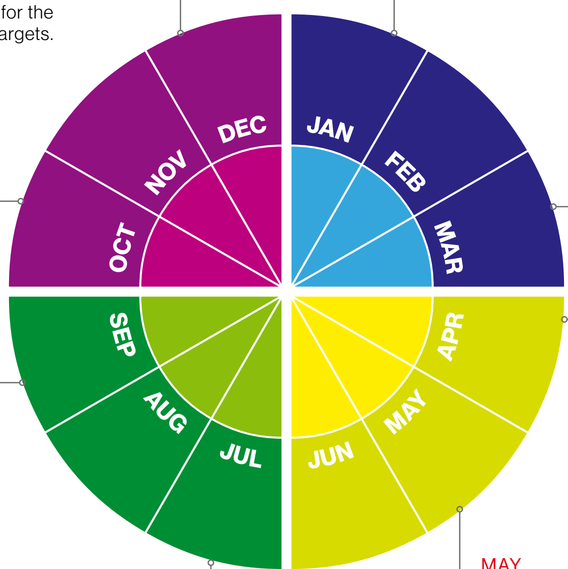
In 2018 the Board audit committee consisted of members Mikael Norman (chairman), Camilla Svenfelt and Mikael Aru. The majority of the committee's members shall be independent in relation to the company and its Group Management Team, and at least one of these shall also be independent in relation to the 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 Group Management Team, 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

Organization for sustainability work

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

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

Board meetings in 2018



JANUARY
Scheduled meeting; Year-end report, matters ahead of AGM, report from the auditor, incentive scheme, Sweden review, HR organization and strategy.

MARCH
Scheduled meeting; Annual Report, notice to attend the AGM, refinancing.

APRIL
Scheduled meeting; Statutory meeting: decision on authorized signatories, adoption of instructions and policies, election of the remuneration committee and audit committee, appointment of a Board representative to the nomination committee, decision on dates and locations for the upcoming scheduled Board meetings, the AGM and reporting dates. IT-security strategy.
Scheduled meeting; Interim report for the period January to March and Supply Chain review.

MAY
Scheduled meeting; Business strategy, pick & mix review and site visit to the Jelly Bean Factory in Dublin, Ireland.

JULY
Scheduled meeting; Interim report for the period January to June.

SEPTEMBER
Scheduled meeting; Business strategy, Brand and marketing review and International Market review.

OCTOBER
Scheduled meeting; Interim report for the period January to September and Sweden review.

DECEMBER
Scheduled meeting; Budget/business plans for the coming year and bonus targets.

meet regularly with the company's auditors to remain 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 Team. All meetings of the audit committee are documented. The audit committee shall inform the Board about the matters dealt with by the committee. In 2018 the committee held four 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 the 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 Group Management Team. Of the remuneration committee's members, all are independent in relation to the company and its Group Management Team. 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 decisions on remuneration principles, remuneration levels and other terms of employment for the Group Management Team, to monitor and evaluate programmes for variable remuneration completed during the year and ongoing programmes for the Group Management Team as adopted by the AGM and to monitor the current remuneration structures and levels in the Group. The remuneration committee shall meet at least twice every financial year. In 2018 the committee held six meetings.

Board Chairman

The Board Chairman shall be elected by the general meeting of shareholders, and on 16 April 2018 the AGM elected Lilian Fossum Biner as the 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

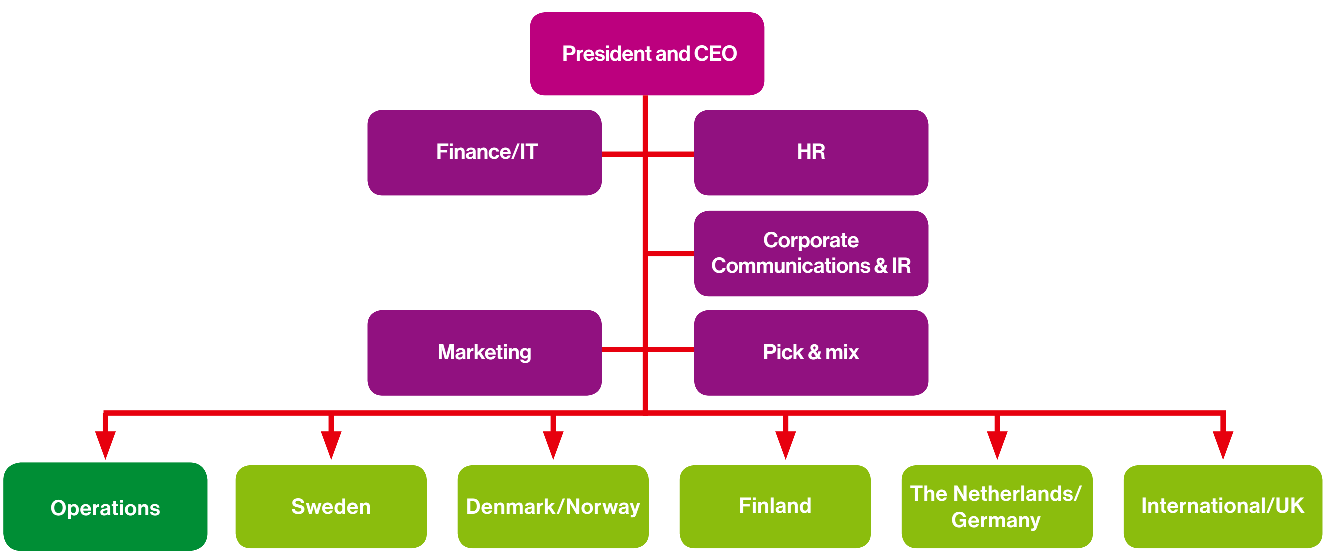
The President and CEO is appointed by the Board and supervises operations according to the instructions adopted by the Board, and is responsible for the day-to-day management of the company and the Group in accordance with the Swedish Companies Act. In addition, the President and CEO, together with the Chairman, decides which matters are to be dealt with at Board meetings. The Board regularly evaluates the President and CEO's duties and performance. The President and 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 and 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 and CEO of Cloetta since 15 February 2017, and in addition to the President and CEO, the Group Management Team consisted of the five 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 Pick & mix. For information about the President and CEO and other members of the Group Management Team, see pages 86–87.

The Group Management Team conducts management meetings at regular intervals and held nine meetings in 2018. The meetings are focused on the Group's strategic and operational 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 and CEO. The auditor's reporting to the shareholders takes place at the AGM through the presentation of the auditor's report. The AGM on 16 April 2018 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 the Auditor in Charge.

Organization



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 and 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 and 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 statement, 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 deemed 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

Web ranking by Comprend

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

Listed Company of the Year

In the autumn of 2018, for the fourth time, Cloetta was the overall winner in the Listed Company of the Year. The annual Listed Company of the Year competition, which is arranged by Kanton in association with the head sponsor Aktiespararna and others, is aimed at promoting exemplary financial communication among listed companies and consists of three sub-competitions in which the annual reports, interim reports and IR websites of all companies with a primary listing on Nasdaq Stockholm are reviewed.

Additional information

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

Press releases 2018

January
- Katarina Tell appointed President Cloetta Sweden
- Michiel Havermans appointed Senior Vice President Cloetta International
- Interim report Q4, October – December 2017

February
- Proposal by the Nomination Committee regarding the Board of Directors of Cloetta AB

March
- Annual report 2017 published
- Notice of the Annual General Meeting
- Oskari Vidman appointed Chief Pick & Mix Officer.
- Thomas Biesterfeldt appointed Chief Marketing Officer (CMO).

April
- Annual General Meeting.
- Interim report Q1, January – March 2018.

May
- Frans Rydén appointed Chief Financial Officer (CFO)

June
- Cloetta amendeds and extended current loan agreement and launched commercial paper programme

July
- Interim report Q2, April – June 2018

September
- Cloetta awarded "Listed Company of the Year"
- Nomination committee appointed ahead of 2019 Annual General Meeting of Cloetta AB (publ)

October
- Interim report Q3, July – September 2018

Remuneration of the Group Management Team

Guidelines for remuneration of Group Management Team

The current guidelines for remuneration of Group Management Team were adopted by the AGM on 16 April 2018. The total remuneration shall be market-based and competitive, and shall be proportionate to the individual's responsibilities and powers. In addition to base salary, remuneration of the President and CEO, other members of the Group Management Team and other executives reporting directly to the President and CEO can include:

Short-term variable compensation

Short-term variable compensation is linked to specific business targets and is derived from the annual business plan approved by the Board of Directors. The short-term variable compensation is delivered through a cash-based bonus programme. Short-term variable compensation is based on three operating targets:

- Net sales growth
- Operating profit
- Cash flow

The short-term variable compensation structure is as follows:

	Short-term variable compensation as a percentage of base salary	
	Target level	**Maximum level**
President and CEO 2018	50%	100%
Other Group Management Team 2018, average	35%	70%
President and CEO 2017	50%	100%
Other Group Management Team 2017, average	35%	70%

Share-based long-term variable compensation

Share-based long-term variable compensation consists of the share-based long-term incentive plans, which are resolved on yearly by the AGM. It is aimed at increasing value for the Group's shareholders by promoting and upholding the senior management's commitment to the Group's development, and thereby aligning the interests of the shareholders with those of the Group Management Team and other key employees in order to ensure maximum long-term value creation. The targets for share-based long-term variable compensation are the compound annual growth rate and operating profit.

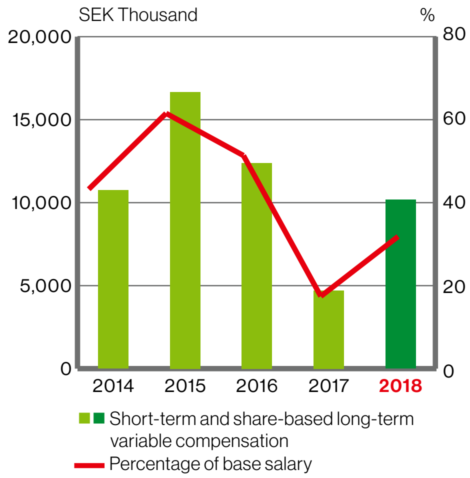
Other benefits

Other benefits consists mainly of sign-on fees, severance pay and company car benefits.

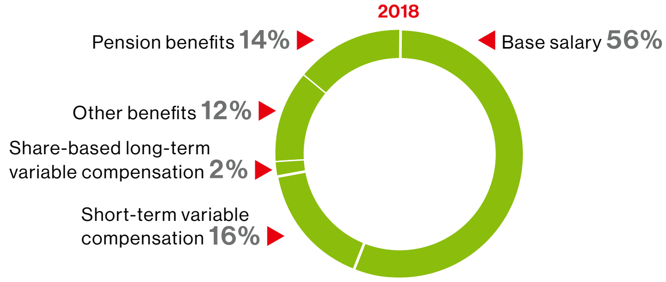
Pension benefits

Pension benefits vary depending on the agreements and practices in the country where the individual is employed. Defined contribution plans are strived for, which means that pension benefits most often consist of defined contribution plans for which annual premiums are paid as a percentage of pension-qualifying salary up to the age of retirement. In almost all cases, variable salary and benefits are not pension-qualifying. The retirement age is not less than 60 years and not more than 67 years.

Total variable remuneration of the Group Management Team incl. the President and CEO



Remuneration of the Group Management Team incl. the President and CEO 2018



The Board has the right to deviate from these principles in individual cases where there is special reason to do so.

Termination benefits

Upon termination of employment on the part of the company, the notice period shall be no longer than 12 months. Any termination benefits may not exceed one fixed annual salary. Due to employment contracts entered into by Leaf prior to Cloetta's acquisition of the company, there are contracts with members of the Group Management Team granting termination benefits exceeding 12 monthly base salaries.

President and CEO

The retirement age is 65 years. The pension terms consist of a defined contribution plan for which annual premiums are paid up to the age of retirement in an amount corresponding to 30 per cent of pension-qualifying salary, consisting of base salary. Variable compensation and other benefits are not pension-qualifying.

The President and CEO has a notice period of six months. Upon termination on the part of the company, the notice period is 12 months.

Remuneration in 2018

In 2018, the total remuneration of the Group Management Team including the President and CEO amounted to SEK 57,198 thousand (42,877) including pension benefits, and SEK 49,326 thousand (35,920) excluding pension benefits.

Share-based long-term incentive plan for senior executives

On 16 April 2018, the Annual General Meeting approved the Board's proposal for a share-based long-term incentive plan, similar to previous years. The plan aligns the interests of the shareholders with those of the Group Management Team and other key employees in order to ensure maximum long-term value creation.

A personal shareholding in Cloetta is required for all participants. See page 60 and Notes 25, 30 and 31 for more information about share-based payment.

The Board of Directors' report on the remuneration committee's evaluation of remuneration of the Group Management Team

The Board of Directors has established a remuneration committee consisting of three members who prepare recommendations for decision by the Board regarding remuneration principles, remuneration levels and other terms of employment for the Group Management Team. The recommendations have included the proportional distribution between base salary and variable compensation and the size of any salary increases. Furthermore, the remuneration committee has discussed pension terms and termination benefits.

The remuneration committee is also entrusted with the task of monitoring and evaluating programmes for variable remuneration of the Group Management Team, application of the guidelines for remuneration adopted by the AGM and the current remuneration structures and remuneration levels in the company. Pursuant to paragraph 9.1, points 2 and 3, of the Swedish Code of Corporate Governance, the Board hereby presents the following report on the results of the remuneration committee's evaluation:

The variable compensation that is payable according to the guidelines is linked to both the individual's responsibility for results and the Group's profitability targets, which contributes to value growth for the company's shareholders.

Market surveys are conducted regularly with respect to salary statistics, remuneration structures and levels for variable remuneration. In the opinion of the remuneration committee, Cloetta's remuneration structures and remuneration levels have allowed Cloetta to recruit and retain the right personnel to the Group Management Team.

Remuneration of the President and CEO for the financial year 2018 has been determined by the Board. Remuneration of other members of the Group Management Team and of other senior executives has been determined by the President and CEO. Since the 2018 AGM, the remuneration committee has met on five occasions. The proposed guidelines for remuneration of the Group Management Team in 2019 that will be presented by the Board to the AGM on 4 April 2019 for approval, are identical to the current guidelines.

Remuneration cost incurred for the Group Management Team

2018 SEK 000s	Base salary	Short-term variable compensation incurred in the year, expected to be paid in the next year	Share-based long-term variable compensation	Other benefits	Sub-total	Pension benefits	Total
Henri de Sauvage-Nolting, President and CEO	4,541	2,271	1,182	102	8,096	1,362	9,458
Other Group Management Team[1]	27,490	6,606	122	7,012	41,230	6,510	47,740
Total	**32,031**	**8,877**	**1,304**	**7,114**	**49,326**	**7,872**	**57,198**
Of which, in the Parent Company	*11,210*	*3,231*	*–1,141*	*1,214*	*14,513*	*3,052*	*17,566*

2017 SEK 000s	Base salary	Short-term variable compensation incurred in the year, expected to be paid in the next year	Share-based long-term variable compensation	Other benefits	Sub-total	Pension benefits	Total
Henri de Sauvage-Nolting, President and CEO[2]	3,886	–	704	69	4,659	1,113	5,772
Danko Maras, Interim President and CEO/CFO)[3]	378	–	143	41	562	114	676
Other Group Management Team[4]	22,322	–	3,825	4,552	30,699	5,730	36,429
Total	**26,586**	**–**	**4,672**	**4,662**	**35,920**	**6,957**	**42,877**
Of which, in the Parent Company	*13,221*	*–*	*3,050*	*1,327*	*17,598*	*3,752*	*21,349*

1) Other Group Management Team comprised 11 persons for the period 1 January 2018 to 28 February 2018, 12 persons for the period 1 March 2018 to 15 July 2018, 11 persons for the period 16 July 2018 to 14 August 2018, 10 persons for the period 15 August 2018 to 11 November 2018. From 12 November 2018 the other Group Management Team consisted of 11 persons.
2) Took up duties on 15 February 2017.
3) Took up duties as interim President and CEO from 1 September 2016 until 14 February 2017.
4) Other Group Management Team comprised 8 people for the period 1 January 2017 to 14 February 2017, 9 people for the period 15 February to 28 April 2017, 10 people for the period 29 April 2017 to 30 September 2017 and 11 people for the period 30 September 2017 to 29 November 2017. From 30 November 2017, the other Group Management Team consisted of 10 people.

Internal control over financial reporting

Cloetta's internal control over financial reporting is based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO framework). The key objectives of Cloetta's internal control environment for financial reporting are that it is appropriately structured and effective, provides reliable reports and complies with any applicable laws and regulations.

The Board of Directors has defined policies regarding processes, roles and responsibilities that are vital for financial reporting and the internal control environment of the company.

Roles and responsibilities

The Board of Directors is responsible for establishing fundamental rules and guidelines for internal control. The audit committee assists the Board of Directors with its oversight of the performance of the company's risk management function and internal control insofar as these affect the company's quality and integrity of financial reporting. The Board of Directors and the audit committee interact directly with the external auditors.

Where the Board of Directors is responsible for establishing fundamental rules and guidelines, the President and CEO is responsible for the design effectiveness, implementation and supervision of monitoring of the internal control environment within the Group. The CFO is responsible for the design and operating effectiveness of the internal control environment within the Group. At a local level, the design and operating effectiveness of the internal control environment is the responsibility of each of the area Presidents and local and regional finance teams.

Control environment

The foundation for Cloetta's internal control environment is the company's corporate culture and behaviour, amongst others, which are reflected in:

- Performing our business with integrity and ethical values. Cloetta's Code of Conduct, fraud and whistle blower policy, anti-bribery and anti-corruption policy and trade control policy form the platform for a set of guidelines and principles built on Cloetta's core values that govern financial reporting.
- The management's conduct and working methods based on a clearly defined working process described in documents such as:
  - Rules of procedure for the Board of Directors
  - Instructions for the President and CEO
  - Instructions for financial reporting
  - Finance policy
  - Rules of procedure for and instructions to the audit committee
- Rules for representations, commitments and disbursements to third parties clearly defined in the Group's authorization framework
- Processes for leading and developing employees in the organization and the attention dedicated to these matters by Cloetta's Board of Directors

Financial reporting competencies

The Group Management Team and local management teams ensure that the company has employees with the right competency in all key (financial) positions and that there are procedures in place to ensure that employees in key (financial) positions have the requisite knowledge and skills.

Human Resources (HR)

The guidelines and processes for management of human resources play a fundamental role in Cloetta's system of internal control and help ensure the effectiveness of internal control. Key processes include compensation and benefits, HR development, recruitment, allocation of resources, performance management and routines for feedback to the employees.

Risk assessment

Central and local risk assessments are prepared and monitored periodically. In these assessments the likelihood that risks could occur and the potential impact they may have are assessed. Furthermore, the velocity at which a risk could occur is considered. Business risks as well as financial reporting and other risks are considered in the risk assessments.

Central and local financial reporting risks are assessed with respect to account balance assertions such as existence, completeness, rights and obligations, valuation and allocation, presentation and disclosure assertions and financial impact. The internal control environment is designed to mitigate risks identified to a level considered acceptable by management.

Certain specific risks, for example risks related to taxes and legal matters and other financial risks, are reviewed proactively on a periodic basis. Risks and risk management are reported on separately in more detail in the annual report, on pages 69–72. Tax, legal and other financial risks are reflected based on management's best estimate and judgement, and in accordance with the applicable accounting standards in the consolidated financial statements.

Fraud risk

Cloetta's Group Management Team, local management teams and the central finance team are responsible for addressing the risk of fraud and for carrying out a continuous assessment of the risk for fraud with respect to the prevailing attitudes, incentives and opportunities to commit fraud. The Board of Directors issued a fraud and whistleblower policy aimed at preventing dishonest and/or fraudulent activity and to establish procedures for reporting fraudulent activities to Cloetta's management and/or audit committee.

In addition to the fraud and whistleblower policy, Cloetta has adopted an anti-bribery and anti-corruption policy. The purpose of the policy is to prevent bribery and corruption by any employee or third party acting on behalf of Cloetta.

The trade control policy summarizes potentially applicable sanctions and export control rules, and compliance procedures to be followed by all Cloetta employees. The purpose of this policy is to provide guidelines to ensure compliance with all local trade control laws and regulations including countries through which shipments or financial transactions flow.

Basis for risk assessment

Existence, reported assets and liabilities exist on the reporting date.

Completeness, all transactions during the reporting period are recorded and reported.

Rights and obligations, assets are the rights of the organization and the liabilities are its obligations as of a given date.

Valuation and allocation, all items in the financial reporting are reported in compliance with IFRS valuation principles and are correctly calculated and summarized and appropriately recorded.

Presentation and disclosure, items in the financial reports are properly described, sorted and classified.

Process for financial reporting

Monthly

Collection of information
Local units report monthly according to an established timeframe in compliance with the applicable laws, regulations and accounting practices and the Group's accounting manual.

Controls
The Group's reporting system contains embedded controls. In addition, the central finance team carries out analytical controls as well controls of completeness and reasonability.

Processing and consolidation
Any corrections are implemented in dialogue with the affected parties. Reconciliation occurs.

Reporting
Reporting of operational and financial information to the Board of Directors and the Group Management Team.

Quarterly

Audit committee
The auditor attends every quarterly meeting. Possible actions are carried out in respect of the audit report.

External reporting
Cloetta publicly discloses its interim and year-end reports through press releases and publication on the company's website.

Control activities

Control activities are the policies and procedures that help ensure that management's directives are carried out and that the necessary actions are taken to address risks that may hinder the achievement of the company's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Control activities are embedded in Cloetta's business processes and play a key role in ensuring effective internal control in the company. Local management is responsible for having all required control activities in place and maintained within their organizations. The CFO is responsible for ensuring that control activities are designed and operating effectively and are maintained at the central level. The control environment is based on a balanced mix of preventive and detective controls and of automated and manual controls. In addition to a standard set of automated controls embedded in Cloetta's central ERP system, local management teams are encouraged to have as many automated controls as possible, especially for routine transactions. Nevertheless, there are also manual control activities in place to verify that the automated controls function as intended and for non-routine transactions.

Continuous reviews are performed by the Group Management Team and local management teams to safeguard proper and accurate financial reporting. These reviews are incorporated into the business processes and are an important part of Cloetta's monitoring controls. The local management teams are responsible for ensuring compliance with relevant laws and regulations in their respective areas of responsibility. All identified financial reporting risks are covered by one or more control activities.

Monitoring and improvement

Cloetta continuously strengthens its internal control environment by evaluating the design and operating effectiveness of the environment. During the year, procedures are performed to verify the design and operating effectiveness in specific areas. These procedures are performed on a central and a local level and are intended to address any weaknesses or inefficiencies in the internal control environment. Internal control deficiencies detected through the ongoing monitoring activities or separate evaluations are reported upstream and corrective actions are taken to ensure continuous improvement of the internal control environment. On a quarterly basis the follow up and status of any weaknesses identified by internal procedures or external audits are reported and discussed with the persons involved and members of Cloetta's Group Management Team.

Reporting routines

An effective system for internal control requires sufficient, up-to-date and reliable information both of a financial and non-financial nature. As far as possible, management reporting is directly linked to the financial reporting and to the consolidation tool.

Local management teams report their financial results periodically and in accordance with the Group's accounting and reporting policies. This reporting is the basis for Cloetta's internal and external reporting and serves as a basis for legal and business reviews. The business reviews are carried out according to a structure in which sales, earnings, cash flow and other key ratios and trends of importance to the Group are compiled and form a basis for analysis and actions by the management and controllers at different levels. Other important and group-wide components of internal control and reporting routines include the annual business planning process and the monthly and quarterly forecasts.

To ensure the efficiency of internal control over financial reporting, reviews are carried out by the Board of Directors, the audit committee, the President and CEO, the Group Management Team, the central finance and treasury team and the Group's various subsidiaries. Every month, financial reports are reviewed against budget and established targets, and the results of self-assessments in the Group's companies are reported. This review includes follow-up of observations that are reported by Cloetta's auditor.

The company's financial situation is discussed at each Board of Directors meeting. The Board's audit committee has important monitoring and control duties with regard to loans, investments, financial management, financial reporting and internal control. The audit committee and Board of Directors review and formally approve interim reports and the annual report prior to publication. In addition, the audit committee receives regular reports from the independent auditor.

Communication

Internal communication

Effective communication ensures the information flows in the organization. Separate communication channels are used to communicate internally, based on what is most effective.

External communication

It is also important to maintain communication about relevant policies with external parties such as customers, suppliers, regulators and shareholders.

External communication is carried out in accordance with legal requirements and the Corporate Communications and IR policy.

Evaluation of the need for a separate internal audit function

There is currently no internal audit function at Cloetta. The Board of Directors has reviewed this matter and determined that the existing structures for monitoring and evaluation provide a satisfactory basis for control. For certain special audit activities, external resources are used.

Board of Directors

Lilian Fossum Biner

Position: Chairman of the Board
Member of the Remuneration Committee
Elected: 2016
Born: 1962
Nationality: Swedish
Education: M.Sc. Stockholm School of Economics, Sweden.
Other assignments: Board member of Nobia, LE Lundbergföretagen, a-connect and Givaudan.
Previous assignments: VP and CFO of Axel Johnson, Senior VP and HR Director at Electrolux.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding Direct: 30,000 class B shares
Related parties: –

Mikael Aru

Position: Board member
Member of the Audit Committee
Elected: 2017
Born: 1953
Nationality: Swedish
Education: B.Sc. Business Administration, Linköping University, Sweden.
Other assignments: Board Chairman of Paulig Group Ltd, Fuchs Gewurze Gruppe AG, CCS Healthcare Nordic AB and AB Axel Granlund. Board member of Stenströms Skjortfabrik, Dr Per Håkanssons Stiftelse and Gorthon Stiftelsen.
Previous assignments: CEO of Procordia Food Sweden, as well as leading positions at Kraft Foods and Nestlé.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 2,855 class B shares
Related parties: –

Lottie Knutson

Position: Board member
Member of the Remuneration Committee
Elected: 2015
Born: 1964
Nationality: Swedish
Education: Journalism at Stockholm University, Sweden, Diplôme de Culture Francaise, L'Université Paris IV, France.
Other assignments: Member of the board of Stena Line, STS Alpresor, Swedavia and Scandic Hotels. Active as a writer and advisor in the areas of leadership, change and crisis management and tourism.
Previous assignments: Director of Communications at Fritidsresor Group for the Nordic countries, at SAS Group's communications department, journalist at the Swedish newspaper Svenska Dagbladet and communications consultant at JKL and others.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 1,200 class B shares
Related parties: –

Alan McLean Raleigh

Position: Board member
Elected: 2018
Born: 1959
Nationality: British
Education: B.Sc. (Hons) Production Engineering and Production Management, University of Strathclyde, Scotland.
Other assignments: Board Chairman of Robinson plc.
Previous assignments: Executive Vice President, Personal Care Supply Chain, Unilever.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: –
Related parties: –

Mikael Norman

Position: Board member
Chairman of the Audit Committee
Elected: 2015
Born: 1958
Nationality: Swedish
Education: Bachelor of Laws, Stockholm University, Sweden.
Other assignments: Member of the Board of Byggmax Group AB, Bravida Holding AB, Bonava AB and Swedavia AB. Chairman of the audit committee of Byggmax Group AB, Bravida Holding AB, Bonava AB and Swedavia AB.
Previous assignments: CFO at Nobia, Group Controller at Electrolux, Tax lawyer at Price Waterhouse and judge at the Administrative Court and Administrative Court of Appeal in Stockholm.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 5,000 class B shares
Related parties: –

Camilla Svenfelt

Board member
Member of the Audit Committee
Elected: 2016
Born: 1981
Nationality: Swedish
Education: B.A. Stockholm University, Sweden.
Other assignments: Board member of AB Malfors Promotor and a deputy board member of the Hjalmar Svenfelt Foundation. Accountant at AB Malfors Promotor.
Previous assignments: –
Independence:
In relation to major shareholders: No
In relation to the company and management: Yes
Shareholding: Direct: 60 class A shares and 466,485 class B shares
Related parties: 55,095 class B shares

Mikael Svenfelt

Position: Board member
Chairman of the Remuneration Committee
Elected: 2008
Born: 1966
Nationality: Swedish
Education: Marketing and Business Economics, Tibbleskolan and Law studies, Folkuniversitetet, Sweden.
Other assignments: CEO and Board member of AB Malfors Promotor.
Previous assignments: Senior positions in Nicator group, Dell Financial Services, GE Capital Equipment Finance AB and Rollox AB. Board Chairman of Fjärilshuset Haga Trädgård AB. Board member of Fjärilshuset Haga Trädgård Café AB.
Independence
In relation to major shareholders: No
In relation to the company and management: Yes
Shareholding: Direct: 25 class A shares and 42,535 class B shares
Related parties: 5,729,569 class A shares and 72,315,235 class B shares

Lena Grönedal

Position: Employee board member, LIVS
Elected: 2008
Born: 1962
Nationality: Swedish
Position at Cloetta: Factory Operative, Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Mikael Ström

Employee board member, PTK Ledarna
Elected: 2016
Born: 1961
Nationality: Swedish
Position at Cloetta: Department Manager, Cloetta Sverige AB
Shareholding: Direct: 32,243 class B shares
Related parties: –

Shahram Nikpour Badr

Deputy employee board member, LIVS.
Elected: 2013
Born: 1963
Nationality: Swedish
Position at Cloetta: Factory Operative, Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Christina Lönnborn

Deputy employee board member, PTK Unionen
Elected: 2016
Born: 1962
Nationality: Swedish
Position at Cloetta: Business developer, Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Composition of the Board

				Fees[2]			Attendance[4]		
Elected by the AGM[1]	Nationality	Year elected	Born in	Board fees	Committee fees	Independent[3]	Board meetings	Audit committee	Remuneration committee
Chairman									
Lilian Fossum Biner	Swedish	2016	1962	620,000	100,000	Yes/Yes	9/9		5/5
Member									
Camilla Svenfelt	Swedish	2016	1981	285,000	100,000	Yes/No	9/9	5/5	
Mikael Aru	Swedish	2017	1953	285,000	100,000	Yes/Yes	9/9	5/5	
Lottie Knutson	Swedish	2015	1964	285,000	100,000	Yes/Yes	9/9		5/5
Mikael Norman	Swedish	2015	1958	285,000	150,000	Yes/Yes	9/9	5/5	
Alan McLean Raleigh	British	2018	1959	285,000	–	Yes/Yes	9/9		
Mikael Svenfelt	Swedish	2008	1966	285,000	150,000	Yes/No	9/9		5/5

1) Education and other assignments are shown on pages 84–85.
2) The fees refer to set amounts during the period from the AGM on 16 April 2018 until the AGM on 4 April 2019. Board fees shall be paid in the amount of SEK 620,000 to the Board Chairman and SEK 285,000 to each other board member elected by the AGM. Fees for committee work will be paid in the amount of SEK 100,000 to members of the audit committee (unchanged) and in the amount of 150,000 to the chair of the audit committee (previously SEK 100,000), and members of the remuneration committee shall receive SEK 100,000 (unchanged). For further details, see Note 6.
3) Independent in relation to the company and its Group Management Team/in relation to the largest shareholder.
4) Attendance refers to meetings during the period from the statutory meeting following the AGM on 16 April 2018 until the publication of this annual report in March 2019.

Shareholding stated as at 31 January 2019

Group Management Team

Henri de Sauvage-Nolting

President and CEO since 15 February 2017. Employed by Cloetta since 15 February 2017.

Born: 1962

Nationality: Dutch

Education: M.Sc., Chemistry, Amsterdam University, the Netherlands. M.Sc., Chemical Engineering, Technical University of Twente, the Netherlands. Post Doc in Business Administration, University of Leuven, Belgium.

Other assignments: Board member of Agra Industrier, Norway

Previous positions: Executive Vice President of Arla in Sweden, Denmark and Finland. Between 1989 and 2013 held positions in sales, marketing and production at Unilever in the Nordics, the Netherlands, UK and China. Last position at Unilever was as CEO of the Nordics.

Shareholding: Direct: 55,058 class B shares
Related parties: –

Frans Rydén

Position: Chief Financial Officer (CFO) since 12 November 2018. Employed by Cloetta since 12 November 2018.

Born: 1972

Nationality: Swedish

Education: B.Sc. Business Administration, Stockholm University, Master of Laws, Stockholm University.

Other assignments: –

Previous assignments/positions: Various finance positions at Mondelez including Chief Financial Officer for India, CFO for Indonesia, Finance Director Asia-Pacific, Regional Manager Financial Planning and Analysis, and Area Manager Internal controls. Recently Vice President Finance at Arla Foods.

Shareholding: Direct: 12,909 B shares
Related parties: –

Jacob Broberg

Position: Senior Vice President Corporate Communications and Investor Relations since 16 February 2012. Employed by LEAF since 2010.

Born: 1964

Nationality: Swedish

Education: B.A., Political Science and Economics, Lund University, Sweden.

Other assignments: –

Previous positions: SVP Corporate Communications at LEAF, 2010–2012, Vice President Corporate Communications at TeliaSonera, 2008–2010, Senior Vice President Corporate Affairs and Communication at V&S Vin & Sprit AB, 2005–2008, Vice President Media Relations at Electrolux, 2001–2005, and Vice President Corporate Communications at Länsförsäkringar, 2000–2001. Various positions, including Head of Media Relations and Information for Moderata Samlingspartiet, 1989–2000.

Shareholding: Direct: 84,159 class B shares
Related parties: –

Regina Ekström

Position: Senior Vice President Human Resources since 1 January 2015. Employed by LEAF since 2004.

Born: 1963

Nationality: Swedish

Education: B.Sc. Business Administration and Economics, Lund University, Sweden.

Other assignments: –

Previous positions: SVP Human Resources Scandinavia at Cloetta/LEAF, 2004–2014, SVP Human Resources Nordic at Findus, 2000–2004, HR Manager Sweden/Nordic at Nestlé , 1995–2000, Trainee, Product Manager, Human Resources Manager, Marketing Manager at Mars Sweden and UK, 1987–1995.

Shareholding: Direct: 35,472 class B shares
Related parties: –

Thomas Biesterfeldt

Position: Chief Marketing Officer (CMO) since 1 May, 2018. Employed by Cloetta since 1 May 2018.

Born: 1980

Nationality: German

Education: MBA (Major Marketing) at Hamburg University of Applied Sciences.

Other assignments: –

Previous positions: Marketing Director at L´Oreal Paris in the Nordics (based in Denmark). Prior Marketing and Group product manager at L´Oreal Paris in Germany and Sweden.

Shareholding: Direct: 6,414 class B shares
Related parties: –

Ewald Frenay

Position: Pesident Cloetta Middle Region since 16 February 2012. Employed by LEAF since 2000.

Born: 1963

Nationality: Dutch

Education: M.Sc. Economics, Erasmus University Rotterdam, the Netherlands.

Other assignments: –

Previous assignments/positions: Interim President Cloetta Italy 2016–2017. Various positions at Leaf 2000-2012 including President Middle at Leaf and Chief Marketing Officer. Member of Leaf Executive Committee, 2008–2012. 2008–2012 Vice President Segment Confectionery, 2004 –2005, Marketing Director of RBV Leaf The Netherlands 2000 –2004. Several marketing and sales positions at Mars Inc.

Shareholding: Direct: 25,019 class B shares
Related parties: –

Michiel Havermans

Position: Senior Vice President Cloetta International since 1 March 2018.
Employed by Cloetta since 1 March 2018.
Born: 1973
Nationality: Dutch
Education: M.Sc. Economics, Erasmus University, Rotterdam.
Other assignments: –
Previous positions: Regional Director sales and marketing for Europe, Middle East and Americas at United Dutch Breweries (UDB). Export Director, Country Manager UK and Managing Director Vietnam and the Philippines at Perfetti van Melle.
Shareholding: Direct: 5,477 class B shares
Related parties: –

Marcel Mensink

Position: President Operations since 1 October 2017.
Employed by Cloetta since 2017.
Born: 1971
Nationality: Dutch
Education: MBA University of Canterbury United Kingdom, B.Sc. Food Technology van Hall Institute, the Netherlands.
Other assignments: –
Previous positions: Supply Director, Mars Supply Petcare Europe. Several leading positions at Mars in various business units, including Petcare, Food and Chocolate. Supply Director Mars Care & Treats Europe. Plant director Mars Food UK, several different operational roles at Mars Chocolate.
Shareholding: Direct: 10,738 class B shares
Related parties: –

Christian Boas Linde

Position: President Cloetta Denmark and Norway since 1 January 2018.
Employed by Cloetta since 2013.
Born: 1968
Nationality: Danish
Education: M.Sc. Economics, University of Aarhus, Denmark.
Other assignments: Board member of Crispy Foods International A/S, Nakskov Mills Foods A/S and Anne Linde ApS.
Previous assignments/positions: Country Director for Mars Danmark A/S, 2008–2013, various commercial positions in PepsiCo, 2002–2008, HJ Heinz UK, 1999–2002, and Arla Foods, 1993–1996.
Shareholding: Direct: 5,550 class B shares
Related parties: –

Ville Perho

Position: President Cloetta Finland since 20 July 2015.
Employed by LEAF since 2004.
Born: 1979
Nationality: Finnish
Education: M.Sc. Turku School of Economics, Finland.
Other assignments: Co-owner and Board member of Varastoaura Oy.
Previous positions: Sales Director Cloetta Finland 2010–2015, Category Development Manager LEAF 2004–2010, Global Account Manager Lidl at LEAF 2007–2009.
Shareholding: Direct: 26,443 class B shares
Related parties: –

Katarina Tell

Position: President Cloetta Sweden, since 1 July 2018.
Employed by Cloetta since 28 May, 2018.
Born: 1970
Nationality: Swedish
Education: Bachelor in Marketing and Administration, Lund University, Masters in Food Nutrition, Umeå University.
Other assignments: Board member of Livsmedelsföretagen and Frozen Cocktails International AB.
Previous positions: General Manager Findus, Sweden. Managing Director Heinz Northern and Eastern Europe, Retail Sales Manager Heinz Sweden and Business Development Manager Findus.
Shareholding: Direct: 11,903 class B shares
Related parties: –

Oskari Vidman

Position: Chief Pick & Mix Officer since 1 April 2018.
Employed by Cloetta since 2015.
Born: 1976
Nationality: Finnish
Education: Masters in Marketing and Economics, University of Vasa, Finland.
Other assignments: –
Previous positions: Sales Director Cloetta Finland, October 2015–31 March 2018. Various sales and marketing roles at British American Tobacco in the Nordic countries including General Manager Norway and Finland.
Shareholding: Direct: 12,554 class B shares
Related parties: –

Shareholding stated as at 31 January 2019

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Parent Company

Notes to the Parent Company financial statements

Consolidated profit and loss account

SEKm	Note	2018	2017
Net sales	2, 7	6,218	5,784
Cost of goods sold	4, 7	–3,934	–3,678
Gross profit		**2,284**	**2,106**
Other income	2	4	6
Selling expenses	4, 7	–1,025	–972
General and administrative expenses	4, 7	–603	–613
Operating profit		**660**	**527**
Exchange differences on borrowings and cash and cash equivalents in foreign currencies	8	–16	–17
Other financial income	8	5	7
Other financial expenses	8	–87	–74
Net financial items		**–98**	**–84**
Profit before tax		**562**	**443**
Income tax	9	–79	–206
Profit from continuing operations		**483**	**237**
Loss from discontinued operation, net of tax	10	–	–334
Profit/loss for the year		**483**	**–97**
Profit/loss for the year attributable to:			
Owners of the Parent Company			
Continuing operations		483	237
Discontinued operation		–	–334
Total		**483**	**–97**
Earnings per share from continuing operations, SEK			
Basic[1]	21	1.69	0.83
Diluted[1]	21	1.68	0.83
Earnings per share from discontinued operation, SEK			
Basic[1]	21	–	–1.17
Diluted[1]	21	–	–1.17
Earnings per share, SEK			
Basic[1]	21	1.69	–0.34
Diluted[1]	21	1.68	–0.34
Number of shares at end of period	21	288,619,299	288,619,299
Average number of shares (basic)[1]	21	286,492,413	286,320,464
Average number of shares (diluted)[1]	21	286,650,070	286,492,178

1) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver the shares to the participants of the long-term share-based incentive plan. The table in Note 23 presents the movements in the contracts since 1 January 2017. The outstanding contracts at reporting date consist of one contract for 1,991,906 shares at a share price of SEK 29.3886.

Consolidated statement of comprehensive income

SEKm	2018	2017
Profit/loss for the year	**483**	**–97**
Other comprehensive income		
Remeasurements of defined benefit pension plans	–41	–36
Income tax on other comprehensive income that subsequently will not be reclassified to profit or loss for the period	9	8
Items that will never be reclassified to profit or loss for the period	**–32**	**–28**
Currency translation differences	176	88
Currency translation differences on discontinued operation reclassified through profit and loss	–	–102
Hedge of a net investment in a foreign operation	–58	–33
Income tax on other comprehensive income that will be reclassified subsequently to profit or loss for the period, when specific conditions are met	12	7
Items that are or may be reclassified to profit or loss for the period	**130**	**–40**
Total other comprehensive income	**98**	**–68**
Total comprehensive income, net of tax	**581**	**–165**
Total comprehensive income for the period attributable to:		
Owners of the Parent Company	581	–165

Consolidated balance sheet

SEKm	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	12	5,626	5,490
Property, plant and equipment	13	1,354	1,338
Deferred tax asset	14	16	20
Other financial assets	15	11	11
Total non-current assets		**7,007**	**6,859**
Current assets			
Inventories	16	765	745
Trade and other receivables	17	838	881
Current income tax assets	14	6	8
Derivative financial instruments	23	1	0
Cash and cash equivalents	18	551	759
Total current assets		**2,161**	**2,393**
TOTAL ASSETS		**9,168**	**9,252**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,443	1,443
Other paid-in capital	20	4,124	4,124
Translation difference reserve	20	630	454
Retained earnings including profit for the year	20	–2,229	–2,203
Equity attributable to owners of the Parent Company		**3,968**	**3,818**
Non-current liabilities			
Long-term borrowings	22	2,076	1,715
Deferred tax liability	14	754	703
Derivative financial instruments	23	3	2
Other non-current liabilities	24	–	138
Provisions for pensions and other long-term employee benefits	25	419	374
Provisions	26	9	5
Total non-current liabilities		**3,261**	**2,937**
Current liabilities			
Short-term borrowings	22	500	999
Derivative financial instruments	23	61	71
Trade and other payables	27	1,342	1,394
Provisions	26	23	3
Current income tax liabilities	14	13	30
Total current liabilities		**1,939**	**2,497**
TOTAL EQUITY AND LIABILITIES		**9,168**	**9,252**

Consolidated statement of changes in equity

SEKm	Share capital	Other paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance at 1 January 2017	**1,443**	**4,124**	**366**	**–1,734**	**4,199**
Comprehensive income					
Loss for the year	–	–	–	–97	–97
Other comprehensive income	–	–	88	–156	–68
Total comprehensive income for 2017	**–**	**–**	**88**	**–253**	**–165**
Transactions with owners					
New forward contract to repurchase own shares	–	–	–	–11	–11
Share-based payments	–	–	–	11	11
Dividend[1]	–	–	–	–216	–216
Total transactions with owners	**–**	**–**	**–**	**–216**	**–216**
Balance at 31 December 2017	**1,443**	**4,124**	**454**	**–2,203**	**3,818**
Comprehensive income					
Profit for the year	–	–	–	483	483
Other comprehensive income	–	–	176	–78	98
Total comprehensive income for 2018	**–**	**–**	**176**	**405**	**581**
Transactions with owners					
Share-based payments	–	–	–	2	2
Dividend[1]	–	–	–	–433	–433
Total transactions with owners	**–**	**–**	**–**	**–431**	**–431**
Balance at 31 December 2018	**1,443**	**4,124**	**630**	**–2,229**	**3,968**

1) The dividend paid comprised an ordinary dividend of SEK 0.75 (0.75) per share and a special dividend of SEK 0.75 (–) per share.

Total equity is attributable to the owners of the Parent Company.

Consolidated cash flow statement

SEKm	Note	2018	2017
Operating profit from continuing operations		660	527
Operating loss from discontinued operation		–	–444
Operating profit		**660**	**83**
Adjustments for non-cash items			
Amortization/depreciation of assets	3	230	247
Impairment of assets and remeasurements of assets held for sale	3, 19	–	409
Provisions for pensions		–8	–11
Other provisions and contingent earn-out considerations		2	–84
Interest received		1	1
Interest paid		–36	–36
Proceeds on derivative financial instruments		–4	–8
Income tax paid		–53	–69
Cash flow from operating activities before changes in working capital		**792**	**532**
Cash flow from changes in working capital			
Change in inventories		–1	–40
Change in trade and other receivables		50	80
Change in trade and other payables		–213	140
Cash flow from operating activities		**628**	**712**
Investing activities			
Acquisition of subsidiaries	24, 28	–	–249
Divestments of subsidiaries		–	378
Investments in property, plant and equipment	13	–161	–136
Investments in intangible assets	12	–23	–21
Disposals of property, plant and equipment		0	6
Cash flow from investing activities		**–184**	**–22**
Cash flow from operating and investing activities		**444**	**690**
Financing activities			
Proceeds from loans	22	163	325
Proceeds from commercial papers	22	999	–
Transaction costs paid	22	–4	–
Repayment of loans	22	–879	–347
Repayment of commercial papers	22	–500	–
Dividends paid		–433	–216
Other cash flow from financing activities		–11	–
Cash flow from financing activities		**–665**	**–238**
Cash flow for the year		**–221**	**452**
Cash and cash equivalents at beginning of year	18	**759**	**298**
Cash flow for the year		–221	452
Exchange difference		13	9
Cash and cash equivalents at end of year	18	**551**	**759**

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Note 1 General information and accounting and valuation policies of the Group

General information

Cloetta AB (publ), corporate identification number 556308-8144, is a Swedish-registered limited liability company domiciled in Linköping, Sweden. The company's head office is in Stockholm with the address Solna Business Park, Englundavägen 7D, SE-171 06 Solna, Sweden.

Financial year

The consolidated financial statements for the financial year from 1 January to 31 December 2018 include the accounts of the Parent Company and its subsidiaries (collectively the "Group" and individually the "group companies").

The annual report and consolidated financial statements were approved for publication by the Board of Directors on 12 March 2019. The profit and loss accounts and balance sheets of the Group and the Parent Company will be put before the Annual General Meeting on 4 April 2019 for adoption.

Disclosures regarding changes in group structure

Acquisition of E out instrument AB

On 13 February 2017 Cloetta Sverige AB (a 100 per cent direct participation entity of Cloetta AB (publ)) acquired 100 per cent of the shares of the dormant Swedish company E out instrument AB.

Acquisition of Candyking Holding AB

On 28 April 2017 E out instrument AB (a 100 per cent indirect participation entity of Cloetta AB (publ)) acquired 100 per cent of the shares of Candyking Holding AB and its subsidiaries.

See Note 28 for further information.

Mergers

- On 1 March 2017 Locawo B.V., Lonka Sales B.V. and Confiserie Lonka Suikerwerkfabriek B.V. were merged into Cloetta Holland B.V.
- On 26 April 2017 Chocolade- en suikerwerkenfabriek Donkers B.V. was merged into Cloetta Holland B.V.
- On 4 October 2017 Candyking Holding AB was merged into E out instrument AB.
- On 1 March 2018 Lilla Fiket AB was merged into Candyking Sverige AB.
- On 1 May 2018 Candyking Finland Oy and Karkkikatu Oy were merged into Cloetta Suomi Oy.
- On 1 May 2018 Candyking Danmark A/S was merged into Cloetta Danmark ApS.
- On 1 May 2018 Candyking Norge AS was merged into Cloetta Norge AS.

Liquidations and dissolutions

- On 8 February 2017 FTF Sweets USA Inc. was dissolved.
- On 16 March 2017 Traditional Sweets B.V. and Chocolade- en suikerwerkfabriek Marandi B.V. were liquidated.
- On 11 April 2017 Cloetta GGS Holding Ltd. was dissolved.
- On 23 May 2017 Cloetta USA Inc. was dissolved.

Divestments

On 5 September 2017 Cloetta Holland B.V. (a 100 per cent direct participation entity of Cloetta AB (publ)) sold Cloetta Italia S.r.l. to Katjes International GmbH.

See Notes 10, 19 and P8 for more information.

Compliance with legislation and accounting standards

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB), and the interpretations issued by the IFRS Interpretations Committee (IFRIC), which have been endorsed by the European Commission for application in the EU, with some supplementary requirements from the Annual Accounts Act. The applied standards and interpretations are those that were in force and had been endorsed by the EU as at 1 January 2018. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied.

Guidelines on Alternative Performance Measures

On 8 December 2015 the Swedish Financial Supervisory Authority (FSA) ("Finansinspektionen") announced its intention to follow the ESMA (European Securities and Markets Authority) guidelines on Alternative Performance Measures (APMs). These guidelines are applicable to financial statements published after 3 July 2016. In accordance with these guidelines, additional information on the use of APMs, including explanations of use and reconciliation of the APMs to the most directly reconcilable measures in the financial statements, has been included in these financial statements. APMs presented in these financial statements should not be considered a substitute for measures of performance in accordance with IFRS and may not be comparable to similarly titled measures by other companies.

Activities

The activities of the Group mainly comprise:

- Sales, marketing and production of branded candy, chocolate, pastilles, chewing gum and nuts, and
- Trading in candy, chocolate, pastilles, chewing gum and nuts.

The countries of the European Union and Norway form the most important markets.

Basis of presentation

Assets and liabilities are recognized at historical cost, with the exception of certain financial assets and liabilities that are stated at fair value according to the accounting policies described below.

Unless otherwise stated, all amounts are rounded to the nearest million Swedish krona.

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

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

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

Segment reporting

An operating segment is an identified part of a group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available. An operating segment's results are reviewed regularly by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its short and long-term financial performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The President and CEO, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

Within the Cloetta Group three regions have been identified as the Group's operating segments. The vast majority of sales take place in the markets for "Munchy Moments", i.e. cold snacks between main meals, in Western Europe. It is the Group's goal to realize production efficiency through homogeneous production processes in the different production facilities throughout the Group, regardless of their location. The Group has sales mainly in the "Munchy Moments" segment, with comparable markets and customers. The Group has an integrated distribution network and supply chain organization. The identified operating segments are deemed to have similar economic characteristics.

As a result of these consistencies between the different regions, for financial statement reporting purposes, the operating segments are aggregated into one reportable segment. For information about the Group's sales and earnings development and financial position, see the consolidated profit and loss accounts, balance sheet and cash flow statement.

Classification

Non-current assets comprise amounts expected to be recovered or paid after more than twelve months from the balance sheet date, while current assets comprise amounts expected to be recovered or paid within twelve months of the balance sheet date. Non-current liabilities comprise amounts which the Group, at the end of the reporting period, has an unconditional right to choose to pay later than 12 months after the end of the reporting period. If the Group has no such right at the end of the reporting period, or if the liability is expected to be settled within the normal operating cycle, the liability is reported as current liability.

Basis of consolidation

Group structure

The company was originally founded in 1862. On 16 February 2012, Cloetta AB (publ) acquired Leaf Holland B.V. (currently known as Cloetta Holland B.V.) from Yllop Holding S.A. The acquisition has been accounted for as a reverse acquisition for consolidation purposes, where Cloetta Holland B.V. is the accounting acquirer and Cloetta AB (publ) is the legal acquirer.

All incorporated and acquired companies are wholly owned directly or indirectly by Cloetta AB (publ) and are consolidated without non-controlling interests from the date on which control is transferred.

Subsidiaries

The consolidated accounts include financial information for Cloetta AB (publ) and its subsidiaries. Subsidiaries are entities controlled directly or indirectly by Cloetta AB (publ). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All subsidiaries are consolidated without non-controlling interest from the date on which control is transferred to Cloetta AB (publ).

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. If the business combination is realized in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the profit and loss account.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Any subsequent change to the fair value of the contingent consideration that is deemed to be a liability is recognized in accordance with IAS 32 in the case of the forward purchase of shares, or IFRS 9 either in the profit and loss account or as a change to other comprehensive income only if it is an asset which is classified as available for sale. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interests in the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the profit and loss account.

Group companies are deconsolidated from the date that control ceases. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the profit and loss account. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the profit and loss account.

Note P8 provides an overview of all subsidiaries consolidated in the consolidated financial statements of Cloetta AB (publ).

Transactions eliminated on consolidation

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

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Foreign currency

Functional and presentation currency

Items included in the financial information of each of our entities are measured using the functional currency of that entity, which is the currency of the primary economic environment in which the entity operates. The functional currency of foreign entities is generally local currency. The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company.

The consolidated financial statements are presented in SEK. The functional currency of the majority of the subsidiaries is the euro (EUR). The assets and liabilities are translated at the closing rate at the date of the financial statements. Income and expenses are translated at the average exchange rate for the year.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or the date of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within exchange differences on borrowings and cash and cash equivalents in foreign currencies.

The Group applies hedge accounting. At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

A monetary item held by a subsidiary, that is a receivable from or a payable to a foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future, is in substance a part of the entity's net investment in that foreign operation. Foreign currency differences are initially recognized in other comprehensive income and reclassified from equity to the profit and loss account on disposal of the net investment. On disposal of the foreign operation, the cumulative amount of the exchange differences relating to the foreign operation, recognized in other comprehensive income, is reclassified from equity to the profit and loss account on the same line where the gain or loss of the disposal is accounted for.

Upon consolidation, exchange differences arising from the translation of the borrowings and other currency instruments designated as hedges of such investments and the net investment in foreign operations are recognized in other comprehensive income.

All other foreign exchange gains and losses are presented in the profit and loss account within operating profit.

Financial statements of foreign operations

The profit and loss accounts and balance sheets of all group companies that have a functional currency other than the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each profit and loss account are translated at average exchange rates unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of, unrealized exchange differences accumulated in currency translation adjustments after 1 January 2006 (first-time adoption of IFRS) are recognized in profit or loss as part of the gain or loss on the sale. Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities in the functional currency of the attributable foreign entity and translated at the closing rate.

Basis of accounting

With the exception of the changes explained in Note 34, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

I Net sales
II Cost of goods sold
III Other income
IV Selling expenses
V General and administrative expenses
VI Employee remuneration
VII Net financial items
VIII Income tax
IX Dividend distribution
X Items affecting comparability
XI Intangible assets
XII Property, plant and equipment
XIII Deferred tax
XIV Financial assets
XV Impairment of non-current non-financial assets
XVI Derivative financial instruments and hedging activities
XVII Inventories
XVIII Current income tax
XIX Cash and cash equivalents
XX Offsetting financial instruments
XXI Assets held for sale and discontinued operations
XXII Equity
XXIII Other non-current liabilities
XXIV Provisions
XXV Employee benefits
XXVI Borrowings
XXVII Borrowing costs
XXVIII Trade payables
XXIX Operating leases

The balance sheet, profit and loss account and cash flow statement include references to the notes.

Recognition of revenue and expenses

I *Net sales*

Net sales are designated as income from the supply of goods, less discounts and similar, excluding sales taxes and after elimination of intra-group sales. Net sales also include royalty income.

For the packaged business net sales are recognized as follows:

- Sales of goods are recognized when a group company has delivered products to the customer, the risks and rewards of the ownership of the products have been substantially transferred to the customer and the collectability of the related receivables is reasonably assured;

For pick & mix sales the following performance obligations have been identified in the contracts with customers:

- Sales of goods;
- Leases of fixtures;
- Merchandising services.

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For pick & mix sales net sales are recognized as follows:
- Sales of goods are recognized when a group company has delivered products to the customer, the risks and rewards of the ownership of the products have been substantially transferred to the customer and the collectability of the related receivables is reasonably assured;
- Leases of fixtures and merchandising services are recognized in the amount to which Cloetta has a right to invoice. Since delivery of both goods and merchandising services normally takes place weekly, this output method best reflects that the measure of progress of the leases of fixtures and the merchandising services as performance obligations are satisfied at the same time as the goods are delivered.

Consumer incentive and trade promotion activities are recorded as a reduction in net sales based on amounts estimated as being due to customers and consumers at the end of a period, based principally on historical utilization and redemption rates.

II *Cost of goods sold*

Cost of goods sold represents the direct and indirect expenses attributable to sales revenue, including raw materials and consumables, cost of work contracted out and other external expenses, personnel expenses in respect of production employees, depreciation costs, impairment losses and losses on disposal relating to buildings and machinery and other operating expenses that are attributable to the production of products. Cost of goods sold is recognized in the profit and loss account when incurred.

III *Other income*

Government grants and subsidies, other than those related to investments in property, plant and equipment, are recorded at fair value as other income in the profit and loss account in the period in which the related costs are recorded, income is received, or subsidized deficits are recorded. Grants and subsidies are recognized as income when there is reasonable assurance that all the conditions will be satisfied and it is probable that these will be received.

Gains on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount and are recognized in other income in the profit and loss account when incurred.

IV *Selling expenses*

Selling expenses comprise the cost of brand support through direct and indirect advertising, promotional activities, the cost of supporting sales and marketing efforts and amortization and impairment losses of related intangible assets. The company promotes its products through advertising, consumer incentives and trade promotions. Selling expenses are recognized in the profit and loss account when incurred.

V *General and administrative expenses*

General and administrative expenses include the costs of general management, human resources, finance and administration, information technology, and other back office services as well as amortization of related intangible assets. General and administrative expenses are recognized in the profit and loss account when incurred.

VI *Employee remuneration*

Regular payments

Salaries, wages and social security costs are charged to the personnel expenses, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account over the period when the related services are rendered, and in accordance with employment contracts and obligations.

Termination benefits

A provision is recognized on the termination of employees as a result of either an entity's decision to terminate employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. When the criteria for recognition of a provision for termination benefits are met, the expenses are recognized either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account.

Share-based long-term incentive plans

The cost of the share-based long-term incentive plans, which represent the grant date fair value of the shares expected to be vested multiplied by the shares vested and any social security expenses, is recognized in personnel expenses, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account. The costs of the share-based long-term incentive plans are recognized pro rata over the vesting period of each plan.

VII *Net financial items*

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Any resulting exchange differences are recognized in net financial items. Gains and losses related to the effective portion of the net investment hedge are recognized in other comprehensive income and are not recognized in net financial items.

Interest income and interest expenses on third-party borrowings are recognized in the profit and loss account when incurred using the effective interest method.

Unrealized interest on contingent considerations is recognized in other financial expenses at amortized costs. Interest income and expenses on cash and cash equivalents and banking costs are recognized in the profit and loss account when incurred, in other financial income and expenses at amortized cost.

Realized and unrealized gains and losses on single currency interest rate swaps are recognized in other financial income and other financial expenses at fair market value.

VIII *Income tax*

The income tax expense for the period comprises current and deferred tax and is recognized in the profit and loss account. Corporate income tax is calculated on profit before tax in the profit and loss account, taking into account non-deductible expenses, non-taxable profits and losses and/or temporary differences arising from applicable local tax laws and other factors that affect the tax rate, e.g. changes in valuation allowances, adjustments in tax positions and changes in tax law, such as changes in enacted or substantively enacted tax rates.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable profits.

IX *Dividend distribution*

Dividends paid to the company's shareholders are recognized as a liability in the consolidated financial statements in the period in which the dividends are resolved on by the company's shareholders. Dividend payments are recognized in equity as part of retained earnings.

X *Items affecting comparability*

Items affecting comparability are those significant items that are separately disclosed in the notes to the financial statements by virtue of their size or incidence, in order to enable a full understanding of the Group's financial performance. Items affecting comparability are recognized in the profit and loss account. Their classification in the profit and loss account depends on the nature of the items affecting comparability.

Principles of valuation of assets and liabilities

General

If not specifically otherwise stated, assets and liabilities are initially recognized at the amounts at which they were acquired or incurred.

XI *Intangible assets*

Trademarks

Acquired trademarks are measured at historical cost. In view of the history of Cloetta's trademark portfolio, combined with Cloetta's commitment to continue supporting these trademarks with advertising and promotion resources and continuous product development, the useful lives of Cloetta's trademarks are considered to be indefinite in nature. Trademarks with indefinite useful lives are not amortized, but are subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets and liabilities assumed by the acquiree, and the fair value of any non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes. A CGU is the lowest level to which an asset that generates cash flows independently from other assets can be allocated. A group of CGUs is not larger than an operating segment.

Goodwill impairment tests are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and fair value less cost of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Software

Where computer software is not an integral part or a related item of computer hardware and not integral to the operation of an item of property, plant and equipment, the software is treated as a separate intangible asset.

Acquired software licenses are capitalized at historical cost and amortized on a straight-line basis over their estimated useful lives of 3 to 5 years.

Capitalized costs for internally generated software include external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with, and who devote substantial time to, the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. These costs are amortized over their expected useful lives on a straight-line basis, with the useful lives reviewed annually. Other software related costs that do not meet the above criteria for capitalization are recognized either in cost of goods sold, selling expenses or the general and administrative expenses in the profit and loss account when incurred. Development expenses previously recognized in the profit and loss account are not recognized as an asset in a subsequent period.

Software under construction is not amortized until the software is substantially complete and ready for its intended use. Software under construction is subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Amortization of software is recognized in cost of goods sold and general and administrative expenses in the profit and loss account.

Right of free electricity

The indefinite right of free electricity acquired is capitalized at acquisition cost. In view of the indefinite nature of the right, the right is not amortized, but is subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Research and development expenses

Expenses for research are recognized in the cost of goods sold, selling expenses and general and administrative expenses in the profit and loss account as incurred, depending on the nature of the asset. Expenses incurred on development projects are recognized as intangible assets when it is probable that a project will generate economic benefits in the future, in view of its commercial and technological feasibility, and the costs can be reliably measured. Otherwise the expenses on development projects are recognized in the cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account as incurred, depending on the nature of the asset. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses. The capitalized development expenditure is amortized over its expected useful life on a straight-line basis, with the useful lives reviewed annually. Development expenses previously recognized in the profit and loss account are not recognized as an asset in a subsequent period. Capitalized development expenses are subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Other intangible assets

Other intangible assets are capitalized at historical cost and amortized based on their useful lives, with the useful lives reviewed annually. Expenses previously recognized in the profit and loss account are not recognized as an asset in a subsequent period. Other intangible assets are subject to impairment testing at least annually, or whenever events or circumstances indicate a risk of impairment.

For determining whether an impairment charge in respect of any intangible asset applies, see Note 12.

XII *Property, plant and equipment*

Items of property, plant and equipment are valued at historical cost less depreciation and impairment. Historical cost includes direct costs (materials, direct labour and work contracted out) and directly attributable overhead costs including interest expenses. Depreciation is accounted for using the straight-line method on the basis of the estimated economic useful life. Government grants are deducted from the historical cost or the construction costs of the assets to which they relate.

The estimated economic useful lives of property, plant and equipment is specified as follows:

Land	Indefinite
Buildings	20 - 50 years
Machinery and equipment	3 - 55 years
PP&E under construction	n/a

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the gains or losses on disposal.

Subsequent expenditure is included in the carrying amount of an asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. All other repairs and maintenance costs are charged to the profit and loss account when incurred. The classification in the profit and loss account depends on the nature of the property, plant and equipment.

Subsidies and grants related to investments in property, plant and equipment are deducted from the related asset and are reflected in the profit and loss account as part of the depreciation charge.

Depreciation of property, plant and equipment is recognized in cost of goods sold, selling expenses and general and administrative expenses in the profit and loss account depending on the nature of the asset.

XIII *Deferred tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be used.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future, and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities arise on taxable temporary differences arising from investments in subsidiaries, with the exception of deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

For the unrecognized deductible temporary differences, unused tax credits and tax losses carried forward, it is not yet probable that these may be utilized against future taxable profits or set off against other tax liabilities within the same tax group or tax jurisdiction.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The positions taken in tax returns with respect to situations where the applicable tax rules are subject to interpretation are periodically evaluated. Provisions are established where appropriate on the basis of amounts expected to be paid to the respective tax authorities.

Deferred taxes are not discounted.

XIV *Financial assets*

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset are realized, expire, or the company has relinquished the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at either amortised cost, fair value through other comprehensive income (FVOCI) – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's recognised financial assets, that are not derivatives, consist mainly of trade receivables and cash & cash equivalents, and to a minor extent of other receivables and accrued income. All these non-derivative financial assets meet the above criteria and are recognised at amortised cost.

The Group does not presently own any financial assets recognised at FVOCI – neither debt or equity investments. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets, see Note 23.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

– Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. However, see Note 23 for derivatives designated as hedging instruments.
– Financial assets at amortized costs	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Impairment of financial assets – Policy applicable from 1 January 2018

Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less provisions for impairment. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit losses (ECLs). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Apart from trade and other receivables, the only financial assets to which the impairment principles apply are cash & cash equivalents. These amounts are invested in banks with high credit ratings and ECLs are deemed to be negligible.

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Financial assets – Policy applicable before 1 January 2018
The Group initially recognizes loans and receivables on the date when they arise. All other financial assets, including assets designated as at fair value through profit and loss account, are recognized initially on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

Loans, receivables and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are carried at amortized cost using the effective interest method.

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss account within net sales.

Receivables subject to receivable purchase agreements are derecognized at the moment of receipt of the receivable. The supplier discount fee related to the earlier receipt of receivables subject to receivable purchase agreements is recognized as other financial expenses in the profit and loss account.

XV *Impairment of non-current non-financial assets*

Assets that have an indefinite useful life are not subject to amortization but are tested annually for impairment. On the balance sheet date, the Group also assesses whether there are indications of impairment of assets that are subject to amortization or depreciation. If such indications exist, an impairment test is performed. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An asset is subject to impairment if its carrying value is higher than its recoverable value, where the recoverable value is the higher of an asset's fair value less cost of disposal and its value in use. Impairment costs are recognized immediately in the profit and loss account. The classification in the profit and loss account depends on the nature of the impaired asset.

Non-financial assets other than goodwill that are subject to an impairment loss are reviewed for possible reversal of the impairment at each reporting date. If it is established that a previously recognized impairment no longer applies or has decreased, the increased carrying amount of the asset in question is not set higher than what the carrying amount would have been if the impairment had not been recognized.

XVI *Derivative financial instruments and hedging activities*

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured at their fair value. The method of recognizing gains or losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The forward contracts to repurchase own shares, interest rate swaps and forward foreign currency contracts are not designated as hedging instruments.

Net investment hedge
Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the translation reserve. The gain or loss relating to the ineffective portion is recognized in the profit and loss account within exchange differences on borrowings and cash and cash equivalents in foreign currencies. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to the profit and loss account as part of the gain or loss on disposal and recognized in the profit and loss account on the same line where the gain or loss of the disposal is accounted for. The Group has met the requirement for applying net investment hedge accounting.

The fair values of various derivative financial instruments are disclosed in Note 23. Movements in the hedging reserve in other comprehensive income are shown in the statement of other comprehensive income. The fair value of a derivative is classified as a non-current asset or liability for the part which exceeds 12 months, and as a current asset or liability for the part that will expire within 12 months.

The fair value adjustment on interest rate swaps is recognized in unrealized gains or losses on single currency interest rate swaps in net financial items in the profit and loss account. The fair value adjustment on the forward foreign currency contracts is recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the hedged item.

The contractual payments on single currency interest rate swaps are recognized in the realized gains or losses on single currency interest rate swaps in the net financial items in the profit and loss account.

The forward contracts to repurchase own shares are settled via shares for cash. Interest on the forward contracts to repurchase own shares is accrued over the contract period and settled in cash on the settlement date.

XVII *Inventories*

Raw materials are valued at the lower of cost or net realizable value. Cost is determined using the FIFO method.

Inventories of semi-finished and finished products are stated at the lower of cost or net realizable value. Costs represent the cash equivalent of the expenditure necessarily incurred to bring the goods acquired to the condition and location for their intended use. Costs in respect of work in progress and finished goods include the applicable materials and labour costs, other direct costs, a representative share of the fixed manufacturing overhead costs based on normal operating capacity, and variable manufacturing overhead costs based on actual production during the period.

Net realizable value represents the estimated selling price in the ordinary course of business less directly attributable, applicable variable selling expenses and less costs of completion of inventory.

The write-downs, additions and releases related to the provision for obsolete inventory are recognized in cost of goods sold in the profit and loss account.

XVIII *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

XIX *Cash and cash equivalents*

Cash and cash equivalents represent cash in hand and cash at banks. Current account overdrafts at banks are included under borrowings under the heading current liabilities.

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XX Offsetting financial instruments

The Group has a Multicurrency Functionality with Credit Facility for Global Cash Pool (Global Cash Pool agreement) with Nordea Bank AB (publ), a Notional Group Account with Svenska Handelsbanken AB (publ) and a multicurrency zero-balancing cash pool with Danske Bank A/S. If the following criteria are met, the cash and cash equivalents of participating group companies and the current account overdrafts at Nordea Bank AB (publ), Svenska Handelsbanken AB (publ) and Danske Bank A/S are offset and presented in the balance sheet as a net amount:

- There is a legally enforceable right to offset the recognized amounts; and
- There is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

XXI Assets held for sale and discontinued operations

An asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. Assets are classified as held for sale when they are available for immediate sale, in their present condition, subject only to terms that are usual and customary for sales of such assets, and the sale is considered highly probable. Assets held for sale are no longer amortized or depreciated from the time they are classified as such. Assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost of disposal.

Operations that represent a separate major line of business or geographical area of operations, or are a subsidiary acquired exclusively with a view to resale and have either been disposed of or classified as held for sale, are presented as discontinued operations in the profit and loss account.

XXII Equity

Ordinary shares are classified as share capital. Incremental costs directly attributable to the purchase, sale and/or issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

XXIII Other non-current liabilities

Contingent considerations

The fair value of the contingent considerations is calculated using the income approach and is linked to the performance of the acquired companies. As part of accounting for business combinations, contingent considerations are initially recognized. Contingent considerations are discounted using the effective interest method. If the fair value of contingent considerations deviates from the carrying amount, the difference is recognized in general and administrative expenses in the profit and loss account.

If the contingent consideration will be settled within 12 months from the balance sheet date, the contingent consideration is presented as part of trade and other payables.

XXIV Provisions

Provisions are recognized for legally enforceable or constructive obligations existing on the balance sheet date, when it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required for settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow, with respect to any item included in the same class of obligations, is small.

The initial recognition, subsequent additions and releases to a provision are recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the provision.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as other financial expenses, third parties in the profit and loss account.

If the expenditure to settle an obligation is expected to be recovered from a third party, the recovery is carried as an asset in the balance sheet if it is virtually certain to be received upon settlement of the obligation.

XXV Employee benefits

Pension obligations

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds for all countries in the Eurozone. For the Swedish plans, the discount rate is based on mortgage bonds. For the Norwegian pension plans, the market yield of covered bonds is used. The rates of these bonds are used as equivalent to high-quality corporate bond rates in countries where there is no deep market in such bonds.

Remeasurements arising from defined benefit plans also include the return on plan assets excluding interest and the effect of the asset ceiling, if any, excluding interest. Remeasurements are recognized in other comprehensive income when incurred. All other expenses related to defined benefit plans are recognized in the profit and loss account when incurred, either in cost of goods sold, selling expenses or general and administrative expenses.

The interest on defined benefit obligations is recognized in net financial items in the profit and loss account when incurred.

The defined benefit schemes in industry sector pension funds, which are held by pension funds that are not able to provide company-specific or reliable information, are accounted for as though they are defined contribution schemes. In the event of a deficit in these pension funds, the company has no obligation to provide supplementary contributions, other than higher future contributions.

The contributions are recognized as personnel costs, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available to the Group.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for special compensation. A provision is recognized on the termination of employees as a result of either an entity's decision to terminate employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The expenses related to this provision are recognized in personnel expenses, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account.

Share-based payments

Share-based long-term incentive plans

The incentive plans qualify as equity-settled share-based payments. The expenses for the plans will amount to the grant date fair value per share right times the number of share rights vested, including any accelerated vesting. The expenses are recognized as personnel expenses, which are included either in cost of goods sold, selling expenses and general and administrative expenses in the profit and loss account. The total expense depends on the number of share rights vested, but

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any changes in the price of the Cloetta share after the grant date do not impact the total expense. In some jurisdictions, social security expenses have to be paid. The total expense for social security contributions will be based on the vesting date fair value of the Cloetta share and is accrued on the balance sheet until vesting of the shares. Social security expenses recognized in the profit and loss account will therefore vary with changes in the share price.

Forward contracts to repurchase own shares

At inception of the forward contract to repurchase own shares, the agreed consideration to be paid at the termination date, net of any tax effects, is recognized as a deduction from equity and as a financial liability. The interest costs directly attributable to the forward contract are recognized in the net financial expenses in the profit and loss account when incurred. At the termination date, the agreed consideration will be paid and the financial liability will be derecognized as its contractual obligation is discharged and cancelled.

XXVI *Borrowings*

Borrowings are initially recognized at fair value, being the amount received taking into account any premium or discount, and less transaction costs. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case they are classified as non-current liabilities.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

Transaction costs paid on the establishment of credit facilities are recognized to the extent that it is probable that some or all of the facility will be utilized. In such case, the transaction costs are recognized when the utilization occurs. If it is probable that some or all of the facility will be utilized, the transaction costs are reported as deferred expense and netted against current borrowings and amortized over the contract period the facility relates to, using the effective interest rate method.

XXVII *Borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in other financial expenses in the profit and loss account in the period in which they are incurred.

XXVIII *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If payment is expected to be settled later than 12 months after the balance sheet date, the payable is presented as non-current liabilities.

Trade payables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

XXIX *Operating leases*

Lease contracts for which a significant part of the risks and rewards incidental to ownership of the assets does not lie with the Group are recognized as operating leases. Payments made under operating leases are recognized in the cost of goods sold, selling expenses and in the general and administrative expenses in the profit and loss account on a straight-line basis over the term of the contract, taking into account reimbursements received from the lessor.

Note 2 Breakdown of income

See Notes 1 (I) and (III) for the accounting policy.
See Note 34 for a description of the effect of initially applying IFRS 15 on the revenue from contracts with customers.

Disaggregation of revenue from contracts with customers

Cloetta generates revenues from the transfer of goods and services at a point in time and over time in the following major sales categories and performance obligations.

SEKm	2018	2017
Net sales		
Branded packaged business	4,499	4,256
Pick & mix	1,719	1,528
Total	**6,218**	**5,784**

The breakdown of net sales by categories is as follows:

	Total income		Of which pick & mix	
SEKm	2018	2017	2018	2017
Net sales				
Sales of goods				
Candy	3,623	3,339	1,277	1,135
Chocolate	1,098	1,010	361	301
Pastilles	748	706	–	–
Chewing gum	403	385	–	–
Nuts	231	244	81	92
Other	115	100	–	–
Total	**6,218**	**5,784**	**1,719**	**1,528**
Other income				
Other	4	6	–	–
Total	**6,222**	**5,790**	**1,719**	**1,528**

The breakdown of net sales by country is as follows:

%	2018	2017
Sweden	31	34
Finland	21	21
The Netherlands	14	14
Denmark	9	7
UK	7	5
Norway	6	6
Germany	5	5
Other countries	7	8
Total	**100**	**100**

No individual customer accounts for more than 10 per cent of Cloetta's total net sales.

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Note 3 Amortization of intangible assets, depreciation of property, plant and equipment and other changes in value of non-current assets

See Notes 1 (II), (IV), (V), (XI), (XII) and (XV) for the accounting policy.

SEKm	2018	2017
Software	34	33
Other intangibles	12	11
Land and buildings	16	16
Machinery and equipment	168	169
Total amortization/depreciation	**230**	**229**
Amortization/depreciation has been allocated by function as follows:		
Cost of goods sold	136	137
Selling expenses	12	11
General and administrative expenses	82	81
Total amortization/depreciation	**230**	**229**
Impairment		
Intangible assets	–	9
Total impairment	**–**	**9**

The impairment losses on intangible assets in 2017 have been charged to general and administrative expenses.

Note 4 Expenses by type

SEKm	2018	2017
Raw materials and consumables used including change in inventory of finished goods and work in progress	2,680	2,575
Personnel expenses (See Note 5)	1,331	1,152
Depreciation, amortization and impairment charges (See Note 3)	230	238
Transportation expenses	200	179
Operating lease payments	88	88
Advertising, promotion, selling and marketing	397	347
Energy expenses	110	90
Maintenance expenses	113	105
Other operating expenses	413	489
Total operating expenses	**5,562**	**5,263**

The costs recognized relating to research and development amount to SEK 22m (37).

Note 5 Personnel expenses and number of employees

See Note 1 (VI) for the accounting policy.

Personnel expenses are specified as follows:

SEKm	2018	2017
Salaries and remuneration Group Management Team		
– Sweden	26	25
– Other	23	11
Of which, short-term variable compensation		
– Sweden	5	–
– Other	4	–
Pension costs Group Management Team		
– Defined contribution plans	8	7
Total salaries, remuneration and pension costs Group Management Team	**57**	**43**
Salaries and remuneration, other employees		
– Sweden	273	245
– Other	609	529
Pension costs, other employees		
– Defined contribution plans	67	62
– Defined benefit plans	8	8
Total salaries, remuneration and pension costs other employees	**957**	**844**
Total salaries, remuneration and pension costs, all employees	1,014	887
Social security expenses, all employees	230	199
Other personnel costs, all employees	87	66
Total personnel expenses	**1,331**	**1,152**

The average number of employees is as follows:

	2018	2017
Average number of employees		
– Group Management Team	12	10
– Other employees	2,446	2,457
Of whom, women		
– Group Management Team	2	2
– Other employees	1,317	1,317

The average number of employees by country is as follows:

	2018	2017
Average number of employees:		
Sweden	614	610
Slovakia	736	744
The Netherlands	423	415
Finland	193	168
UK	127	128
Belgium	119	124
Denmark	92	104
Ireland	76	83
Norway	59	67
Germany	9	8
Italy	7	10
Other	3	6
Total	**2,458**	**2,467**
Of whom, women:		
Sweden	323	315
Slovakia	489	502
The Netherlands	133	129
Finland	154	132
UK	85	86
Belgium	23	24
Denmark	45	52
Ireland	28	34
Norway	28	31
Germany	4	3
Italy	4	6
Other	3	5
Total	**1,319**	**1,319**

The specification of the gender distribution is as follows:

%	2018	2017
Percentage of women		
Board of Directors	43	43
Group Management Team	13	20
Other employees	54	54

See pages 80–81 for further details on remuneration of the Group Management Team.

Note 6 Remuneration of the Board

Paid fees 2018 (SEK 000s)	Board fees	Committee fees	Total
Board Chairman			
Lilian Fossum Biner	620	100	720
Board members			
Mikael Aru	285	67	352
Lottie Knutson	285	100	385
Alan McLean Raleigh[1]	190	–	190
Mikael Norman	285	133	418
Adriaan Nühn[2]	95	–	95
Camilla Svenfelt	285	100	385
Mikael Svenfelt	285	133	418
Total	**2,330**	**633**	**2,963**

Paid fees 2017 (SEK 000s)	Board fees	Committee fees	Total
Board Chairman			
Lilian Fossum Biner	620	84	704
Board members			
Mikael Aru[3]	190	–	190
Lottie Knutson	285	67	352
Mikael Norman	285	100	385
Adriaan Nühn	285	117	402
Hans Porat[4]	95	67	162
Camilla Svenfelt	285	67	352
Mikael Svenfelt	285	84	369
Total	**2,330**	**586**	**2,916**

1) Elected as per 16 April 2018.
2) Resigned on 16 April 2018.
3) Elected as per 4 April 2017.
4) Resigned on 4 April 2017.

Note 7 Items affecting comparability

See Note 1 (X) for the accounting policy.

SEKm	2018	2017
Acquisitions, integration and factory restructurings	–38	–55
of which: impairment losses other non-current assets	–	–9
Remeasurements of contingent considerations	21	–2
Other items affecting comparability	0	–20
Total	**–17**	**–77**
Corresponding line in the consolidated profit and loss account:		
Net sales	0	–
Cost of goods sold	3	–39
Other income	4	4
Selling expenses	–1	–6
General and administrative expenses	–23	–36
Total	**–17**	**–77**

See Note 12 for further details on the impairment loss in 2017.
See page 146–147 for alternative performance measures.

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Note 8 Net financial items

See Note 1 (VII) and (XVI) for the accounting policy.

SEKm	2018	2017
Exchange differences in borrowings and cash and cash equivalents in foreign currencies	–16	–17
Other financial income, third parties	5	3
Other financial income at amortized cost	5	3
Unrealized gains on single currency interest rate swaps	–	4
Other financial income at fair market value	–	4
Total other financial income	5	7
Interest expenses, third-party borrowings	–27	–26
Interest expenses, third-party pensions	–10	–11
Interest expenses, contingent earn-out liabilities	–25	–15
Amortization of capitalized transaction costs	–8	–4
Other financial expenses, third parties	–11	–11
Other financial expenses at amortized cost	–81	–67
Unrealized losses on single currency interest rate swaps	–2	–
Realized losses on single currency interest rate swaps	–4	–7
Other financial expenses at fair market value	–6	–7
Total other financial expenses	–87	–74
Net financial items	–98	–84

Note 9 Income taxes

See Note 1 (VIII) for the accounting policy.

SEKm	2018	2017
Current income tax	33	70
Deferred income tax	46	136
Total	79	206
The year's income tax expense corresponds to an effective tax rate of, %	14.1	46.5

The difference between the effective tax rate and the applicable tax rate in Sweden is attributable to the following items:

SEKm	2018	2017
Profit before tax	562	443
Tax calculated at applicable tax rate for the Parent Company	–124	–97
International rate differences	–1	2
Expenses not deductible for tax purposes	–14	–15
Adjustments recognized in the period for tax of prior periods	9	–1
Effect of (substantially) enacted tax rate changes	57	0
Tax losses for which no deferred income tax asset is recognized in the current year	–	–8
Tax losses for which no deferred income tax asset was recognized in previous years	–12	0
Other	6	–87
Income tax	–79	–206
Reported effective tax rate, %	14.1	46.5
Tax rate of Parent Company, %	22.0	22.0

The applicable tax rate for the Parent Company is based on the enacted tax rate, which is the Swedish corporate income tax rate.

The reported effective tax rate is based on the relative proportion of the group companies' contribution to profit before tax and the applicable tax regulations in the countries concerned.

Note 10 Discontinued operation

See Notes 1 (XXI) for the accounting policy.

On 5 September 2017 Cloetta Holland B.V. sold 100 per cent of the shares in Cloetta Italia S.r.l. to Katjes International GmbH.

Cloetta Italia S.r.l. is accounted for as discontinued operation. Cloetta has recognized an impairment loss of SEK 159m on intangible assets and an impairment loss of SEK 238m on property, plant and equipment as a result of a write-down of the carrying value of the assets subject to the disposal to their lower fair value less cost of disposal in 2017. The impairment loss is recognized in loss from discontinued operation, net of tax. The disposal was completed via a transfer of the shares of Cloetta Italia S.r.l. Assets and liabilities that have been retained in the Cloetta Group were transferred within the group before the transfer of the shares took place.

SEKm	2018	2017[1]
Net sales	–	316
Cost of goods sold		
- Impairment loss	–	–238
- Other cost of goods sold	–	–181
Total cost of goods sold	**–**	**–419**
Gross profit	**–**	**–103**
Selling expenses	–	–102
General and administrative expenses		
- Impairment loss	–	–159
- Other general and administrative expenses	–	–80
Total general and administrative expenses	**–**	**–239**
Operating loss	**–**	**–444**
Other financial income	–	0
Other financial expenses	–	–1
Net financial items	**–**	**–1**
Loss before tax and reclassification of currency translation differences on discontinued operation	**–**	**–445**
Income tax	–	9
Loss from discontinued operation before reclassification of currency translation difference on discontinued operation, net of tax	**–**	**–436**
Currency translation differences on discontinued operation reclassified from other comprehensive income	–	102
Loss from discontinued operation, net of tax	**–**	**–334**

1) Loss from discontinued operation comprises the period from 1 January 2017 until the disposal date of 5 September 2017.

The following table presents the cash flow from discontinued operation, being part of the consolidated cash flow statement on page 93:

SEKm	2018	2017
Cash flow from operating activities	–	–40
Cash flow from investing activities	–	361
Cash flow from financing activities	–	–
Cash flow from discontinued operation	**–**	**321**

The following assets and liabilities were classified as held for sale in relation to the discontinued operation at 5 September 2017:

SEKm	5 Sep 2017
Intangible assets	99
Property, plant and equipment	165
Deferred tax asset	7
Other financial assets	1
Inventories	176
Other current assets	197
Cash and cash equivalents	18
Total assets disposed	**663**
Borrowings	64
Deferred tax liability	11
Provisions for pensions and other long-term employee benefits	61
Provisions	3
Other current liabilities	194
Total liabilities disposed	**333**
Carrying amount of net assets held for sale	**330**
Disposal consideration received	330
Minus: Carrying amount of net assets disposed	–330
Result on disposal, before income tax	**–**
Income tax on result on disposal	–
Result on disposal, net of tax	**–**

Note 11 Audit fees

SEKm	2018	2017
Fee for auditing services	**5**	**7**
Fee for other services		
KPMG		
– Tax advice	0	0
– Audit-related advice	0	1
– Other	1	0
Total other services	**1**	**1**
Total audit fees	**6**	**8**

Auditing services refer to the audit of the consolidated financial statements, the Parent Company's statutory financial statements, the statutory financial statements of its subsidiaries, the accounts and the company's administration by the Board of Directors and the President and CEO.

KPMG was elected as the auditor of the Group for both financial years 2017 and 2018.

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Note 12 Intangible assets

See Notes 1 (XI) and (XV) for the accounting policy.

SEKm Historical cost	Trademarks	Goodwill	Software	Other intangibles	Total
1 January 2017					
Acquisition or production costs	3,682	2,402	281	76	6,441
Accumulated amortization and impairments	–505	–354	–195	–33	–1,087
Book value at 1 January 2017	**3,177**	**2,048**	**86**	**43**	**5,354**
Movements in 2017					
Additions	–	–	20	1	21
Disposals	–	–	–2	0	–2
Amortization - continuing operations	–	–	–33	–11	–44
Amortization - discontinued operation	–	–	–1	–	–1
Impairments - continuing operations	–8	–	–	–1	–9
Impairments - discontinued operation	–159	–	–	–	–159
Acquisitions through business combinations	90	172	1	86	349
Divestments through discontinued operation	–94	–	–3	–3	–100
Exchange differences	39	41	2	–1	81
Total	**–132**	**213**	**–16**	**71**	**136**
31 December 2017					
Acquisition or production costs	3,098	2,484	276	184	6,042
Accumulated amortization and impairments	–53	–223	–206	–70	–552
Book value at 31 December 2017	**3,045**	**2,261**	**70**	**114**	**5,490**
Movements in 2018					
Additions	–	–	23	–	23
Amortization	–	–	–34	–12	–46
Acquisitions through business combinations	–	6	–	–	6
Exchange differences	62	86	4	1	153
Total	62	92	–7	–11	136
31 December 2018					
Acquisition or production costs	3,160	2,586	291	158	6,195
Accumulated amortization and impairments	–53	–233	–228	–55	–569
Book value at 31 December 2018	**3,107**	**2,353**	**63**	**103**	**5,626**
Estimated economic useful life	*Indefinite*	*Indefinite*	*3–5 years*	*5 years - indefinite*	

The carrying amount of software includes an amount of SEK 10m (4) for software under construction.

The other intangibles consist mainly of capitalized customer lists and benefits related to the right to free electricity.

Impairment testing of goodwill and trademarks

Goodwill and trademarks do not generate cash inflows that are largely independent of those from other assets. These are therefore allocated to the cash-generating unit (CGU) or group of CGUs expected to benefit most from these assets. A CGU is the lowest level to which an asset that generates cash flows independently from other assets can be allocated. A group of CGUs is not larger that an operating segment.

The estimated recoverable amount of all CGUs and groups of CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period, taking into account asset specific risks. Cash flows beyond the three-year period are extrapolated using a terminal growth rate.

The most important assumptions in the calculations are the terminal growth rate and the pre-tax discount rate. EBITDA is a key assumption when establishing the financial budgets. These assumptions reflect, and do not differ from, prior experience and external information sources. EBITDA is determined in the annual budget process. The terminal growth rate is determined by assuming that the business will grow in line with consumer prices/inflation based on central bank forecasts or similar unless otherwise stated. Discount rates have been determined by applying the capital asset pricing model. The terminal growth rate is in line with the Group's long-term goal for organic growth and the management's judgement.

These assumptions have been used for the analysis of each CGU and group of CGUs in the impairment analysis. The budgeted figures are based on past performance and management's expectations for market development. The weighted average growth rates used are consistent with the forecasts used in the Group. The discount rates used are pre-tax and reflect specific risks relating to the relevant industry and the risk particularly associated with the asset for which the estimates of the future cash flows have not been adjusted.

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For impairment testing, the following assumptions have been used:

	Terminal growth rate		Pre-tax discount rate	
%	2018	2017	2018	2017
Scandinavia/Sweden	2.0	2.0	6.7	6.9
Finland	2.0	2.0	6.9	6.8
Middle/ The Netherlands	2.0	2.0	6.9	7.1
Group	2.0	2.0	6.8	6.9

Goodwill

Goodwill is allocated to a CGU or group of CGUs not larger than an operating segment. The allocation has been made to the groups of CGUs that correspond to the operating segments that are expected to benefit most, which are the commercial organizations of Scandinavia, Finland and Middle. The goodwill acquired related to the acquisition of Candyking Holding AB and its subsidiaries has been allocated to the CGU Scandinavia.

The following summary specifies the allocation of goodwill to the different groups of cash-generating units:

SEKm	Scandinavia	Finland	Middle	Total
1 January 2017	756	983	309	2,048
Business combinations	171	–	–	171
Adjustment purchase price allocation	1	–	–	1
Exchange rate differences	9	25	7	41
31 December 2017	937	1,008	316	2,261
Business combinations	6	–	–	6
Exchange rate differences	36	39	11	86
31 December 2018	979	1,047	327	2,353

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Trademarks

For trademarks, the related CGUs are the commercial organizations of the countries that own the respective trademarks. The products are mainly sold in the countries owning the trademarks. If products are sold by group companies in other countries, the trademark owner charges royalty fees to the selling party.

The trademark for the acquired brands Candyking, Karamellkungen and Parrots have been allocated to the CGU Sweden.

The following summary specifies the allocation of trademarks to the different cash-generating units:

SEKm	Sweden	Finland	The Netherlands	Italy	Corporate assets	Total
1 January 2017	1,455	496	914	252	60	3,177
Business combinations	90	–	–	–	–	90
Impairments	–	–	–	–159	–	–159
Divestments through discontinued operation	–	–	–	–99	–	–99
Exchange rate differences	–	13	16	6	1	36
31 December 2017	1,545	509	930	–	61	3,045
Exchange rate differences	–	21	39	–	2	62
31 December 2018	1,545	530	969	–	63	3,107

The key assumptions underlying the cash flow projections for the period covered by recent forecasts are included in the table below

Key assumption used in value-in-use calculation	Basis for determining value assigned to key assumption
EBITDA	External market studies on growth of market, historical growth rates in the period before the recession, etc.

Impairment of goodwill and trademarks

In the assessment of possible impairment-triggering events related to the sale of Cloetta Italia S.r.l., the Company determined that the write-down of the carrying value of the assets subject to disposal to their lower fair value less cost of disposal, required an impairment for the CGU Italy in respect to trademarks. The Company recorded an impairment charge on trademarks of SEK 0m (159) related to the CGU Italy.

Corporate assets

Group-wide assets and liabilities, including the right of free electricity and software under construction that cannot be directly allocated on a reasonable and consistent basis to the CGUs or groups of CGUs are classified as corporate assets. A group impairment analysis has been performed in which the carrying amount of the total group of CGUs, including the portion of the carrying amount representing the Group's corporate assets, is compared with the total recoverable amount.

Note 13 Property, plant and equipment

See Notes 1 (XII) and (XV) for the accounting policy.

SEKm Historical cost	Land and buildings	Machinery and equipment	Assets under construction	Total
1 January 2017				
Acquisition or production costs	1,005	3,485	17	4,507
Accumulated depreciation and impairments	–414	–2,393	–	–2,807
Book value at 1 January 2017	**591**	**1,092**	**17**	**1,700**
Movements in 2017				
Additions	3	38	95	136
Disposals	–	–6	–	–6
Transfers	12	73	–85	–
Depreciation - continuing operations	–16	–169	–	–185
Depreciation - discontinued operation	–2	–14	–	–16
Impairments - discontinued operation	–108	–130	–	–238
Acquisitions through business combinations	–	80	–	80
Divestments through discontinued operation	–71	–94	–	–165
Exchange differences	8	24	0	32
Total	**–174**	**–198**	**10**	**–362**
31 December 2017				
Acquisition or production costs	754	3,426	27	4,207
Accumulated depreciation and impairments	–337	–2,532	–	–2,869
Book value at 31 December 2017	**417**	**894**	**27**	**1,338**
Movements in 2018				
Additions	–	27	134	161
Transfers	10	107	–117	–
Depreciation	–16	–168	–	–184
Exchange differences	13	26	–1	38
Total	**7**	**–7**	**16**	**16**
31 December 2018				
Acquisition or production costs	790	3,640	43	4,473
Accumulated depreciation and impairments	–366	–2,753	–	–3,119
Book value at 31 December 2018	**424**	**887**	**43**	**1,354**
Estimated economic useful life	*Buildings: 20–50 years Land: Indefinite*	*3–55 years*	*N/A*	

The impairment losses on property, plant and equipment in 2017 have been charged to loss from discontinued operation, net of tax (see Notes 3 and 10).

At 31 December 2018, the Group had contractual commitments for purchases of machinery and equipment for an amount of SEK 30m (22).

The estimated economic useful lives of machinery and equipment can be further specified as follows:

	Estimated economic useful life
Production lines	5–35 years
Packaging lines	5–25 years
Production equipment	5–55 years
IT hardware	3–5 years
Fixtures	5 years
Furniture	5–10 years
Production vehicles	7–15 years
Vehicles	5 years
Other	5–10 years

The breakdown of property, plant and equipment and intangible assets by country, is as follows:

SEKm	31 Dec 2018	31 Dec 2017
Sweden	2,757	2,739
Finland	1,603	1,535
The Netherlands	1,567	1,520
Other countries	1,053	1,034
Total	**6,980**	**6,828**

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Note 14 Tax assets and liabilities

See Notes 1 (VIII) and (XIII) for the accounting policy.

Deferred tax assets and liabilities refer, among other things, to the tax effect of the difference between the tax base of the defined asset or liability and its carrying amount and the recognized tax losses carried forward.

Movements of deferred tax assets and liabilities per category are specified as follows:

SEKm	Tax losses carried forward	Unused tax credits	Property plant & equipment	Intangible assets	Provisions (incl. pensions)	Other current assets and liabilities	Total
1 January 2017	**174**	**28**	**–147**	**–609**	**45**	**–23**	**–532**
Acquisitions through business combinations	15	–	3	–38	0	0	–20
Divestments through discontinued operation	–12	–	46	–5	–3	–23	3
Profit and loss account (charge)/credit for the year	–70	–28	–8	–6	–13	–7	–132
Adjustments recognized in the period for tax of prior periods	–2	–	0	0	0	0	–2
Effect of rate changes	–6	–	4	1	–1	0	–2
Exchange differences/ Other	1	0	–1	–5	6	1	2
31 December 2017	**100**	**–**	**–103**	**–662**	**34**	**–52**	**–683**
Profit and loss account (charge)/credit for the year	–40	–	–5	4	0	–64	–105
Adjustments recognized in the period for tax of prior periods	–19	–	1	27	0	0	9
Effect of rate changes	–1	–	7	53	–2	0	57
Exchange differences/Other	4	–	–3	–23	9	–3	–16
31 December 2018	**44**	**–**	**–103**	**–601**	**41**	**–119**	**–738**

Deferred tax assets and liabilities are broken down as follows:

SEKm	31 Dec 2018	31 Dec 2017
Deferred tax assets	16	20
Deferred tax liabilities	–754	–703
Total	**–738**	**–683**

Deferred tax assets are expected to be realized as follows:

SEKm	31 Dec 2018	31 Dec 2017
Deferred tax asset to be realized after more than 12 months	14	19
Deferred tax asset to be realized within 12 months	2	1
Total	**16**	**20**

The composition of deferred tax assets for deductible temporary differences, unused tax credits and tax losses carried forward is as follows:

	31 Dec 2018		31 Dec 2017	
SEKm	Recognized	Not recognized	Recognized	Not recognized
Deductible temporary differences	107	–	64	–
Unused tax credits	–	–	–	18
Tax losses carried forward	45	51	100	107
Total	**152**	**51**	**164**	**125**

The expiration dates for the tax losses carried forward range from two years to unlimited.

Deferred tax liabilities

The deferred tax liability is recognized to account for the taxable temporary differences between the tax bases of intangible assets, property, plant and equipment, work in progress, inventories, receivables and provisions and their carrying amounts.

SEKm	31 Dec 2018	31 Dec 2017
Deferred tax liability to be recovered after more than 12 months	760	680
Deferred tax liability to be recovered within 12 months	–6	23
Total	**754**	**703**

Current income tax

SEKm	31 Dec 2018	31 Dec 2017
Current income tax assets	6	8
Current income tax liabilities	–13	–30
Total	**–7**	**–22**

See also Note 33 for further details regarding accounting estimates and judgments in respect to the ongoing tax audits.

Note 15 Non-current financial assets

See Notes 1 (XIV) and (XV) for the accounting policy.

SEKm	31 Dec 2018	31 Dec 2017
Deposits	1	1
Funded pension schemes in a net asset position	2	3
Other financial assets	8	7
Total	**11**	**11**

The fair values of non-current financial assets approximate their carrying amounts.

None of the different classes of non-current financial assets contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

See Note 25 for further details on the funded pension schemes in a net asset position.

Note 16 Inventories

See Notes 1 (XVII) for the accounting policy.

Inventories for own use and resale

SEKm	31 Dec 2018	31 Dec 2017
Raw materials and consumables	250	263
Work in progress	58	61
Finished goods and goods for resale	457	421
Total	**765**	**745**

Movements in the provision for obsolete inventory are as follows:

SEKm	2018	2017
At 1 January	**12**	**17**
Provision for impairment of inventories	6	9
Inventories written off during the year as obsolete	–2	–3
Unused amounts reversed	–3	–4
Acquisitions through business combinations	6	0
Divestments through discontinued operation	–	–6
Exchange differences	1	–1
At 31 December	**20**	**12**

Note 17 Trade and other receivables

See Notes 1 (XIV) for the accounting policy.

SEKm	31 Dec 2018	31 Dec 2017
Trade debtors	746	740
Loss allowances for trade receivables	–1	–2
Trade receivables - net	**745**	**738**
Other receivables	47	94
Prepaid expenses and accrued income	46	49
Total	**838**	**881**

Movements in the loss allowance for trade receivables are as follows:

SEKm	2018	2017
At 1 January	**2**	**24**
Provision for impairment of trade receivables	1	1
Trade receivables written off during the year as uncollectible	–1	0
Unused amounts reversed	0	0
Acquisitions through business combinations	–	1
Divestments through discontinued operation	–	–23
Exchange differences	–1	–1
At 31 December	**1**	**2**

Candyking Denmark A/S entered into receivable purchase agreements with Skandinaviska Enskilda Banken for one (two) Danish customer(s). As a result, per year-end, Candyking Denmark A/S received an amount of DKK 5m (33), equivalent to SEK 6m (44) in advance before the due date. Candyking Denmark A/S pays a discount fee for the early receipt based on 3m CIBOR with a zero-floor clause.

The individual trade receivables for which provisions were made relate to uncollectible receivables that are not covered by credit insurance.

The age analysis of the trade receivables including loss allowances is as follows:

SEKm	31 Dec 2018 Weighted average loss rate	31 Dec 2018 Gross carrying amount	31 Dec 2018 Loss allowance	31 Dec 2018 Net carrying amount	31 Dec 2017 Weighted average loss rate	31 Dec 2017 Gross carrying amount	31 Dec 2017 Loss allowance	31 Dec 2017 Net carrying amount
Current (not past due)	0%	614	–	614	0%	652	–	652
Up to 60 days past due	0%	117	0	117	0%	67	0	67
60 to 90 days past due	0%	6	0	6	0%	3	–	3
Over 90 days past due	11%	9	–1	8	11%	18	–2	16
Total		**746**	**–1**	**745**		**740**	**–2**	**738**

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The other receivables and prepaid expenses and accrued income do not contain impaired assets.

As of 31 December 2018, trade receivables of SEK 132m (86) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

Loss allowances are made based on individual customer loss assessments. Based on historical experience and current expectations for the future, no material credit losses on other trade receivables are expected. The above table shows the loss allowance recognized based on the individual assessments. Credit losses on other receivables and accrued income are expected to be immaterial.

The carrying amounts are assumed to approximate the fair values of trade receivables and other receivables. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of trade receivables are denominated in the following currencies:

SEKm	31 Dec 2018	31 Dec 2017
Euro	275	263
Swedish krona	251	260
Danish krone	121	59
British pound	68	85
Norwegian krone	18	53
US dollar	3	4
Other currencies	9	14
Total	**745**	**738**

The breakdown of prepaid expenses and accrued income is as follows:

SEKm	31 Dec 2018	31 Dec 2017
Prepaid IT expenses	9	8
Prepaid rents, insurance and lease charges	9	11
Prepaid personnel-related expenses	2	1
Prepaid marketing expenses	1	1
Other prepaid expenses	18	15
Other accrued income	7	13
Total	**46**	**49**

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Note 18 Cash and cash equivalents

See Notes 1 (XIX) and (XX) for the accounting policy.

The item cash and cash equivalents in the consolidated cash flow statement and consolidated balance sheet consists of the following:

SEKm	31 Dec 2018	31 Dec 2017
Cash and cash equivalents	551	759
Total	**551**	**759**

All cash and cash equivalents are available on demand.

As of the date of the acquisition of Candyking Holding AB and its subsidiaries, the applicable multicurrency functionality with credit facility for global cash pool (Global Cash Pool agreement) with Nordea Bank AB (publ) is applicable to the Group. Svenska Handelsbanken AB (publ) provided the Group with a Notional Group Account (NGA). In 2018 Danske Bank A/S provided the Group with a Multicurrency Zero Balancing Cash Pool (MZBCP).

The Global Cash Pool agreement, the NGA and the MZBCP enable Cloetta AB (publ) and its subsidiaries to use the funds available as deposited in the bank in one or more currencies for the purpose of efficient liquidity management and daily payments in the ordinary course of business. The Global Cash Pool agreement, the NGA and the MZBCP provide the possibility to make withdrawals from accounts held by the bank in different currencies and in different countries without the necessary funds being available in the respective currency, provided that the corresponding funds are available considering the balances on all accounts in the Global Cash Pool agreement, the NGA and the MZBCP, and any amounts available for this purpose pursuant to any credit facility and/or intraday revolving facility agreed upon separately. The Global Cash Pool agreement, the NGA and MZBCP are based on, and connect accounts in, local account structures in different countries in which group companies participate as sub-account holders. The Global Cash Pool agreement, the NGA and the MZBCP are not connected to each other.

The following table shows the carrying amounts of recognized offsetting of financial assets and liabilities relating to the Notional Group Account

2018 SEKm	Gross amounts of financial instruments	Set-off in the balance sheet	Net amount presented in the balance sheet	Related financial instruments that are not offset	Net amount
Cash and cash equivalents	1,093	–655	438	113	551
Total assets	**1,093**	**–655**	**438**	**113**	**551**
Loans from credit institutions	655	–655	–	2,078	2,078
Total liabilities	**655**	**–655**	**–**	**2,078**	**2,078**

2017 SEKm	Gross amounts of financial instruments	Set-off in the balance sheet	Net amount presented in the balance sheet	Related financial instruments that are not offset	Net amount
Cash and cash equivalents	1,294	–614	680	79	759
Total assets	**1,294**	**–614**	**680**	**79**	**759**
Loans from credit institutions	614	–614	–	2,719	2,719
Total liabilities	**614**	**–614**	**–**	**2,719**	**2,719**

Note 19 Assets held for sale

See Note 1 (XXI) for the accounting policy.

The assets held for sale, as at 1 January 2017, of SEK 9m were divested through the discontinued operation in 2017.

See Note 30 for a total overview of the Group's assets and liabilities that are measured at fair value. The remeasurement of the fair value is recognized in the cost of goods sold in the profit and loss account.

Note 20 Equity

See Notes 1 (XXII) and (XXV) for the accounting policy.

Capital management

The Board's financial objective is to maintain a strong financial position that contributes to maintaining investor, creditor and market confidence and to providing a platform for ongoing development of the business. Capital consists of total equity. The Board of Directors proposes the dividend to the shareholders.

The company's long-term intention is a dividend pay-out of between 40 and 60 per cent of profit after tax. Both in 2018 and 2017, the ambition was to continue using future cash flows to repay debt, to pay dividends and to maximize financial flexibility for complementary acquisitions.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total assets.

Dividend per share

The Annual General Meeting (AGM) on 16 April 2018 and 4 April 2017 approved the following dividend:

	2018	2017
Ordinary dividend per share, SEK	0.75	0.75
Special dividend per share, SEK	0.75	–
Total dividend, SEKm	433	216
Ordinary dividend as a percentage of profit for the previous year, excluding the impact of impairment loss	53	53
Payment date	April 2018	April 2017

After the reporting date, the following dividend was proposed by the Board of Directors. The dividend has not been recognized as liability in the balance sheet

	2018	2017
Ordinary dividend per share, SEK	1.00	0.75
Special dividend per share, SEK	–	0.75
Total dividend, SEKm	289	433

The Board of Directors proposes that the total earnings in the Parent Company at the disposal of the AGM amounting to SEK 2,015m (2,445) are to be distributed to the shareholders in the amount of SEK 289m (433) and to be carried forward to new account in the amount of SEK 1,726m (2,012).

Group equity

Share capital

The number of shares authorized, issued and fully paid up at 31 December 2018 was 288,619,299 (288,619,299). A conversion of class A shares to class B shares was carried out in 2017 as a result of the undertakings with Malfors Promotor. As a result, the number of shares consists of 5,735,249 (5,735,249) class A shares and 282,884,050 (282,884,050) class B shares. All shares grant equal entitlement to participate in the company's assets and profits. The quota value (par value) of the share is SEK 5.00. Should the company issue new shares of class A and class B through a cash or set-off issue, holders of class A and class B shares have the right to subscribe for new shares of the same class in proportion to the number of shares already held on the record date. If the issue includes shares of only class B, all holders of class A and class B shares have the right to subscribe for new class B shares in proportion to the number of shares already held on the record date. The corresponding rules of apportionment are applied in the event of a bonus issue or issue of convertibles and subscription warrants. The transference of a class A share to a person who is not previously a holder of class A shares in the company is subject to a pre-emption procedure, except when the transfer is made through division of joint property, inheritance, testament or gift to the person who is the closest heir to the bequeather. See page 58 for further details.

Neither Cloetta AB (publ) nor any of its subsidiaries has held any shares in Cloetta during the year.

Foreign currency translation reserve

Reserves consist of all exchange gains and losses arising on translation of the financial statements of foreign operations that present their financial statements in a currency other than that used by the Group. This includes foreign currency differences on monetary items that are a receivable from or payable to a foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future. As a result of the divestment of Cloetta Italia S.r.l. currency translation gains on discontinued operation have been reclassified through profit and loss in 2017 in an amount of SEK 102m.

Retained earnings

Retained earnings comprise the sum of profit for the year and retained earnings from previous years.

Changes in equity

For disclosures about changes in equity in the Group, see the consolidated statements of changes in equity on page 92.

Hedge of a net investment in a foreign operation (Net investment hedge)

The Group applies hedge accounting for the investment in trademarks in Cloetta Ireland Ltd., Cloetta Suomi Oy, Cloetta Holland B.V. and Cloetta Slovakia s.r.o. See Note 1 (XVI) for further details on the applied hedge accounting.

Share-based payments

See Note 25 for further details about share-based payments.

Note 21 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to owners of the Parent Company by the weighted average number of shares outstanding. Diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the Parent Company by the weighted average number of shares outstanding adjusted for the dilutive effect of potential shares.

The calculation of basic and diluted earnings per share is based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding:

	2018	2017
Profit from continuing operations	483	237
Loss from discontinued operation	–	–334
Profit/loss for the year, attributable to ordinary shareholders (in SEKm) (basic and diluted)	**483**	**–97**
Number of issued ordinary shares at 1 January	**288,619,299**	**288,619,299**
Effect of forward contract to repurchase own shares	-2,126,886	–2,298,835
Weighted average number of ordinary shares during the year before dilution	**286,492,413**	**286,320,464**
Effect of share-based payments	157,657	171,714
Weighted average number of ordinary shares during the year after dilution	**286,650,070**	**286,492,178**
Basic earnings per share from continuing operations, SEK	1.69	0.83
Diluted earnings per share from continuing operations, SEK	1.68	0.83
Basic earnings per share from discontinued operation, SEK	–	–1.17
Diluted earnings per share from discontinued operation, SEK	–	–1.17
Basic earnings per share, SEK	**1.69**	**–0.34**
Diluted earnings per share, SEK	**1.68**	**–0.34**

Cloetta has entered into forward contracts to repurchase own shares in order to fulfil its future obligation to deliver the shares to the participants in its long-term share-based incentive plan. See Note 23 for a table that presents movements in the contracts since 1 January 2017.

Note 22 Borrowings

See Notes 1 (XXVI) and (XXVII) for accounting policies.

31 Dec 2018 SEKm	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	Total
Loans from credit institutions	–	1,278	800	–	2,078
Capitalized transaction costs	–1	–1	–1	–	–3
Commercial papers	500	–	–	–	500
Accrued interest	1	–	–	–	1
Total	**500**	**1,277**	**799**	**–**	**2,576**

31 Dec 2017 **SEKm**	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	Total
Loans from credit institutions	1,000	1,719	–	–	2,719
Capitalized transaction costs	–3	–4	–	–	–7
Accrued interest	2	–	–	–	2
Finance lease liabilities	0	–	–	–	0
Total	**999**	**1,715**	**–**	**–**	**2,714**

See note 29 for the Group's contractually agreed undiscounted cash flows payable under financial liabilities, including interest payments.

The following table shows the reconciliation of movements of liabilities to cash flows arising from financing activities

SEKm	Long-term borrowings	Short-term borrowings	Total
1 January 2017	2,666	2	2,668
Changes from financing cash flows			
Proceeds from loans	–	325	325
Repayment of loans	–	–347	–347
Total changes from financing cash flows	**–**	**–22**	**–22**
Other changes			
Business combinations	–	22	22
Amortization of capitalized transaction costs	7	–3	4
Interest expenses, third-party borrowings	21	4	25
Interest paid	–21	–4	–25
Reclassification between long-term and short-term borrowings	–1,000	1,000	–
Exchange differences on borrowings	42	0	42
Total other changes	**–951**	**1,019**	**68**
31 December 2017	**1,715**	**999**	**2,714**
Changes from financing cash flows			
Proceeds from loans	–	163	163
Transaction costs paid	–4	–	–4
Repayment of loans	–519	–360	–879
Proceeds from commercial papers	–	999	999
Repayment of commercial papers	–	–500	–500
Total changes from financing cash flows	**–523**	**302**	**–221**
Other changes			
Amortization of capitalized transaction costs	5	3	8
Interest expenses, third-party borrowings	23	1	24
Interest paid	–23	–1	–24
Reclassification between long-term and short-term borrowings	800	–800	–
Exchange differences on borrowings	78	–4	74
Total other changes	**883**	**–801**	**82**
31 December 2018	2,076	500	2,576

The carrying amounts and fair value of non-current borrowings are as follows:

	Fair value		Carrying amount	
SEKm	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Loans from credit institutions	2,078	2,719	2,078	2,719
Commercial papers	500	–	500	–
Finance lease liabilities	–	0	–	0
Total	2,578	2,719	2,578	2,719

The fair value of loans from credit institutions is equal to their carrying amount, as the impact of discounting is not significant, and the credit risk has not changed since the loan agreement was signed.

The Group's borrowings are all exposed to interest rate changes and changes in the applicable margin on a quarterly basis.

Loans from credit institutions

On 22 July 2016, Cloetta entered into a term and revolving facilities agreement with a group of four banks, Danske Bank A/S, DNB Sweden AB, Skandinaviska Enskilda Banken AB (publ) and Svenska Handelsbanken AB (publ), in SEK and EUR, amounting in total to the equivalent of SEK 3,700m. The term and revolving facilities agreement is unsecured in nature.

In June 2018, Cloetta entered into an amendment and restatement of the term and revolving facilities agreement, in combination with the launch of a commercial paper programme. The amendments to the term and revolving facilities agreement comprised a EUR 50m reduction (equivalent to SEK 519m) in the multicurrency loan and a SEK 200m reduction in the single-currency term loan. The amendment included an extension of the tenor from three to four years with the possibility of an extension for up to a further two years for the multicurrency loan, an extension of the tenor from one to five years for the single-currency term loan, and an extension of the tenor under the multicurrency credit revolving loan from five to six years.

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The Group credit facility at reporting date relates to:

	Outstanding amount		Interest percentage		Applicable margin	
SEKm	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Multicurrency term loan of nominal EUR 125m	1,278	1,719	Variable EURIBOR + fixed applicable margin	Variable EURIBOR + fixed applicable margin	0.80%	1.00%
Single-currency term loan of nominal SEK 800m	800	1,000	Variable STIBOR + fixed applicable margin	Variable STIBOR + fixed applicable margin	0.90%	1.00%
Commercial papers of nominal SEK 500m	500	–	Fixed margin per issued paper	–	0.22%	–
Multicurrency credit revolving loan of EUR 105m	–	–	Variable STIBOR + fixed applicable margin	Variable STIBOR + fixed applicable margin	1.00%	1.20%
Credit revolving loan of EUR 15m	–	–	–	Variable EURIBOR + 1%	1.00%	1.00%
Total Group credit facility	**2,578**	**2,719**				
Capitalized transaction costs	–3	–7				
Finance lease liabilities	–	0				
Accrued interest	1	2				
Total Borrowings	**2,576**	**2,714**				

35 per cent (35) of the fixed applicable margin on the unutilized amounts of the credit revolving loans is paid as a commitment fee.

All borrowings are denominated in euros, with the exception of the single-currency term loan of SEK 800m (1,000) and the commercial papers of SEK 500m (0).

The effective interest rate for the loans from credit institutions and the senior secured notes was 0.86 per cent (0.94).

Note 23 Derivative financial instruments

See Note 1 (XVI) for the accounting policy.

	31 Dec 2018		31 Dec 2017	
SEKm	**Assets**	**Liabilities**	Assets	Liabilities
Non-current				
Interest rate swaps	–	3	–	2
Total non-current	**–**	**3**	**–**	**2**
Current				
Forward contract to repurchase own shares	–	59	–	70
Interest rate swaps	–	2	–	1
Forward foreign currency contracts	1	–	0	–
Total current	**1**	**61**	**0**	**71**
Total	**1**	**64**	**0**	**73**

Forward contracts to repurchase own shares

Following the introduction of share-based long-term incentive plans, Cloetta entered into forward contracts in order to repurchase own shares to fulfil its future obligation to deliver the shares to the participants in its share-based long-term incentive plans. The forward contracts to repurchase own shares are measured at cost.

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The following table shows the movements in the contracts since 1 January 2017

		Number of shares					
	Date	Contract 1	Contract 2	Contract 3	Contract 4	Contract 5	Contract 6
Balance at	**1 Jan 2017**	**1,200,000**	**430,000**	**709,730**	**–**	**–**	**–**
Shares granted to participants LTI'14 (settlement of forward contract to repurchase own shares)	8 May 2017	–362,029	–	–	–	–	–
Repurchased own shares	8 May 2017	–3,932	–	–	–	–	–
Roll-forward to new forward contract to repurchase own shares	15 Jun 2017	–834,039	–	–709,730	1,543,769	–	–
Roll-forward to new forward contract to repurchase own shares	14 Jul 2017	–	–	–	–1,543,769	1,543,769	–
New forward contract to repurchase own shares	14 Jul 2017	–	–	–	–	348,793	–
Balance at	**31 Dec 2017**	**–**	**430,000**	**–**	**–**	**1,892,562**	**–**
Shares granted to participants LTI'15 (settlement of forward contract to repurchase own shares)	29 May 2018	–	–	–	–	–338,482	–
Roll-forward to new forward contract to repurchase own shares	29 May 2018	–	–430,000	–	–	–1,554,080	1,984,080
New forward contract to repurchase own shares	29 May 2018	–	–	–	–	–	7,826
Balance at	**31 Dec 2018**	**–**	**–**	**–**	**–**	**–**	**1,991,906**
	Price, SEK	23.00000	26.40000	28.50000	36.10000	30.97320	29.38860

See Note 25 for more details about the share-based long-term incentive plan.

Interest rate swaps

The Group has entered into several interest rate swap contracts to partially cover the interest rate risk on loans denominated in both SEK and EUR.

The following table shows the combined notional principal amounts of the outstanding interest rate swaps

		Notional principal amounts		Fixed interest currency rates		Duration	
		31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
STIBOR Interest rate swaps	SEKm	800	450	0.4630%	0.4630%	Q1 2019–Q4 2021	Q1 2018–Q4 2021
STIBOR Interest rate swaps	SEKm	–	200	–	0.4630%	–	Q3 2018–Q4 2021
STIBOR Interest rate swaps	SEKm	–	150	–	0.4630%	–	Q1 2019–Q4 2021
STIBOR Interest rate swaps	SEKm	–	200	–	0.0300%	–	Q1 2018–Q2 2018
EURIBOR Interest rate swaps	EURm	50	50	0.1560%	0.1560%	Q1 2019–Q2 2020	Q1 2018–Q2 2020
EURIBOR Interest rate swaps	EURm	25	25	0.1560%	0.1560%	Q1 2019–Q4 2019	Q1 2018–Q4 2019
EURIBOR Interest rate swaps	EURm	35	15	0.3375%	0.1560%	Q3 2020–Q3 2022	Q1 2018–Q4 2018

All interest rate swaps include zero-floors on the floating leg.

Foreign currency exchange contracts

The Group has entered into forward foreign currency contracts to hedge the currency risk for purchases in US dollars (USD) with a maturity of less than one year from the reporting date.

The following table shows the notional principal amounts, weighted average exchange rates and remaining periods

	Notional principal amounts		Weighted average exchange rates		Expiry date	
	2018	2017	**2018**	2017	**2018**	2017
SEK–USD	USD 4.0m	USD 5.8m	8.7103	8.1814	2019	2018

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Note 24 Contingent considerations

See Note 1 (XXIII) for the accounting policy.

Contingent considerations consist of the contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries.

The remeasurement movements recognized in the profit and loss account are the result of remeasurements of the sales volume performance of the combined pick & mix business in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018. On 28 April 2017 a contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was issued to the former bondholders of Candyking Holding AB in exchange for corporate bonds in Candyking Holding AB. The contingent earn-out consideration was initially recognized in an amount of SEK 128m. At the end of the year the undiscounted contingent earn-out consideration amounted to SEK 146m (discounted: SEK 142m). At reporting date the contingent earn-out consideration is presented as part of the current liabilities. See Note 27.

Movements in contingent considerations are specified as follows:

SEKm	2018	2017
At 1 January	138	–
Business combinations	–	128
Remeasurements recognized in profit and loss		
– (Un)realized remeasurement on contingent considerations recognized in general and administrative expenses	–21	–5
– Unrealized interest on contingent considerations recognized in other financial expenses	25	15
At 31 December	142	138
of which remaining term < 1 year	142	–
of which remaining term 1–5 years	–	138
Fair value	142	138

Note 25 Pensions and other long-term employee benefits

See Notes 1 (VI) and (XXV) for the accounting policy.

Group companies use various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit schemes in industry sector pension funds, which are held by pension funds that are not able to provide company-specific or reliable information, are accounted for as though they were defined contribution schemes. In the event of a deficit in these pension funds, the company has no obligation to provide supplementary contributions, other than higher future contributions.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The Group has a number of defined benefit pension plans in Sweden, the Netherlands, Belgium, Finland, Germany and Norway that refer to pension and other long-term benefit schemes.

For one defined benefit pension plan, the Group accounts as though this were a defined contribution scheme since sufficient information is not available to enable the Group to account for the plan as a defined benefit plan. Cloetta applies the same accounting policies as other participating employers. Sufficient information is not available, since asset administration of the fund is not designed to allocate the total assets of the fund to the participating companies. In the event of a deficit in this pension fund, the Group has no obligation to provide further contributions other than higher future contributions.

Monthly premiums are average premiums expressed as a percentage of the pension calculations basis and should, as a minimum, cover the cost of the fund. The minimum pension premium is determined in accordance with the actuarial and business note of the fund. In the event of liquidation of the fund, an amount that is sufficient to cover defined benefits will be secured. In the event of a deficit in the fund at the moment of liquidation, the defined benefits will be proportionally reduced taking into consideration Article 134 of the Dutch Pension Act. Contributions to the plan for the next annual year are expected to amount to SEK 35m (34). These are split into employer contributions of SEK 23m (23) and employee contributions of SEK 12m (11). At year-end 2018, the coverage of the pension fund was 112.5 per cent (111.7).

At 31 December 2018, the main defined benefit plans in the Group were:

Sweden ITP2 plan:

The ITP2 plan covers employees born before 1979. Benefits provided in the old defined benefit plan include a final pay-based retirement pension. This plan is an unfunded defined benefit plan.

The ITP plan benefit formula provides pension benefits as a percentage of salary. Benefits are reduced proportionally if the expected years of service within the plan, are less than 30 years, irrespective of employer. ITP plan benefits vested with former employers are indexed according to the consumer price index.

Finland Leaf/Merijal plan:

This plan is an insured voluntary final salary pension plan. It was established on 31 December 2005 when the liabilities and assets of Merijal Pension Foundation and Leaf Pension Foundation were transferred to Pohjola Life Insurance Company.

Norway

The Norwegian subsidiary has one plan, which is insured in a life insurance company. This funded plan, together with the national pension scheme, provides an old-age pension of a maximum of 66 per cent of final salary. The plan includes a widow(er)'s pension equal to 60 per cent of the old age pension and children's pension equal to 50 per cent of the old age pension. Members who become disabled will receive a disability pension linked to the old age pension they would have received with their present salary.

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The total pensions and other long-term employee benefits are determined as follows:

SEKm	31 Dec 2018	31 Dec 2017
Funded pension schemes in a net asset position	2	3
Obligations for:		
Pension benefits	–419	–374
Other long-term employee benefits (for jubilee payments) ('OLEB')	0	0
Total	**–417**	**–371**

The amounts recognized in the balance sheet are determined as follows:

SEKm	31 Dec 2018	31 Dec 2017
Funded pension schemes in a net asset position	2	3
Asset in the balance sheet	2	3
Present value of funded obligations	77	76
Fair value of plan assets	–67	–66
Deficit of funded plans	**10**	**10**
Present value of unfunded obligations	407	361
Liability in the balance sheet	**417**	**371**

Movements in the combined net defined benefit obligations and other long-term employee benefits over the year are as follows:

SEKm	Present value of obligation	Fair value of plan assets	Total
1 January 2017	**478**	**–82**	**396**
Current Service cost	9	–2	7
Interest expense/(income)	13	–1	12
Remeasurements:			
– Return on plan assets, excluding amounts included in interest expense/(income)	–	6	6
– (Gains)/losses from change in demographic assumptions	15	–	15
– (Gains)/losses from change in financial assumptions	29	–	29
– Experience (gains)/losses	–14	–	–14
Total remeasurements	30	6	36
Exchange differences	0	–1	–1
Employer contributions	0	–18	–18
Payments from plans:			
– Benefit payments	–21	21	–
– Settlements	–11	11	–
Divestments	–61	–	–61
31 December 2017	**437**	**–66**	**371**
Current Service cost	7	–	7
Interest expense/(income)	11	–1	10
Remeasurements:			
– (Gains)/losses from change in demographic assumptions	1	–	1
– (Gains)/losses from change in financial assumptions	38	–	38
– Experience (gains)/losses	2	–	2
Total remeasurements	41	–	41
Exchange differences	4	–1	3
Employer contributions	–	–15	–15
Payments from plans:			
– Benefit payments	–16	16	–
31 December 2018	**484**	**–67**	**417**

The Group expects to pay SEK 16m (16) in contributions to its defined benefit plans in 2019.

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The defined benefit obligation and plan assets by country are composed as follows:

	Present value of obligation		Fair value of plan assets		Defined benefit obligation	
SEKm	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Sweden	402	355	–15	–16	387	339
Norway	11	9	–13	–11	–2	–2
Finland	34	37	–27	–29	7	8
Other countries	37	36	–12	–10	25	26
Total	**484**	**437**	**–67**	**–66**	**417**	**371**

The significant actuarial assumptions are as follows:

Weighted average percentage	31 Dec 2018	31 Dec 2017
Discount rate	2.34	2.50
Expected rate of future salary increases	1.93	2.07
Expected rate of future increase for benefits in payment	2.29	1.59
Expected long-term inflation rate	1.85	1.73

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

These assumptions translate into an average life expectancy in years for a pensioner retiring, at the age of 67 for men in Norway, at the age of 62 for women in Norway and at the age of 65 in other countries

	2018	
Year	**Sweden**	**Others**
Retiring at the end of the reporting period		
– Male	22	21
– Female	25	24
Retiring 20 years after the end of the reporting period		
– Male	43	36
– Female	45	41

At 31 December 2018 the weighted average duration of the defined benefit obligation was 20.11 years (19.53 years).

The sensitivity of the combined net defined benefit obligations and other long-term employee benefits to changes in the weighted principal assumptions is as follows:

	Impact on defined benefit obligation		
	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rate	1%-point	–18%	23%
Salary growth rate	1%-point	5%	–5%
Pension growth rate	1%-point	16%	–15%

	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy	4.04%	–4.64%

The sensitivity analyses above are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized in the statement of financial position.

Plan assets for both 2017 and 2018 are 100 per cent comprised of insurance contracts.

The expected maturity analysis for undiscounted combined net defined benefit obligations and other long-term employee benefits is as follows:

SEKm	Less than 3 years	Between 3–7 years	Between 7–15 years	Over 15 years	Total
Defined benefit obligation by expected maturity	0	3	95	386	**484**

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Total pension costs amounting to SEK 17m (19) are included in costs of goods sold, selling expenses, general and administrative expenses and financial income and expenses, and in 2017 in loss from discontinued operation, net of tax in the profit and loss acount.

Share-based payments

Share-based long-term incentive plan

The AGM approved the Board's proposals for a share-based long-term incentive plan to align the interests of the shareholders on the one hand, and the Group Management Team and other key employees on the other hand in order to ensure maximum long-term value creation.

To participate in the plan, a personal shareholding in Cloetta is required. Following a three-year vesting period, the participants will be allocated class B shares in Cloetta free of charge, provided that certain conditions are fulfilled.

In order for so-called matching share rights to entitle the participant to class B shares in Cloetta, continued employment with Cloetta is required and the personal shareholding in Cloetta must be continuously maintained. For each invested share one matching share will be granted if the above requirements are fulfilled.

In addition, allocation of class B shares on the basis of performance share rights requires the attainment of two performance targets, one of which is related to Cloetta's EBIT and the other to Cloetta's net sales value in each of 2016, 2017, 2018, 2019 and 2020. The share-based long-term incentive plans of 2014 and 2015 were vested in 2017 and 2018, respectively.

With respect to the share-based long-term incentive plan of 2016, the target levels set by the Board for the two performance targets were not met. The performance targets were related to growth in Cloetta's compounded sales value during the period 2016 to 2018 and EBITA level during 2018. As a result, Cloetta will transfer, free of charge, no more than 120,000 shares to participants holding matching share rights and no shares to participants holding performance share rights.

Total costs related to the non-vested share-based long-term incentive plans are expected to amount to SEK 49m (59) during the total vesting period. The total costs for the share-based long-term incentive plans recognized in 2018 are SEK 2m (13).

See page 60 for further details on the main characteristics of the share-based long-term incentive plans.

The forward contracts to repurchase own shares amount to SEK 59m (70).

Movements in the number of shares for the share-based long-term incentive plans are as follows:

	Number of shares in thousands	
	2018	2017
At 1 January	1,617	1,828
Granted for new plans	1,024	880
Vested plans	–338	–362
Released	–899	–729
At 31 December	**1,404**	**1,617**

Note 26 Provisions

See Note 1 (XXIV) for the accounting policy.

Movements in provisions, excluding pension benefits and other long-term employee benefits, are specified as follows:

SEKm	Reorganization	Sales returns	Other	Total
1 January 2017	7	47	32	86
Additions	6	–	0	6
Utilizations	–9	–46	–17	–72
Unused amounts reversed	–1	–	–7	–8
Divestments through discontinued operation	–	–1	–2	–3
Exchange differences	0	–	–1	–1
31 December 2017	**3**	**–**	**5**	**8**
Analysis of total provisions				
Non-current				5
Current				3
Total				**8**

SEKm	Reorganization	Sales returns	Other	Total
1 January 2018	3	–	5	8
Additions	27	–	–	27
Utilizations	–4	–	–	–4
Unused amounts reversed	0	–	0	0
Exchange differences	0	–	1	1
31 December 2018	**26**	**–**	**6**	**32**
Analysis of total provisions				
Non-current				9
Current				23
Total				**32**

See Note 25 for details about pension benefits and other long-term employee benefits.

Note 27 Trade and other payables

See Note 1 (XXVIII) for the accounting policy.

SEKm	31 Dec 2018	31 Dec 2017
Trade payables	544	720
Other taxes and social security expenses	160	177
Pension liabilities	8	7
Contingent considerations	142	–
Other liabilities	19	27
Accruals and deferred income	469	463
Total	**1,342**	**1,394**

Accruals and deferred income are specified as follows:

SEKm	31 Dec 2018	31 Dec 2017
Accrued personnel-related expenses	156	142
Accrued customer bonuses and discounts	157	145
Other accrued expenses and deferred income	156	176
Total	**469**	**463**

Note 28 Business combinations

Acquisition of Candyking Holding AB

SEKm	
Consideration transferred	
Purchase price	325
Transaction adjustment	–62
Contingent consideration	128
Consideration transferred	**391**
Acquisition Candyking bond and other debt	–391
Net consideration	**0**
Recognized amounts of identifiable assets and liabilities assumed:	
Non-current assets	**277**
Intangible assets (excl. goodwill)	177
Property, plant and equipment	78
Other non-current assets	22
Current assets	**253**
Inventories	88
Trade and other receivables	151
Cash and cash equivalents	14
Non-current liabilities	**–41**
Deferred tax liabilities	–41
Current liabilities	**–667**
Bond and other debt	–391
Other borrowings	–23
Trade payables	–136
Taxes and social security premiums	–50
Other current liabilities	–67
Total identifiable net assets	**–178**
Goodwill	178
Net consideration	**0**

On 28 April 2017 Cloetta acquired 100 per cent of the shares in Candyking Holding AB and its fully owned subsidiaries, a leading concept supplier of pick & mix candy in the Nordic countries and the UK. The acquisition strengthens Cloetta's position within pick & mix and creates substantial synergies.

The purchase price amounted to SEK 325m on a cash and debt free basis, adjusted for transaction adjustments for net debt and working capital of SEK -62m, with a potential additional purchase price of a maximum of SEK 225m based on Cloetta's and Candyking's combined sold volume of pick & mix in both confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018. The seller of the shares was Candyking's former CEO, Dani Evanoff. The majority of the purchase price, as well as the potential additional purchase price, has been allocated to the previous holders of Candyking's SEK 750m bond loan. In connection with the closing of the acquisition, Candyking's bonds have been delisted from Nasdaq Stockholm. At the time of delisting of the bonds, an earn-out instrument was issued to the previous bondholders and the previous shareholders that entitles them to the future potential additional purchase price. The instrument is registered at Euroclear in order to facilitate the distribution of any additional purchase price to the instrument-holders.

The total goodwill of SEK 178m is not expected to be deductible for tax purposes. The acquired receivables contain trade receivables of SEK 128m which have been collected in full. The total transaction cost related to the acquisition amounted to SEK 14m and is fully recognized in the profit and loss account for the period concerned as 'general and administrative expenses'. Due to the short-term nature of the receivables, the fair value approximates the gross contractual amounts. The contractual cash flows that are not expected to be collected are immaterial. Candyking Holding AB and its subsidiaries contributed SEK 1,082m to Cloetta's consolidated net sales from the acquisition date to 28 April 2018. The accounting for the business combination has been finalized. The goodwill acquired is allocated to CGU Scandinavia.

See Note 1 for details about changes in the group structure.

Note 29 Financial risks and financial risk management

Through its activities, the Group is exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial risks are managed by the Group treasury department under policies approved by the Board of Directors. The Group treasury department identifies, evaluates and, if applicable, hedges financial risks in close cooperation with the Group's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. The primary market and financial risks are described in detail on the next page.

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Market risk

Currency risk

The Group is primarily active in the European Union and Norway.

The Group's currency risk mainly relates to positions and future transactions in euros (EUR), Danish kroner (DKK), Norwegian kroner (NOK), US dollars (USD) and British pounds (GBP).

The Group has major investments in foreign operations whose net assets are exposed to foreign currency translation risk.

Based on a risk analysis, the Group's Boards of Directors has decided to hedge the euro-related currency risk by drawing part of the credit facility in euros. This hedge covers part of the currency risk in euros. Hedge accounting (hedges of net investments in foreign operations) is applied. This has resulted in a reduction in the volatility of net financial items caused by revaluation of monetary assets and liabilities as of the date of initial application of hedge accounting. The Group's investment in trademarks in Cloetta Ireland Ltd, Cloetta Suomi Oy, Cloetta Holland B.V. and Cloetta Slovakia s.r.o. is hedged by a net euro-denominated loan (carrying amount: EUR 155m (149)) which mitigates the foreign currency translation risk on these trademarks. The fair value of the loan was EUR 155m (149). The loan is designated as a net investment hedge. The effectiveness of the hedge is tested and documented on a monthly basis. No ineffectiveness has been recognized from the net investment hedge.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group entered into forward foreign currency contracts to hedge the currency risk of the USD with a maturity of less than one year from the reporting date. See Note 23 for the details of the forward foreign currency contracts.

In the financial year 2018, if the Swedish krona had weakened/strengthened by 10 per cent against the euro with all other variables held constant, profit before tax for the year would have been approximately SEK 50m (27) lower/higher, as a result of the foreign exchange gains/losses on translation of all euro-denominated trading in Europe and foreign exchange losses/gains on translation of euro-denominated borrowings.

The currency risk attached to the transactions in the other currencies is not significant as the amounts involved are not significant to the total Group.

Interest rate risk

The Group is exposed to interest rate risk on the interest-bearing non-current and current liabilities.

The Group is exposed to the consequences of variable interest rates on liabilities. In relation to fixed interest liabilities, it is exposed to market values, which is not a significant risk for the Group.

If the interest rate had been 1 percentage point higher with all other variables held constant, profit before tax for the year would have been approximately SEK 5m (7) lower. If the interest rate had been 1 percentage point lower with all other variables held constant, profit before tax for the year would have been approximately SEK 1m (–6) higher. The analysis considers the effects of interest rate swaps and the impact of negative interest rates.

Credit risk

The Group does not have any significant concentrations of credit risk. The Group's customers are subject to a credit policy. Sales are subject to payment conditions which vary per customer.

A loss allowance for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss account within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Credit terms for customers are determined individually in the different markets. Concentrations of credit risk with respect to trade receivables are limited, due to the size and diversity of the Group's customer base. A large part of the trade debtors for international markets, Ireland, the UK, Germany and the Netherlands and smaller trade debtors in Finland are insured via credit risk insurances. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's historical experience of collecting receivables is that credit risk is considered to be low across all markets.

The Group uses several banks (range of most used banks varies between AA- and A-3 rating) and has a revolving facility available

		Cash balances		Credit revolving loan		Other loans	
SEKm	**Rating (S&P)**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Svenska Handelsbanken AB (publ)	AA-	423	676	–	–	–520	–680
Nordea	A-1+	49	48	–	–	–	–
Danske Bank A/S	A	44	–	–	–	–520	–680
Ulster Bank Ltd.	A-2	20	10	–	–	–	–
Tatra Banka	A-2	9	6	–	–	–	–
Skandinaviska Enskilda Banken AB (publ)	A+	0	–	–	–	–520	–680
DNB Sweden AB	A+	–	–	–	–	–520	–680
Other banks		7	19	–	–	–	–
Total		**551**	**759**	**–**	**–**	**–2,078**	**–2,719**

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Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and is aggregated by the Group Treasury department. The Group Treasury department monitors the sources and the amounts of the company's cash flows, dividend, obligation, loans, actual cash position and rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities, and the impact such restrictions had or are expected to have on its ability to meet its cash obligations. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements - for example, currency restrictions.

The Notional Group Account (NGA) includes both the Parent Company and several operating entities. Surplus cash held by operating entities included in the NGA is available to the Group's Treasury department and is used for the Group's internal and external financing activities. Surplus cash held by operating entities not included in the NGA is transferred to the Group's Treasury department and is also used for the Group's internal and external financing activities.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

31 Dec 2018 SEKm	Term < 1 year	Term 1–2 years	Term 2–3 years	Term 3–4 years	Term 4-5 years	Term >5 years	Total
Loans from credit institutions	17	1,290	805	–	–	–	2,112
Commercial papers	505	–	–	–	–	–	505
Derivative financial liabilities	63	4	4	–	–	–	71
Trade and other payables, excluding other taxes and social security payables	1,185	–	–	–	–	–	1,185
Total	**1,770**	**1,294**	**809**	**–**	**–**	**–**	**3,873**

31 Dec 2017 SEKm	Term < 1 year	Term 1–2 years	Term 2–3 years	Term 3–4 years	Term 4–5 years	Term >5 years	Total
Loans from credit institutions	1,024	1,728	–	–	–	–	2,752
Finance lease liabilities	0	–	–	–	–	–	0
Derivative financial liabilities	74	5	4	4	–	–	87
Other non-current liabilities	–	170	–	–	–	–	170
Trade and other payables, excluding other taxes and social security payables	1,217	–	–	–	–	–	1,217
Total	**2,315**	**1,903**	**4**	**4**	**–**	**–**	**4,226**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and thereby provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure as a means to reduce the cost of capital. The Group's priority in monitoring capital is to maintain compliance with the covenants in the applicable credit facilities agreements. Cloetta actively monitors these covenants and other ratios on a monthly basis. The term and revolving facilities agreement, which is unsecured in nature, includes one covenant, relating to the net debt/EBITDA ratio. The covenant was not affected by the amendment and restatement of the term and revolving facilities agreement in June 2018. Throughout 2017 and 2018, the Group was in compliance with the covenant requirements.

Note 30 Financial instruments – measurement categories and fair value

Share-based long-term incentive plan

The AGMs approved the Board's proposal relating to a share-based long-term incentive plan.

Under the share-based long-term incentive plans, the entity receives services from employees as consideration for equity instruments (shares) of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions (for example, an entity's share price); and
- including the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period).

See Note 25 for more information.

Fair value measurement

The only items recognized at fair value after initial recognition are:

- The interest rate swaps and forward foreign currency contracts categorized at level 2 of the fair value hierarchy in all periods presented;
- The contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries initially categorized at level 3, as well as;
- Assets held for sale, in cases where the fair value less cost of disposal is lower than the carrying amount.

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On 28 April 2017, the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was recognized in an amount of SEK 128m. The fair values of the financial assets and liabilities measured at amortized cost are approximately equal to their carrying amounts, with the exception of the forward contract to repurchase own shares which has a fair value of SEK 11m (liability) while the carrying amount is SEK 59m (liability). For measurement purposes, the fair value of financial assets and liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value measurements by level according to the fair value measurement hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the carrying amounts and fair values of the Group's financial assets and financial liabilities, including their levels in the fair value hierarchy:

31 Dec 2018 SEKm	Mandatory at FVTPL	Financial assets at amortized cost	Other financial liabilities at carrying value	Total	Fair value Level 1	Level 2	Level 3	Total
Financial assets								
• Forward foreign currency contracts	1	–	–	1	–	1	–	1
• Trade and other receivables, excluding other taxes and social security receivables and prepaid expenses and accrued income	–	756	–	756				
• Cash and cash equivalents	–	551	–	551				
Total assets	**1**	**1,307**	**–**	**1,308**	**–**	**1**	**–**	**1**
Financial liabilities								
• Loans from credit institutions	–	–	2,078	2,078				
• Commercial papers	–	–	500	500				
• Forward contract to repurchase own shares	–	–	59	59	–	11	–	11
• Interest rate swaps	5	–	–	5	–	5	–	5
• Trade and other receivables, excluding other taxes and social security receivables and prepaid expenses and accrued income	–	–	1,040	1,040				
• Contingent consideration	142	–	–	142	–	–	142	142
Total liabilities	**147**	**–**	**3,677**	**3,824**	**–**	**16**	**142**	**158**

31 Dec 2017 SEKm	FVTPL	Loans and receivables	Other financial liabilities at carrying value	Total	Fair value Level 1	Level 2	Level 3	Total
Financial assets								
• Forward foreign currency contracts	0	–	–	0	–	0	–	0
• Trade and other receivables, excluding other taxes and social security receivables and prepaid expenses and accrued income	–	795	–	795				
• Cash and cash equivalents	–	759	–	759				
Total assets	**0**	**1,554**	**–**	**1,554**	**–**	**–**	**–**	**–**
Financial liabilities								
• Loans from credit institutions	–	–	2,719	2,719				
• Forward contract to repurchase own shares	–	–	70	70	–	2	–	2
• Interest rate swaps	3	–	–	3	–	3	–	3
• Forward foreign currency contracts	–	–	–	–	–	–	–	–
• Trade and other receivables, excluding other taxes and social security receivables and prepaid expenses and accrued income	–	–	1,217	1,217				
• Contingent consideration	138	–	–	138	–	–	138	138
Total liabilities	**141**	**–**	**4,006**	**4,147**	**–**	**5**	**138**	**143**

The assets and liabilities measured at fair value at 31 December 2018 and 31 December 2017 respectively are reflected in 'derivative financial instruments', 'other non-current liabilities' and 'other current liabilities.

There are no financial instruments categorized at level 3 of the fair value hierarchy other than the contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries. See Note 24 for movements in the contingent earn-out consideration.

On 28 April 2017, the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was recognized in an amount of SEK 128m. At 31 December 2018 the undiscounted contingent earn-out consideration amounted to SEK 146m (discounted: SEK 142m). No transfers between fair value hierarchy levels have occurred during the financial year or the prior financial year.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2. The valuation of these instruments is based on quoted market prices (price-component), but the underlying contract amounts (quantity-component) are based on the specific requirements of the Group. These instruments are therefore included at level 2. The fair value measurement of the contingent consideration requires use of significant unobservable inputs and was thereby initially categorized at level 3.

The valuation techniques and inputs used to value financial instruments are:
- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign currency contracts is calculated using the difference between the exchange rate on the balance sheet date with the contractually agreed upon exchange rate;
- The fair value of the asset held for sale is based on valuations by external independent valuators;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The assets measured at fair value are identified as a non-recurring fair value measurement and are related to the assets held for sale. The assets are valued at fair value less cost of disposal in the event that the fair value less costs of disposal is below the carrying amount. See Note 19 for the movements in the assets held for sale.

The contingent considerations are measured at fair value using the expected financial performance.

The valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used, can be specified as follows:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent considerations			
– *Contingent earn-out*	The fair value of the contingent earn-out consideration is calculated based on the pick & mix sold volume of the Cloetta Group for 2018 in comparison with the sold volume target and the minimum sold volume as defined in the purchase agreement between Cloetta and the previous shareholder and the agent of the bondholders. The expected payment is discounted using the cost of equity.	Total sold volume of pick & mix in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018.	The estimated fair value would increase (decrease) if: – Total sold volume of pick & mix in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018 were higher (lower).
Derivative financial instruments			
– *Interest rate swaps*	The valuation of the interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.	Not applicable	Not applicable
– *Forward foreign currency contracts*	The valuation of the forward foreign currency contract is calculated as the difference between future cash flows in foreign currencies converted at the spot rate at reporting date and the future cash flows in foreign currencies converted at the contractual agreed-upon exchange rates.	Not applicable	Not applicable
– *Forward contracts to repurchase own shares*	The valuation of the forward contract to repurchase own shares is calculated as the agreed-upon price for repurchasing own shares multiplied by the number of shares to be repurchased on maturity date of the contract.	Not applicable	Not applicable

See Note 24 for the effect of the measurements regarding contingent consideration liabilities in the profit and loss account and for movements in contingent consideration liabilities.

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Note 31 Related party transactions

All group companies mentioned in Note P8 are considered to be related parties. Transactions between group companies are eliminated upon consolidation.

In the context of this financial report, and aside from the subsidiaries of Cloetta AB (publ), the Board of Directors, Group Management Team and key employees that have significant influence over the Group and AB Malfors Promotor and its subsidiaries are regarded as related parties. In 2017 and 2018 no transactions other than dividend payments occurred between Cloetta AB (publ) including its subsidiaries and AB Malfors Promotor including its subsidiaries.

Transactions with the Board of Directors, Group Management Team and key employees

For information about salaries and remuneration of the Board of Directors and Group Management Team, see pages 80–81 and Note 6. The Group has no receivables on the Board of Directors, Group Management Team and key employees. In 2017 and 2018 share-based long-term incentive plans were approved by the AGM. Total costs excluding social security charges related to the share-based long-term incentive plans that were recognized amount to SEK 2m (11), of which SEK 0m (5) is related to the Group Management Team. The release in costs in 2018 for the Group Management Team is related to Group Management Team members leaving Cloetta before the vesting date of the plans and due to releases for performance shares for other Group Management Team members. Other liabilities to the Group Management Team and key employees consist of customary personnel-related liabilities. No other transactions other than dividend payment and employee and Board remuneration occurred between Cloetta AB (publ) including its subsidiaries and the Board of Directors, Group Management Team and key employees.

Note 32 Operating leases

See Note 1 (XXIX) for the accounting policy.

Recognized expenses for operating leases amount to:

SEKm	2018	2017
Lease payments	106	100
Future annual payment obligations for leased assets in the Group are broken down as follows:		
Within one year	80	55
Between one and five years	114	115
More than 5 years	8	–
Total	**202**	**170**

The operating lease commitments mainly consist of the lease of buildings and warehouses with an average contract term of approximately five years and of car lease contracts with an average contract term of four years. All operating leases relate to minimum lease payments under non-cancellable operating lease agreements. There are no subleases, no contingent rents, no renewal or purchase options and escalation clauses nor any restrictions imposed by leasing arrangements.

In December 2015 a decision was made to close the factory in Dieren, the Netherlands, and the factory was closed in 2017. On 31 December 2017 the operational lease agreement for the building terminated.

Note 33 Critical accounting estimates and judgements

In preparing the financial statements, the Group Management Team makes estimates and judgments that affect the reported amounts of assets and liabilities, net sales and expenses, and disclosures of contingent liabilities at the date of the financial statements. The estimates and assumptions that are associated with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, as well as critical judgments in applying the Group's accounting policies are discussed below. The accounting estimates and judgments are believed to be reasonable under the circumstances.

The Group Management Team and audit committee have discussed the development, selection and disclosures regarding the Group's critical accounting principles and estimates. The estimates and judgments made in the application of the Group's accounting policies are described below.

Impairment testing of intangible assets

For the purpose of impairment testing, assets are allocated to CGUs when it is not possible to assess impairment on an individual asset basis. The recoverable amount of an asset is compared to the carrying amount to determine if an asset is impaired. An asset's recoverable amount is the higher of its value in use and its fair value less cost of disposal. The value in use is the present value of the future cash flows to be generated by an asset from its continuing use in the business.

Using management's best estimates in determination of the terminal growth rates, pre-tax discount rates and future cash flows, the estimated recoverable amounts of the group of CGUs in Scandinavia and Middle and the CGUs in Sweden, Finland and the Netherlands exceed the carrying amounts.

The carrying amount of the intangible assets at the end of reporting period was SEK 5,626m (5,490).

Accounting for income taxes

As part of the process of preparing the financial statements, the Group is required to estimate income taxes in each of the jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Temporary differences between tax and financial reporting give rise to deferred tax assets and liabilities, which are included in the balance sheet. The Group must also assess the likelihood that deferred tax assets will be recovered from future taxable income. A deferred tax asset is not recognized if, and to the extent that it is probable that all or some portion of the deferred tax asset will not be realized.

Provisions

By their nature, provisions are dependent on estimates and assessments of whether the criteria for recognition have been met, including estimates of the outcome and the amount of the potential cost of resolution. Provisions are recognized as an expense in the profit and loss account when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

Provisions for litigation, tax disputes, etc. for a total amount of SEK 32m (8), are based on an estimate of the costs, taking into account legal advice and the information currently available. In addition, provisions for termination benefits and exit costs involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs. Should the actual outcome differ from the assumptions and estimates, revisions to the estimated provisions would be required, which could impact the Group's financial position and results from operations.

Accounting for pensions and other post-employment benefits

Pension benefits represent obligations that will be settled in the future and require assumptions to project the benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit costs over the employee's expected service period, based on the terms of the plans and the investment and funding decisions made by the Group. For calculation of the present value of the pension obligation and the net cost, actuarial assumptions are made about demographic variables (such as mortality) and financial variables (such as future increases in salaries). Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred. It should be noted that when discount rates decline or rates of future salary increase, the pension benefit obligations will increase. For details about the key assumptions and policies, see Note 25. The carrying amount at the end of the reporting period was SEK 419m (374).

Capitalization of development costs

Costs incurred on development projects are recognized as intangible assets when it is probable that a project will be successful in view of its commercial and technological feasibility. The Group Management Team's judgement is required in determining when the Group should start capitalizing development costs. In general, the Group Management Team has determined that commercial and technological feasibility, in general, is probable when the Group decides to pre-launch a product and the costs can be reliably measured. However, since the development costs incurred by the Group after the pre-launch of a product are considered insignificant, the Group expenses all development costs in the period when the expenditure is incurred. Consequently, based on management's judgement, no development costs have been recognized as intangible assets in the consolidated financial statements.

Revenue recognition

Revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – and amounts allocated to performance obligations requires judgement. For merchandising services, revenue is recognized in the amount to which Cloetta has a right to invoice. Since delivery of goods and merchandising services normally takes place weekly, this output method best reflects that the measure of progress of the merchandising service as a performance obligation is satisfied at the same time as the goods are delivered.

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Note 34 Changes in accounting policies

New and amended standards and interpretations adopted by the Group

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of amended standards are effective from 1 January 2018 but they do not have a material impact on the Group's financial statements. Initial application of IFRS 9 and IFRS 15 has the following effect:

- Documentation requirements for hedge accounting applied;
- Allocation and presentation of revenue to the different performance obligations identified in the pick & mix sales.

IFRS 9, 'Financial Instruments', published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The new standard also introduces expanded disclosure requirements and changes in presentation. The Group has reviewed its financial assets and liabilities and assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Based on these assessments, Cloetta concluded that its current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9 and has updated its hedge documentation in accordance with IFRS 9. This does not have an impact on the company's balance sheet or profit and loss account, nor does it have a material impact on other areas of Cloetta's consolidated financial statements.

IFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining whether, how much and when revenue is recognized. This standard replaces IAS 18 covering contracts for goods and services, IAS 11 covering construction contracts and IFRIC 13 covering customer loyalty programmes. Cloetta applied this standard using the full retrospective approach. This means that any cumulative impact of the adoption is to be recognized in the retained earnings as of 1 January 2017 and that the comparable information is to be restated insofar as it is impacted. In this context it should be noted that the impact of the adoption on the balance sheet and profit and loss account is not material. The details of the changes and quantitative impact of the changes are set out below.
Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. In accordance with IAS 18 Cloetta only recognized one performance obligation related to sale of goods. The adoption of IFRS 15 did not result in any changes in the accounting for packaged business as this only comprises sale of goods. However, for the pick & mix sales, Cloetta identified the following performance obligations in the contracts with customers in accordance with IFRS 15:

- Sale of goods;
- Leases of fixtures;
- Merchandising services.

The different performance obligations do not give rise to a different timing of recognizing revenue. For the performance obligation merchandising services – which is satisfied over time – Cloetta selected an appropriate method for measuring Cloetta's progress towards complete satisfaction of that performance obligation. For merchandising services the practical expedient (IFRS 15.B16) is applicable, whereas Cloetta recognizes revenue in the amount to which it has a right to invoice. Since delivery of goods and merchandising services normally takes place weekly, this output method best reflects that the measure of progress of the merchandising service as a performance obligation is satisfied at the same time as the goods are delivered.

Therefore, total revenues within the pick & mix sales only have to be allocated to the identified performance obligation which impacts the presentation of disaggregated revenue, and no line items in the profit and loss account and balance sheet are to be restated. See note 2 for the disclosure on the disaggregation of revenue. IFRS 15 does not have an impact on the financial statements. IFRS 15 does not have any other significant impact on the Group's revenue recognition.

New standards and amendments to standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have any impact on the consolidated financial statements of the Group, with the exception of the following set out below:

IFRS 16, 'Leases', was issued in January 2016 and supersedes IAS 17 Leases. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases has been removed. Under the new standard, an asset (the right to use the leased item) and a lease liability to pay rentals are to be recognized. The only exceptions are short-term and low-value leases. The standard is mandatory for financial years commencing on or after 1 January 2019.

The standard will affect the accounting for the Group's operating leases. The Group started the implementation process in 2016 and finalized the transition process. Cloetta completed the extraction and enrichment of relevant data points per 1 January 2019 for all lease contracts. A lease accounting solution has been selected. Cloetta has uploaded the relevant data points into the lease accounting solution. Based on an impact analysis, Cloetta decided to opt for the modified retrospective transition approach in which the right-of-use asset will equal the lease liability per the transition date. For the calculation of the lease liability the discount rates as at 1 January 2019 will be used.

The leases that will be recorded on Cloetta's balance sheet as a result of IFRS 16 will mainly be for land and buildings (offices and warehouses), transport (cars, forklifts and trucks) and other equipment (e.g. IT, machinery, equipment, printers and coffee machines).

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statement, as described below. The actual impact of adopting the standard on 1 January 2019 may change because:

- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

The Group will recognize new assets and liabilities for its leases. The nature of expenses related to those leases will change because the Group will recognize a depreciation charge for right-of-use assets and interest expenses on lease liabilities. Until 31 December 2018, the Group recognized lease expenses on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expenses recognized.

Based on the information currently available, the Group estimates that an additional lease liability of SEK 229m, and a right-of-use asset of SEK 229m, will be recognized as at 1 January 2019. The impact for 2019 is expected to be an improvement in EBITDA of SEK 74m, an increase of depreciation costs of SEK 71m and increased financial expenses of SEK 3m.

No significant impact is expected for leases in which the Group is a lessor.

There are no other IFRSs or IFRIC interpretations that are not yet effective that can be expected to have a material impact on the Group.

Note 35 Events after the balance sheet date

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

Parent Company profit and loss account

SEKm	Note	2018	2017
Net sales	P2	84	107
Gross profit		**84**	**107**
General and administrative expenses	P3, P4	–93	–129
Operating loss		**–9**	**–22**
Exchange differences on borrowings and cash	P5	4	3
Other financial income	P5	24	34
Other financial expenses	P5	–17	–14
Net financial items		**11**	**23**
Profit before tax		**2**	**1**
Income tax	P6	–2	0
Profit for the year		**0**	**1**

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

Primary activities

Cloetta AB's primary activities include head office functions such as group-wide management and administration.

Parent Company balance sheet

SEKm	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current financial assets			
Deferred tax asset	P7	6	5
Shareholdings in group companies	P8	4,884	4,884
Receivables from group companies	P15	476	464
Total non-current assets		**5,366**	**5,353**
Current assets			
Receivables from group companies	P15	38	50
Prepaid expenses and accrued income		–	1
Cash and bank	P15	0	–
Total current assets		**38**	**51**
Total assets		**5,404**	**5,404**
EQUITY AND LIABILITIES			
Equity			
Share capital		1,443	1,443
Share premium		2,713	2,713
Retained earnings including profit for the year		–698	–267
Equity attributable to owners of the Parent Company	P10	**3,458**	**3,889**
Non-current liabilities			
Borrowings	P11	798	–
Payables to group companies	P15	135	134
Derivative financial instruments	P12	3	1
Provisions		1	1
Total non-current liabilities		**937**	**136**
Current liabilities			
Payables to group companies	P15	487	356
Borrowings	P11	500	999
Trade payables		1	3
Other current liabilities		11	4
Derivative financial instruments	P12	1	–
Accrued expenses and deferred income	P13	9	17
Total current liabilities		**1,009**	**1,379**
TOTAL EQUITY AND LIABILITIES		**5,404**	**5,404**

Parent Company statement of changes in equity

SEKm	Share capital	Share premium reserve	Retained earnings	Total equity
Balance at 1 January 2017	1,443	2,713	–63	4,093
Comprehensive income				
Profit for the year	–	–	1	1
Total comprehensive income for 2017	–	–	1	1
Transactions with owners				
Share-based payments	–	–	11	11
Dividends	–	–	–216	–216
Total transactions with owners	–	–	–205	–205
Balance at 31 December 2017	1,443	2,713	–267	3,889
Comprehensive income				
Profit for the year	–	–	0	0
Total comprehensive income for 2018	–	–	0	0
Transactions with owners				
Share-based payments	–	–	2	2
Dividends	–	–	–433	–433
Total transactions with owners	–	–	–431	–431
Balance at 31 December 2018	1,443	2,713	–698	3,458

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

Total equity is attributable to the owners of the Parent Company.

Parent Company cash flow statement

SEKm	Note	2018	2017
Operating loss		–9	–22
Adjustments for non-cash items			
Unrealized foreign exchange gains and losses		–1	3
Interest paid		–10	–11
Income tax paid		–1	0
Cash flow from operating activities before changes in working capital		**–21**	**–30**
Cash flow from changes in working capital			
Change in operating receivables		27	82
Change in operating liabilities		130	164
Cash flow from operating activities		**136**	**216**
Cash flow from operating and investing activities		**136**	**216**
Financing activities			
Repayment of interest-bearing borrowings		–700	–
Proceeds from borrowings (net of transaction cost)		1,000	–
Other		1	–
Dividends to shareholders		–433	–216
Cash flow from financing activities		**–132**	**–216**
Cash flow for the year		**4**	**–**
Cash and cash equivalents at beginning of year	P9	–	–
Cash flow for the year		4	–
Exchange difference		–4	–
Cash and cash equivalents at end of year	P9	**0**	**–**

Notes to the Parent Company financial statement

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Note P1 Accounting and valuation policies of the Parent Company

The annual financial statements of the Parent Company are presented in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The statements issued by the Board with respect to listed companies are also applied. RFR 2 states that in the report for the legal entity, the Parent Company shall apply all EU-endorsed IFRSs and statements as far as possible, within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared to IFRS. These financial statements include the financial statements of the Parent Company covering the period from 1 January to 31 December 2018.

Changed accounting standards

Neither revised IFRSs, nor revised RFR 2 (January 2018) effective from 1 January 2018 have entailed any practical change in accounting standards for the Parent Company.

Differences between the accounting policies of the Group and the Parent Company

The differences between the accounting principles applied by the Group and the Parent Company are described below.

Classification and presentation

The profit and loss account and balance sheet of the Parent Company are presented in accordance with the Swedish Annual Accounts Act. The differences compared to IAS 1, Presentation of Financial Statements, refer mainly to financial income and expenses, equity and the presentation of provisions as a separate item in the balance sheet.

Borrowing costs

Borrowing costs are expensed when incurred and recognized in the other financial expenses in the profit and loss account.

Group contributions

Group contributions received are recognized in other financial income in the profit and loss account. Group contributions paid to group companies are reported by the Parent Company as an investment in shareholdings in group companies in the balance sheet.

Shareholdings in group companies

Shareholdings in group companies are accounted for at acquisition costs. The transaction costs are included in the carrying amount of shareholdings in group companies.

Dividends

Anticipated dividends from group companies are recognized in cases where the Parent Company has full control over the size of the dividend and has decided on the size of the dividend before the Parent Company publishes its financial reports.

Dividends received from group companies are recognized in the profit and loss account.

Employee benefits

Remeasurements arising from defined benefit plans also include the return on plan assets excluding interest and the effect of the asset ceiling, if any, excluding interest. Remeasurements are recognized in the profit and loss account when incurred. Salary increases are not taken into account in the calculation of the defined benefit obligation and the applied discount rate is established by the Swedish Financial Supervisory Authority. All other expenses related to defined benefit plans are recognized in the general and administrative expenses in the profit and loss account when incurred.

Financial guarantees

For reporting of financial guarantee contracts on behalf of group companies, the Parent Company applies a voluntary exemption that is permitted by the Swedish Financial Reporting Board. The voluntary exemption refers to financial guarantees issued on behalf of group companies. The Parent Company recognizes financial guarantee contracts as provisions in the balance sheet when it is probable that an outflow of resources will be required to settle the obligation. The costs are recognized in the general and administrative expenses in the profit and loss account.

Note P2 Breakdown of income

The net sales of SEK 84m (107) refer to intra-group services.

The breakdown of net sales by market is as follows:

SEKm	2018	2017
Sweden	44	46
The Netherlands	11	22
Italy	–	8
Finland	7	9
Other	22	22
Total	**84**	**107**

Note P3 Personnel expenses and number of employees

Personnel expenses are specified as follows:

SEKm	2018	2017
Salaries and remuneration		
Group Management Team		
– Sweden	17	14
Of which, short-term variable compensation		
– Sweden	2	0
Other employees		
– Sweden	–	0
Total salaries and remuneration	**17**	**14**
Pension costs		
Group Management Team		
– Defined contribution plans	3	4
– Defined benefit plans	0	0
Total pension costs	**3**	**4**
Social security expenses, all employees	6	9
Total pension costs and social security expenses	**9**	**13**
Total personnel expenses	**26**	**27**

See pages 80–81 for details on remuneration of the Group Management Team.

The company expenses the pension obligation related to the defined benefit pension plans, which are secured through credit insurance with, and administered by, Försäkringsbolaget PRI Pensionsgaranti, Mutual in the administrative expenses in the profit and loss account.

The average number of employees is 4 (6), of which zero (1) are women. All employees are employed in Sweden.

The specification of gender distribution in the Board of Directors and Group Management Team is as follows:

%	2018	2017
Percentage of women		
Board of Directors	43	43
Group Management Team	13	20

Note P4 Audit fees

SEKm	2018	2017
Fee for auditing services	3	3
Fee for other services		
– Tax advice	–	0
– Audit-related advice	–	1
– Other	0	0
Total other services	**0**	**1**
Total audit fees	**3**	**4**

Auditing services refer to the auditing of the Parent Company's statutory financial statements, the Parent Company's administration by the Board of Directors and the President and CEO, and the audit of remuneration of Group Management Team.

For both financial years 2017 and 2018, KPMG was elected as the auditor of the Group.

Note P5 Net financial items

SEKm	2018	2017
Exchange differences on borrowings and cash	4	3
Group contributions	14	16
Interest income, group companies	10	15
Unrealized gains on single currency interest rate swaps	–	3
Interest income on financial liabilities measured at amortized cost	–	0
Other financial income	**24**	**34**
Interest expenses, third-party borrowings	–9	–8
Interest expenses, group companies	–1	–2
Unrealized losses on single currency interest rate swaps	–3	–
Realized losses on single currency interest rate swaps	–3	–4
Other interest expenses	–1	0
Other financial expenses	**–17**	**–14**
Net financial items	**11**	**23**

Note P6 Income taxes

SEKm	2018	2017
Current income tax	–2	–
Deferred income tax	0	0
Total	**–2**	**0**
The year's income tax expense corresponds to an effective tax rate of, %	84.8	6.6

SEKm	2018	2017
The difference between the effective tax rate and the statutory tax rate in Sweden is attributable to the following items:		
Taxable profit from ordinary activities	2	1
Tax calculated at applicable tax rate for the Parent Company	0	0
Expenses not deductible for tax purposes	–1	0
Other	–1	0
Income tax	**–2**	**0**
Reported effective tax rate, %	84.8	6.6
Tax rate in Sweden, %	22.0	22.0

Note P7 Deferred and current income tax

Deferred tax assets and liabilities refer to the tax effect of the difference between the tax base of the defined asset or liability and its carrying amount as recognized in the financial statements. Deferred tax for the period was SEK 6m (5) and is considered to be realized after more than 12 months. The recognized deferred taxes comprise deductible temporary differences of SEK 6m (5) and unutilized tax losses carried forward of SEK 0m (0). There are no unrecognized deferred taxes.

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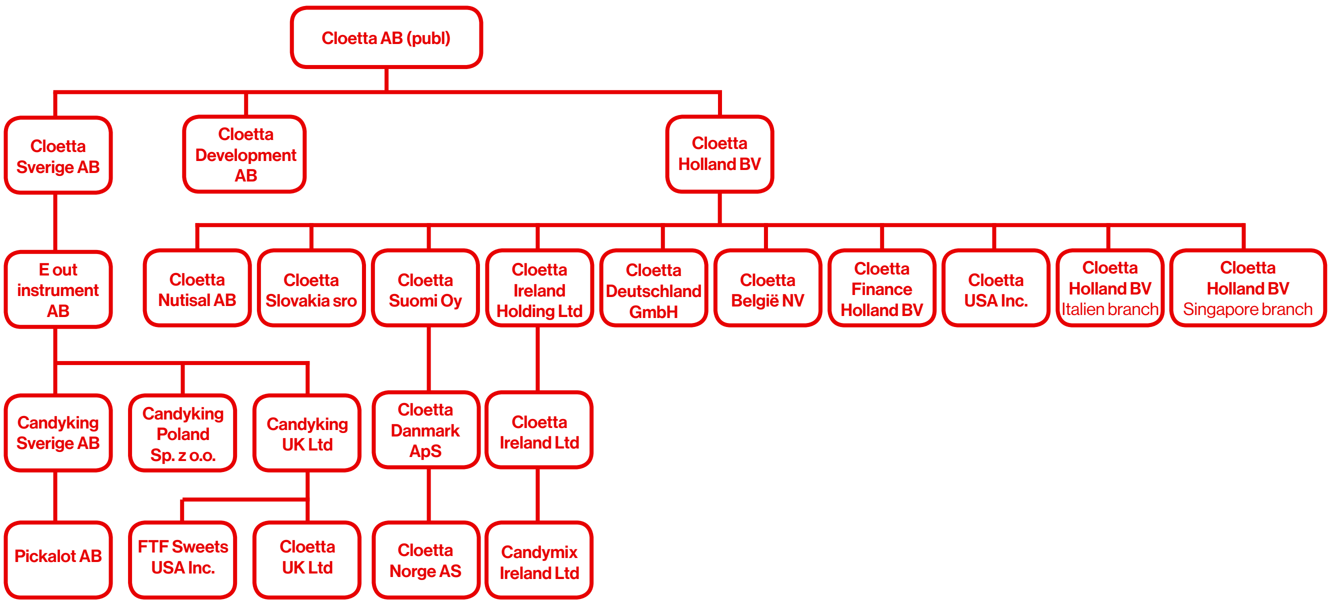
Note P8 Shareholdings in group companies



SEKm	Corp. ID no.	Domicile	% of capital 2018	% of capital 2017	Carrying amount 2018	Carrying amount 2017
Cloetta Holland B.V.[7]	34221053	Amsterdam, the Netherlands	100	100	4,087	4,087
Cloetta België N.V.	0404183756	Turnhout, Belgium	100	100	–	–
Cloetta Suomi Oy[7,9]	1933121-3	Turku, Finland	100	100	–	–
Candyking Finland Oy[3,7,9]	0732591-6	Helsinki, Finland	–	100	–	–
Karikkikatu Oy[9]	0723577-7	Turku, Finland	–	100	–	–
Cloetta Danmark ApS[7,9]	28106866	Brøndby, Denmark	100	100	–	–
Candyking Danmark A/S[3,7,9]	27720390	Randers, Denmark	–	100	–	–
Cloetta Norge AS[7,9]	987943033	Høvik, Norway	100	100	–	–
Candyking Norge AS[3,7,9]	979 514 743	Oslo, Norway	–	100	–	–
Cloetta Deutschland GmbH	HRB 9561	Bocholt, Germany	100	100	–	–
Cloetta USA Inc.[4]	EIN 46-2706408	Wilmington, United States	–	–	–	–
Cloetta Finance Holland B.V.	20078943	Amsterdam, the Netherlands	100	100	–	–
Cloetta Slovakia s.r.o.	35 962 488	Bratislava, Slovakia	100	100	–	–
Cloetta Nutisal AB	556706-9264	Helsingborg, Sweden	100	100	–	–
Cloetta Ireland Holding Ltd.	544426	Dublin, Ireland	100	100	–	–
Cloetta Ireland Ltd.[5]	285910	Dublin, Ireland	100	100	–	–
Candymix Ireland Ltd.[3,7]	494493	Dublin, Ireland	100	100	–	–
Cloetta Sverige AB[2]	556674-9155	Malmö, Sweden	100	100	795	795
E out instrument AB[2,3,6,7]	559094-9748	Linköping, Sweden	100	100	–	–
Candyking Sverige AB[3,7,8]	556319-6780	Stockholm, Sweden	100	100	–	–
Pickalot AB[3]	556730-1857	Stockholm, Sweden	100	100	–	–
Lilla Fiket AB[3,7,8]	559016-4181	Stockholm, Sweden	–	100	–	–
Candyking UK Ltd.[3,7]	01726257	Hampshire, United Kingdom	100	100	–	–
Cloetta UK Ltd.[7]	06775890	Heysham, United Kingdom	100	100	–	–
FTF Sweets USA Inc.[1]	211476123	Newark, United States	–	–	–	–
Candyking Poland Sp. z o.o.[3]	0000347591	Warsaw, Poland	100	100	–	–
Cloetta Development AB	556377-3182	Linköping, Sweden	100	100	2	2
Total					**4,884**	**4,884**

1) On 8 February 2017 FTF Sweets USA Inc. was dissolved. The three-year unwinding period ends on 8 February 2020.
2) On 13 February 2017 Cloetta Sverige AB acquired 100 per cent of the shares of the Swedish company E out instrument AB.
3) On 28 April 2017 E out instrument AB acquired Candyking Holding AB and its subsidiaries.
4) On 23 May 2017 Cloetta USA Inc. was dissolved. The three-year unwinding period ends on 23 May 2020.
5) On 1 June 2017 Aran Candy Ltd. was renamed to Cloetta Ireland Ltd.
6) On 4 October 2017 Candyking Holding AB was merged into E out instrument AB.
7) On 1 November 2017 E out instrument AB sold Lilla Fiket AB to Candyking Sverige AB, Candyking Norge AS to Cloetta Norge AS, Candyking Finland Oy to Cloetta Suomi Oy and Candyking Danmark A/S to Cloetta Danmark ApS. On 1 November 2017 Candyking UK Ltd. sold Candymix Ireland Ltd. to Cloetta Ireland Ltd and Cloetta Holland B.V. sold Cloetta UK Ltd. to Candyking UK Ltd.
8) On 1 March 2018 Lilla Fiket AB was merged into Candyking Sverige AB.
9) On 1 May 2018 Candyking Finland Oy and Karkkikatu Oy were merged into Cloetta Suomi Oy, Candyking Danmark A/S was merged into Cloetta Danmark ApS and Candyking Norge AS was merged into Cloetta Norge AS.

See Note 1 and Note 28 for disclosures on changes in group structure.

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Note P9 Cash and cash equivalents

A Notional Group Account is in place, which is held by Cloetta Holland B.V. As a result, no cash is presented for Cloetta AB (publ).

See Note 18 for further details.

Note P10 Equity

Share capital

See Note 20 for a description of the share capital of the Parent Company.

Non-restricted equity

Retained earnings

Retained earnings comprise the sum of profit for the year and retained earnings from previous years. Retained earnings including the share premium reserve represent the amount of non-restricted equity available for distribution to the shareholders.

Dividend

The Annual General Meetings (AGMs) on 16 April 2018 and 4 April 2017 approved the following dividend:

	2018	2017
Ordinary dividend per share, SEK	0.75	0.75
Special dividend per share, SEK	0.75	–
Total dividend, SEKm	433	216
Ordinary dividend in percentage of profit for the previous year, excluding the impact of impairment loss	54	53
Payment date	April 2018	April 2017

After the reporting date, the following dividend was proposed by the Board of Directors. The dividend has not been recognized as liability in the balance sheet

	2018	2017
Ordinary dividend per share, SEK	1.00	0.75
Special dividend per share, SEK	–	0.75
Total dividend, SEKm	289	433

The Board of Directors proposes that the total earnings in the Parent Company at the disposal of the AGM of SEK 2,015m (2,445) are to be distributed to the shareholders in an amount of SEK 289m (433) and to be carried forward to new account in an amount of SEK 1,726m (2,012).

Note P11 Borrowings

The Parent Company's borrowings consist of loans from credit institutions for a net amount of SEK 798m (999) and commercial papers of SEK 500m (0).

The following table shows the reconciliation of movements of liabilities to cash flows arising from financing activities

SEKm	Long-term borrowings	Short-term borrowings	Total
1 January 2017	999	–	999
Changes from financing cash flows			
Repayment of loans	–	–	–
Other changes from financing cash flows	–	–	–
Total changes from financing cash flows	–	–	–
Other changes			
Reclassification between long-term and short-term borrowings	–999	999	–
Amortization of capitalized transaction costs	1	–	1
Interest expenses, third-party borrowings	6	–	6
Interest paid	–7	–	–7
Total other changes	**–999**	**999**	**0**
31 December 2017	–	**999**	**999**
Changes from financing cash flows			
Proceeds from commercial papers	–	999	999
Repayment of commercial papers	–	–500	–500
Repayment of loans	–	–200	–200
Other changes from financing cash flows	–3	1	–2
Total changes from financing cash flows	**–3**	**300**	**297**
Other changes			
Reclassification between long-term and short-term borrowings	799	–799	–
Amortization of capitalized transaction costs	1	–	1
Interest expenses, third-party borrowings	8	1	9
Interest paid	–7	–1	–8
Total other changes	**801**	**–799**	**2**
31 December 2018	**798**	**500**	**1,298**

See Note 22 for the disclosure of the borrowings.

Note P12 Derivative financial instruments

The derivative financial instruments comprise single currency interest rate swap liabilities amounting to SEK 4m (1) of which SEK 3m (1) is non-current in nature.

Note P13 Accrued expenses and deferred income

Accrued expenses and deferred income amount to SEK 9m (17), of which SEK 3m (11) is related to accrued personnel-related expenses and SEK 6m (6) to other accrued expenses and deferred income.

Note P14 Pledged assets and contingent liabilities

SEKm	31 Dec 2018	31 Dec 2017
Contingent liabilities		
Guarantees on behalf of group companies	801	816
Guarantee for loans from credit institutions for group companies	1,278	1,719
Total	**2,079**	**2,535**

The company issued a parent company guarantee pursuant to Article 403, Book 2 of the Dutch Civil Code in respect of Cloetta Holland B.V. and Cloetta Finance Holland B.V. This means that Cloetta AB declares and accepts, under reservation of legal repeal of the declaration, joint and several liability for the debts resulting from legal acts of Cloetta Holland B.V. and Cloetta Finance Holland B.V. As the probability of a settlement is remote, an estimate of its financial effect is not practical to calculate. The term and revolving facilities agreement is unsecured in nature.

Note P15 Related party transactions

The Parent Company's holdings of shares and participations in subsidiaries are specified in Note P8.

Receivables from and liabilities to subsidiaries are broken down as follows:

SEKm	31 Dec 2018	31 Dec 2017
Non-current interest-bearing receivables	476	464
Current interest-free receivables	38	50
Non-current interest-bearing payables	–135	–134
Current interest-bearing payables	–476	–341
Current interest-free payables	–11	–15
Total	**–108**	**24**

For the Parent Company, SEK 84m (107), equal to 100 per cent (100) of the year's net sales, and SEK 48m (54), equal to 52 per cent (42) of the year's purchases, refer to group companies in the Cloetta Group. The prices of goods and services sold to and purchased from related parties are set on market-based terms.

At 31 December 2018 the Parent Company's receivables from group companies amounted to SEK 514m (514) and liabilities to subsidiaries amounted to SEK 622m (490). Transactions with related parties are priced on market-based terms. Total costs excluding social security charges related to the share-based long-term incentive plan amounted to SEK 2m (11), of which SEK 0m (5) is related to the Group Management Team.

The Parent Company has no past experience of credit losses on receivables from group companies and future credit losses are expected to be immaterial.

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Proposed appropriation of earnings

Earnings in the Parent Company at the diposal of the Annual General Meeting	2018
Share premium reserve, SEK	2,711,620,366
Retained earnings, SEK	–697,207,220
Profit for the year, SEK	247,810
Total, SEK	**2,014,660,956**

The Board of Directors proposes that dividends be paid in a total amount of SEK 288,619,299 equal to SEK 1.00 per share. The Board of Directors proposes that the earnings be disposed of as follows:

The earnings are to be disposed as follows:	
To be distributed to the shareholders, SEK	288,619,299
To be carried forward to new account, SEK	1,726,041,657
Total, SEK	**2,014,660,956**

The number of shares at 31 December 2018 was 288,619,299.

The Board of Directors and the President and CEO give their assurance that the consolidated financial statements and annual report have been prepared in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, on the Application of International Accounting Standards and Generally Accepted Accounting Standards, and give a true and fair view of the financial position and results of operations of the Group and the Parent Company. The administration report for the Group and the Parent Company gives a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed. The statutory Sustainability Report, comprising those areas in the Cloetta AB (publ) annual report with content specified on page 10 has been approved for publication by the Board of Directors.

Stockholm, 12 March 2019

Lilian Fossum Biner
Chairman

Mikael Aru
Member of the Board

Lottie Knutson
Member of the Board

Mikael Norman
Member of the Board

Alan McLean Raleigh
Member of the Board

Mikael Svenfelt
Member of the Board

Camilla Svenfelt
Member of the Board

Lena Grönedal
Employee Board member

Mikael Ström
Employee Board member

Henri de Sauvage-Nolting
President and CEO

Our audit report was issued on 12 March 2019.

KPMG AB

Tomas Forslund
Authorised Public Accountant

The profit and loss accounts and balance sheets of the Group and the Parent Company are subject to approval by the AGM on 4 April 2019. The information in this report is subject to the disclosure requirements of Cloetta AB (publ) under the provisions in the Swedish Securities Market Act. The information was submitted to the media for publication on 13 March 2019, at 08:00 CET.

Auditor's report

To the general meeting of the shareholders of Cloetta AB (publ), corp. id 556308-8144

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Cloetta AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 1–4 and 62–140 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of goodwill and trademarks

See disclosure 12 and accounting principles on page 98 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

As of 31 December 2018 the group reported goodwill of SEK 2,353m and trademarks of SEK 3,107m.

The carrying amounts were subject to impairment tests which include both complexity and elements of management judgements with a significant impact. Impairment tests were performed for all cash generating units and groups of cash generating units.

When preparing the impairment tests, management makes judgements on the cash generating units and groups of cash generating units future internal and external developments and plans.

An example of such judgments include prediction of future cash flows, which among other things requires expectations concerning future development and market conditions.

Other important assumptions are the parameters and underlying assumptions for the determination of the discount rate to be used inorder to reflect time value of money and particular risks that each cash generating unit and group of cash generating units is exposed to.

There is a risk that the assessments made to form the basis of the estimated recoverable amount may have to be changed, which could directly affect the reported result for the period.

Response in the audit

We have assessed the impairment tests in order to conclude whether these were performed in accordance with the prescribed method. We have assessed the reasonableness of management assumptions, which have been derived from all available financial information confirmed by the audit committee and the board of directors, concerning future cash flows and the discount rates by evaluating management's written documentation including future plans. We also interviewed management and evaluated previous year's estimates of future cash flows in relation to actual results.

In order to assess how changes in management assumptions may affect the recoverable amount we evaluated sensitivity analysis of the recoverable amounts for the cash generating units and group of cash generating units.

We have involved an internal accounting specialist to assess the accounting effects of the impairment tests performed and also to evaluate the accuracy of the disclosures of goodwill and trademarks in the annual account and consolidated accounts.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 5–61 and 141–161. The Board of Directors and the President and CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

I based on the work performed concerning this information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President and CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the President and CEO are responsible for the assessment of the company's and the Group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President and CEO intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President and CEO.
- Conclude on the appropriateness of the Board of Directors' and the President and CEO's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of the planned scope and timing of the audit among other matters. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President and CEO of Cloetta AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President and CEO be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the President and CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The President and CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President and CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with a starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Cloetta AB (publ) by the general meeting of the shareholders on 16 April 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1997.

Stockholm, 12 March 2019

KPMG AB
Tomas Forslund
Authorized Public Accountant

Ten-year overview

SEKm	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Profit and loss account in summary										
Net sales	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486
Cost of goods sold	–3,934	–3,678	–3,084	–3,463	–3,325	–3,081	–3,157	–2,911	–3,058	–3,422
Gross profit	**2,284**	**2,106**	**2,023**	**2,211**	**1,988**	**1,812**	**1,702**	**1,747**	**1,961**	**2,064**
Other operating income	4	6	–	0	5	12	13	1	16	0
Selling expenses	–1,025	–972	–806	–949	–892	–850	–888	–915	–992	–1,019
General and administrative expenses	–603	–613	–582	–591	–524	–556	–702	–473	–471	–503
Operating profit/loss	**660**	**527**	**635**	**671**	**577**	**418**	**125**	**360**	**514**	**542**
Exchange differences borrowings and cash and cash equivalents in foreign currencies	–16	–17	–8	–1	–11	–12	20	–12	–13	–63
Other financial income	5	7	17	6	4	24	5	11	5	3
Other financial expenses	–87	–74	–175	–183	–232	–220	–290	–599	–634	–677
Net financial items	**–98**	**–84**	**–166**	**–178**	**–239**	**–208**	**–265**	**–600**	**–642**	**–737**
Profit/loss before tax	**562**	**443**	**469**	**493**	**338**	**210**	**–140**	**–240**	**–128**	**–195**
Income tax expense	–79	–206	–122	–107	–96	54	67	172	–211	22
Profit/loss for the period for continuing operations	**483**	**237**	**347**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**
Result after tax from discontinued operations	–	–334	–538	–	–	–	–	–	–	–
Net profit/loss for the period	**483**	**–97**	**–191**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**
Profit for the period attributable to:										
Owners of the Parent Company										
Continuing operations	483	237	347	386	242	264	–73	–68	–339	–173
Discontinued operation	–	–334	–538	–	–	–	–	–	–	–
Total	**483**	**–97**	**–191**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**

SEKm	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Balance sheet in summary										
Intangible assets	5,626	5,490	5,354	5,948	5,882	5,252	5,099	4,811	4,822	5,383
Property, plant and equipment	1,354	1,338	1,700	1,698	1,667	1,660	1,611	1,318	1,333	1,623
Deferred tax asset	16	20	54	64	84	73	473	447	207	258
Other financial assets	11	11	13	27	105	91	88	261	147	45
Total non-current assets	**7,007**	**6,859**	**7,121**	**7,737**	**7,738**	**7,076**	**7,271**	**6,837**	**6,509**	**7,309**
Inventories	765	745	780	786	853	798	773	640	566	631
Trade and other receivables	838	881	988	975	1,121	933	951	1,051	1,198	1,313
Current income tax assets	6	8	36	3	3	0	4	2	1	–
Derivative financial instruments	1	0	4	1	2	–	–	–	–	–
Cash and cash equivalents	551	759	298	246	229	167	306	97	220	245
Total current assets	**2,161**	**2,393**	**2,106**	**2,011**	**2,208**	**1,898**	**2,034**	**1,790**	**1,985**	**2,189**
Assets held for sale	–	–	9	11	16	15	35	15	–	–
TOTAL ASSETS	**9,168**	**9,252**	**9,236**	**9,759**	**9,962**	**8,989**	**9,340**	**8,642**	**8,494**	**9,498**
Equity	**3,968**	**3,818**	**4,199**	**4,344**	**4,048**	**3,747**	**3,326**	**–385**	**–1,117**	**–619**
Long-term borrowings	2,076	1,715	2,666	2,612	2,993	3,096	2,516	6,077	6,826	7,224
Deferred tax liability	754	703	586	621	483	397	824	728	714	789
Derivative financial instruments	3	2	12	44	56	21	3	0	0	–
Other non-current liabilities	–	138	–	43	147	2	–	–	–	–
Provisions for pensions and other long-term employee benefits	419	374	396	378	505	360	452	250	222	250
Provisions	9	5	22	10	16	7	11	24	29	28
Total non-current liabilities	**3,261**	**2,937**	**3,682**	**3,708**	**4,200**	**3,883**	**3,806**	**7,079**	**7,791**	**8,291**
Short-term borrowings	500	999	2	344	423	212	747	747	642	680
Derivative financial instruments	61	71	54	35	16	2	21	0	0	0
Trade and other payables	1,342	1,394	1,196	1,216	1,152	967	1,264	1,038	975	1,073
Provisions	23	3	64	57	65	79	79	60	78	66
Current income tax liabilities	13	30	39	55	58	99	97	103	125	7
Total current liabilities	**1,939**	**2,497**	**1,355**	**1,707**	**1,714**	**1,359**	**2,208**	**1,948**	**1,820**	**1,826**
TOTAL EQUITY AND LIABILITIES	**9,168**	**9,252**	**9,236**	**9,759**	**9,962**	**8,989**	**9,340**	**8,642**	**8,494**	**9,498**

Key ratios

SEKm	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010[1]	2009[1]
Profit										
Net sales	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486
Net sales, change %	7.5	13.3	na	6.8	8.6	0.7	4.3	na	na	na
Organic net sales, change, %	–2.8	–1.2	na	1.5	1.0	–1.0	–4.1	na	na	na
Gross margin, %	36.7	36.4	39.6	39.0	37.4	37.0	35.0	37.5	39.1	37.6
Depreciation	–218	–218	–206	–227	–198	–175	–167	–115	–125	–144
Amortization	–12	–11	–5	–4	–3	–2	–1	–8	–18	–10
Impairment loss other non-current assets	–	–9	–2	–	–	–	–	–	–	–
Operating profit (EBIT), adjusted	677	604	695	690	632	585	432	565	686	698
Operating profit margin (EBIT margin), adjusted %	10.9	10.4	13.6	12.2	11.9	12.0	8.9	12.1	13.7	12.7
Operating profit/loss (EBIT)	660	527	635	671	577	418	125	360	514	542
Operating profit/loss margin (EBIT margin), %	10.6	9.1	12.4	11.8	10.9	8.5	2.6	7.8	10.3	9.9
EBITDA, adjusted	907	833	906	921	833	762	600	688	829	852
EBITDA	890	765	848	902	778	595	293	483	657	696
Profit margin, %	9.0	7.7	9.2	8.7	6.4	4.3	–2.9	–5.1	–3.3	–3.6
Financial position										
Working capital	402	232	572	628	819	763	458	586	649	716
Capital expenditure	184	157	170	161	186	211	269	224	97	107
Net debt	2,091	2,035	2,443	2,818	3,308	3,230	3,056	2,827	3,070	3,812
Capital employed	7,027	6,979	7,329	7,756	8,041	7,438	7,066	6,682	6,575	7,543
Return on capital employed, %[2]	9.5	8.2	11.1	8.6	7.5	6.1	1.9	5.7	na	na
Equity/assets ratio, %	43.3	41.3	45.5	44.5	40.6	41.7	35.6	–4.5	–13.2	–6.5
Net debt/equity ratio, %	52.7	53.3	58.2	64.9	81.7	86.2	91.9	–734.3	–274.8	–615.8
Return on equity, %	12.2	6.2	–4.5	8.9	6.0	7.0	–2.2	na	na	na
Equity per share, SEK	13.7	13.2	14.5	15.1	14.0	13.0	11.5	na	na	na
Net debt/EBITDA, x	2.31	2.39	2.44	3.03	3.97	4.19	4.90	na	na	na
Cash flow										
Cash flow from operating activities	628	712	889	927	500	131	330	492	379	540
Cash flow from investing activities	–184	–22	–322	–367	–369	–202	–1,506	–335	–83	–121
Cash flow after investments	444	690	567	560	131	–71	–1,176	157	296	419
Cash conversion, %[3]	79.7	83.2	84.5	82.5	77.7	72.3	55.2	67.4	88.3	87.4
Cash flow from operating activities per share, SEK	2.2	2.5	3.1	3.2	1.7	0.5	1.1	na	na	na
Employees										
Average number of employees[4]	2,458	2,467	2,115	2,583	2,533	2,472	2,579	2,192	2,275	2,309
Share data[1]										
Earnings per share, SEK										
Basic[5]	1.69	–0.34	–0.67	1.35	0.84	0.92	–0.26	na	na	na
Diluted[5]	1.68	–0.34	–0.67	1.35	0.84	0.92	–0.26	na	na	na
Earnings per share from continuing operations, SEK										
Basic[5]	1.69	0.83	1.21	1.35	0.84	0.92	–0.26	na	na	na
Diluted[5]	1.68	0.83	1.21	1.35	0.84	0.92	–0.26	na	na	na
Earnings per share from discontinued operation, SEK										
Basic[5]	–	–1.17	–1.88	na	na	na	na	na	na	na
Diluted[5]	–	–1.17	–1.88	na	na	na	na	na	na	na
Ordinary dividend per share, proposed, SEK	1.00	0.75	0.75	0.50	–	–	–	–	–	–
Special dividend per share, proposed, SEK	–	0.75	–	–	–	–	–	–	–	–
Number of shares at end of period	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	262,137,526	na	na
Average number of shares (basic)[5]	286,492,413	286,320,464	286,193,024	286,290,840	286,987,990	288,010,947	276,132,021	262,137,526	na	na
Average number of shares (diluted)[5]	286,650,070	286,492,178	286,447,465	286,561,607	287,092,780	288,026,408	276,132,021	262,137,526	na	na
Shareprice at year-end, SEK	24.3	29.7	28.7	28.0	22.6	19.4	13.5	14.5	16.6	13.0
Exchange Rates										
EUR, average	10.2543	9.6362	9.4700	9.3445	9.1051	8.6513	8.6958	9.0228	9.5261	10.6165
EUR, end of period	10.2274	9.8210	9.5804	9.1679	9.3829	8.8630	8.5750	8.9100	8.9700	10.2500
NOK, average	1.0672	1.0324	1.0200	1.0432	1.0882	1.1071	1.1643	1.1577	1.1905	1.2144
NOK, end of period	1.0294	0.9997	1.0548	0.9563	1.0439	1.0592	1.1667	1.1467	1.1493	1.2372
GBP, average	11.5917	10.9909	11.5480	12.8736	11.3118	10.1987	10.7429	10.4057	11.1030	11.9012
GBP, end of period	11.3992	11.0684	11.1673	12.4835	12.0340	10.6501	10.5215	10.6668	10.4109	11.5493
DKK, average	1.3760	1.2956	1.2721	1.2529	1.2215	1.1601	1.1682	1.2112	1.2794	1.4258
DKK, end of period	1.3698	1.3192	1.2888	1.2287	1.2604	1.1882	1.1495	1.1987	1.2035	1.3775

1) The key figures per share for the years 2009–2011 are not representative for the current Group due to a completely different equity structure before the merger between Cloetta and Leaf.
2) Return on capital employed for 2016 is calculated pro-forma for continuing operations.
3) The capital expenditure included in the calculation of the cash conversion has been adjusted for the capital expenditure related to discontinued operation in 2017.
4) Average number of employees is presented for continuing operations in 2017.
5) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver the shares to the participants of its long-term share-based incentive plan. The table in Note 23 presents the movements in the contracts since 1 January 2017.

Reconciliation of alternative performance measures

SEKm	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Items affecting comparability										
Acquisitions, integration and factory restructurings	–38	–62	–43	–47	–85	–167	na	na	na	na
of which: impairment loss other non-current assets	–	*–9*	*–2*	–	–	–	*na*	*na*	*na*	*na*
Remeasurements of contingent considerations	21	5	–17	33	27	–	na	na	na	na
Remeasurements of assets held for sale	–	–	–	–5	–	–	na	na	na	na
Other items affecting comparability	0	–20	–	–	3	–	na	na	na	na
Items affecting comparability*	**–17**	**–77**	**–60**	**–19**	**–55**	**–167**	**–307**	**–205**	**–172**	**–156**
* Corresponding line in the condensed consolidated profit and loss account:										
Net Sales	0	–	–	–4	–	–	na	na	na	na
Cost of goods sold	3	–39	–15	–22	–51	–121	na	na	na	na
Other operating income	4	4	–	–	3	12	na	na	na	na
Selling expenses	–1	–6	–	–12	–7	–4	na	na	na	na
General and administrative expenses	–23	–36	–45	19	–	–54	na	na	na	na
Total	**–17**	**–77**	**–60**	**–19**	**–55**	**–167**	**–307**	**–205**	**–172**	**–156**
Operating profit, adjusted										
Operating profit	660	527	635	671	577	418	125	360	514	542
Minus: Items affecting comparability	–17	–77	–60	–19	–55	–167	–307	–205	–172	–156
Operating profit, adjusted	**677**	**604**	**695**	**690**	**632**	**585**	**432**	**565**	**686**	**698**
Net sales	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486
Operating profit margin, adjusted, %	**10.9**	**10.4**	**13.6**	**12.2**	**11.9**	**12.0**	**8.9**	**12.1**	**13.7**	**12.7**
EBITDA, adjusted										
Operating profit	660	527	635	671	577	418	125	360	514	542
Minus: Depreciation	–218	–218	–206	–227	–198	–175	–167	–115	–125	–144
Minus: Amortization	–12	–11	–5	–4	–3	–2	–1	–8	–18	–10
Minus: Impairment loss other non-current assets	–	–9	–2	–	–	–	–	–	–	–
EBITDA	**890**	**765**	**848**	**902**	**778**	**595**	**293**	**483**	**657**	**696**
Minus: Items affecting comparability (excl. impairment loss goodwill and trademarks and other non-current assets)	–17	–68	–58	–19	–55	–167	–307	–205	–172	–156
EBITDA, adjusted	**907**	**833**	**906**	**921**	**833**	**762**	**600**	**688**	**829**	**852**
Capital employed										
Total assets	9,168	9,252	9,236	9,759	9,962	8,989	9,340	8,642	8,494	9,498
Minus: Deferred tax liability	754	703	586	621	483	397	824	728	714	789
Minus: Other non-current liabilities	–	138	–	43	147	2	–	–	–	–
Minus: Non-current provisions	9	5	22	10	16	7	11	24	29	28
Minus: Current provisions	23	3	64	57	65	79	79	60	78	66
Minus: Trade and other payables	1,342	1,394	1,196	1,216	1,152	967	1,264	1,038	975	1,073
Minus: Current income tax liabilities	13	30	39	55	58	99	97	103	125	7
Plus: Interest-bearing other current liabilities	–	–	–	–1	–	–	1	–7	2	8
Capital employed	**7,027**	**6,979**	**7,329**	**7,756**	**8,041**	**7,438**	**7,066**	**6,682**	**6,575**	**7,543**
Capital employed comparative period previous year	6,979	5,966	7,756	8,041	7,438	7,066	6,682	6,575	7,543	7,845
Average capital employed	**7,003**	**6,473**	**7,543**	**7,899**	**7,740**	**7,252**	**6,874**	**6,629**	**7,059**	**7,694**

Reconciliation of alternative performance measures, continued

SEKm	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Return on capital employed[1]										
Operating profit (rolling 12 months)	660	527	635	671	577	418	125	360	514	542
Financial income (rolling 12 months)	5	7	17	6	4	24	5	11	5	3
Operating profit plus financial income (rolling 12 months)	**665**	**534**	**652**	**677**	**581**	**442**	**130**	**371**	**519**	**545**
Average capital employed	7,003	6,473	5,879	7,899	7,740	7,252	6,874	6,629	7,059	7,694
Return on capital employed, %	**9.5**	**8.2**	**11.1**	**8.6**	**7.5**	**6.1**	**1.9**	**5.6**	**7.4**	**7.1**
Cash conversion										
EBITDA, adjusted	907	833	906	921	833	762	600	688	829	852
Minus: Capital expenditures	184	140	–140	–161	–186	–211	–269	–224	–97	–107
EBITDA, adjusted less capital expenditures	**723**	**693**	**766**	**760**	**647**	**551**	**331**	**464**	**732**	**745**
EBITDA, adjusted	907	833	906	921	833	762	600	688	829	852
Cash conversion, %	**79.7**	**83.2**	**84.5**	**82.5**	**77.7**	**72.3**	**55.2**	**67.4**	**88.3**	**87.4**
Changes in net sales										
Net sales	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486
Net sales comparative period previous year	5,784	5,107	na	5,313	4,893	4,859	4,658	5,019	5,486	5,256
Net sales, change	**434**	**677**	**na**	**361**	**420**	**34**	**201**	**–361**	**–467**	**230**
Minus: Structural changes	375	708	na	208	213	na	na	na	na	na
Minus: Changes in exchange rates	217	30	na	77	158	na	na	na	na	na
Organic growth	**–158**	**–61**	**na**	**76**	**49**	**na**	**na**	**na**	**na**	**na**
Structural changes, %	6.5	13.9	na	3.9	4.4	na	na	na	na	na
Organic growth, %	–2.8	–1.2	na	1.4	1.0	–1.0	–4.1	na	na	na
Profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability										
Profit/loss for the period	483	–97	–191	386	242	264	–73	–68	–339	–173
Minus: Impairment loss discontinued operation including income tax effects	–	–479	–771	–	–	–	–	–	–	–
Minus: Other items affecting comparability	0	–20	177	–	–	–	–	–	–	–
Profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability	**483**	**402**	**403**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**
Average number of shares (basic)	286,492,413	286,320,464	286,193,024	286,290,840	286,987,990	288,010,947	276,132,021	262,137,526	na	na
Average number of shares (diluted)	286,650,070	286,492,178	286,447,465	286,561,607	287,092,780	288,026,408	276,132,021	262,137,526	na	na
Earnings per share, basic excluding impact of impairment loss, SEK	1.69	1.40	1.41	1.35	0.84	0.92	–0.26	–0.26	na	na
Earnings per share, diluted excluding impact of impairment loss, SEK	1.68	1.40	1.41	1.35	0.84	0.92	–0.26	–0.26	na	na

1) Return on capital employed for 2017 has been calculated pro-forma for continuing operations.

Sustainability

Cloetta's overall goal for the sustainability work is to create the conditions for long-term value creation. For Cloetta, this means growing as a company, managing risks and identifying opportunities while respecting and managing the impact on people and the environment and fulfilling the expectations of those around Cloetta.

The Code of Conduct is based on our core values

Cloetta's Code of Conduct is a fundamental part of Cloetta's strategy and the basis of the underlying conditions the company has when doing business. Communicating Cloetta's values regarding integrity and respect for people and the environment is important for the company to be perceived as responsible and trustworthy. This is not only important for Cloetta and its employees, but also for investors, customers, consumers and other important stakeholders.

Updating the sustainability agenda

Cloetta's sustainability agenda defines a number of goals in priority areas that extend until 2020.

Cloetta's goals for 2020 can be found under each chapter.

Towards the end of 2018, work commenced to update the Group's sustainability agenda and define new long-term goals. This will be finalized and presented during 2019.

Integration into the business

Further embedding and integrating sustainability into the Group's business strategy and processes, sets the Group up for long-term profitability.

Responsibility for implementation of the sustainability agenda into daily operations lies with each functional leader, for example responsibility for the employees' health and development, control of raw materials and first-tier suppliers, manufacturing safe products, handling complaints/returns effectively and reducing the Group's environmental impact.

In this annual and sustainability report, sustainability work is integrated into the description of business operations and the outcomes for the year.

Scope

To manage both the negative and positive impact effectively, Cloetta needs to understand where impact occurs and where in Cloetta's value chain the Group can make the greatest difference. Cloetta's responsibility extends beyond its own operations and ability to influence the different parts of the value chain varies. By taking a value chain perspective, Cloetta can identify opportunities and risks, and understand limitations as well as how value can be created for its stakeholders.

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 annual and sustainability report.
Management systems, programmes and certifications	Lean 2020, IFRS. Cloetta's leadership platform. BRC, ISO 14001, OHSAS 18001, UTZ and RSPO.
External statutes or initiatives	UN Global Compact and other relevant ILO conventions. EWC (European Works Council).

Sustainability and Cloetta's overall strategies

Cloetta's sustainability work supports and is firmly grounded in the company's business strategy:

Driving growth

Implementing sustainability programmes for the prioritized raw material groups and communicating these programmes on Cloetta's packages helps to further strengthen Cloetta's brands among customers and consumers. UTZ certified cocoa is one example.

Financing growth

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.

Enabling growth

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.

Governance

During the year, Cloetta has adopted a new model for the governance of environmental and social matters. A Sustainability board has been set up, consisting of the President and CEO, six other business function leaders and the Director of Sustainability. The Sustainability board is responsible for defining the strategy and developing policies for approval by the Group Management Team and the Board of Directors, as well as controlling and reporting non-financial risks. Three cross-functional work groups will report to the Sustainability board, and they will be responsible for defining implementation plans, proposing goals and points of view in particular matters, as well as identifying risks. Ultimate responsibility for sustainability lies with Cloetta's President and CEO. Environmental and occupational health and safety managers are in place at all factories.

About the report

Cloetta's annual and sustainability report is prepared in accordance with the GRI Standard's guidelines for sustainability reporting, level Core.

The GRI Index provides references concerning standard information about the company and corporate governance as well as general instructions about material aspects of Cloetta. Links to references in the GRI Index go to the annual and sustainability report, unless otherwise stated. The management reports and financial reports are reviewed by a third party, and Cloetta has commissioned KPMG to carry out a limited review and assure the sustainability report.

The annual and sustainability report constitutes Cloetta's Communication on progress. It thereby describes how Cloetta's work supports the ten principles of the UN Global Compact. The report has been reviewed by Cloetta's Board of Directors.

Gathering data

Data presented in the report is collected through various systems, primarily the Group's accounting systems, the factories' environmental and management systems and a central HR system.

Data concerning energy consumption, quantity of waste, sewage and carbon dioxide is gathered through direct measurements as well as through specifications from suppliers that handle waste and provide heat and electricity. Data is reported monthly from the factories and consolidated at a Group level.

Cloetta uses the global standard Greenhouse Gas Protocol for the majority of carbon dioxide emissions calculations and for reporting carbon dioxide data. The conversion factors used are provided by the suppliers.

Personnel-related data comes from Cloetta's HR system. Work-related incidents and accidents are reported and followed up locally by each unit within the Group. Information is aggregated at Group level.

Whistleblower service

Cloetta's whistleblower service gives all Cloetta employees the opportunity to report misconduct and deviations from its Code of Conduct and the business ethics 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, employees have the 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 reported during the year. One involved a person who considered that they had been incorrectly assessed by their manager during a performance appraisal. Follow-up and dialogue have taken place and the case has been closed. One case of suspected fraud has also been reported during the year. The case is under investigation, and is not financially material.

From raw materials to cherished brands

Cloetta's responsibility extends beyond the direct responsibility for its own business operations, 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 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's commitment to product content

In terms of 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 direct environmental impact arises through water and energy consumption, wastewater emissions, waste and transportation.

Anti-bribery and anti-corruption policy

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

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

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.

Stakeholders and materiality issues

The areas that are prioritized in Cloetta's sustainability agenda have been defined through a materiality analysis. Every year, Cloetta updates the 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 society. These groups are directly critical for Cloetta's long-term profitability. 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.

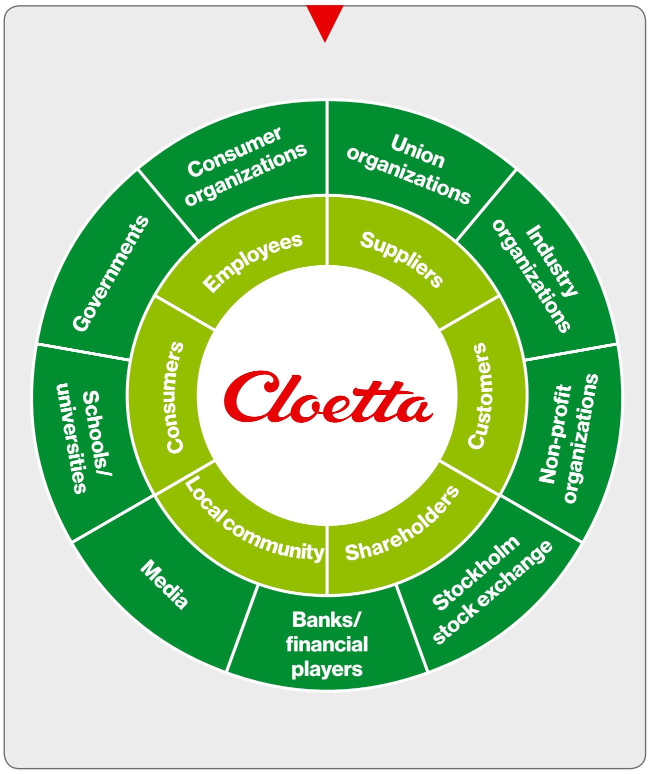
The methodology behind Cloetta's materiality analysis is aimed at classifying different types of sustainability issues on the basis of two parameters:

- The stakeholder perspective – i.e. the significance a specific issue has for Cloetta's ability to create value for important stakeholders.
- The impact perspective – i.e. the direct impact a specific issue can have on Cloetta's ability to continue to grow as a long-term profitable company.

The issues that are of critical importance from both a stakeholder and impact perspective are those that have the highest priority for Cloetta. It is these environmental and social issues that are defined in Cloetta's sustainability agenda.

The materiality analysis was updated towards the end of 2018 and is the foundation for the updated strategy that will be presented in 2019.

Cloetta's stakeholders



Materiality analysis

Importance for Cloetta's stakeholders: Important → Very important

Impact on Cloetta: High → Very high

Fulfill

- Follow the health-related issues surrounding artificial ingredients.
- Laws, requirements and conventions.

Prioritize

- Social, environmental and economic challenges in developing countries for prioritized raw materials (sustainable sourcing).
- Environmental impact of Cloetta's operations.
- Employee safety and well-being.
- Product safety and quality.
- Sugar-free alternatives.

Administrate

- Charity.
- Local community engagement.
- Tax issues.

Monitor and supervise

- Combat corruption, bribery and fraud.
- Social, environmental and economic challenges in countries of origin for other raw materials.
- Responsible marketing.
- Diversity.

Stakeholders' key sustainability issues

Stakeholder	Key issues – sustainability	Communication and cooperation
Customers/ Consumers	• Product safety and quality. • Clear declaration of ingredients. • Environmentally sound packages. • Cloetta takes responsibility for the environment and working conditions. • Ethical issues in general. • Efficient transportation to the retail trade.	• 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, also collaborative initiatives for eco-friendly transportation.
Employees	• Good and stimulating working conditions. • A safe working environment. • Health and fitness activities. • Ethical issues in general. • Good financial development for the company.	• 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	• Sustainable long-term financial value growth. • Ethical issues in general.	• Annual report, website, analyst and investor meetings, interim reports and annual general meeting.
Suppliers	• Ethics and business codes in procurement. • Product safety. • Sustainable long-term development. • Respecting human rights.	• Collaborative projects for sustainability. • Annual supplier evaluations, sponsorship evaluations and development projects.
Local communities, the public/society	• 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.	• 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.

Strategic priorities for Cloetta's sustainability work

Area	Materiality	Cloetta's approach	Governance	Most important goals	Significant risks	SDG* reference
Increased resource efficiency	Cloetta's responsible management of current global challenges, in terms of climate change, access to resources, chemical distribution and plastics, builds trust in the company.	Through improved resource efficiency and by remaining a step ahead of new regulations, Cloetta creates the conditions for long-term profitability and for managing its impact on the environment and climate.	• Code of Conduct. • Cloetta's sustainability board. • ISO 14001. • Lean 2020. • Internal control policy.	**By 2020** • 5% less energy. • 5% reduced CO_2. • 25% less waste. **By 2025** 100% recyclable or reusable packaging.	Negative impact on the environment. Regulations. Lower availability/ higher prices of important raw materials.	12 Responsible consumption and production 13 Climate action 15 Life on land
Employee development and health	Being able to attract, develop and retain the right employees is a pre-requisite for Cloetta's long-term profitability.	Cloetta secures its future supply of skills by being an inclusive and attractive employer that prioritises health and safety and employee well-being, and places sustainability high on its agenda.	• Code of Conduct. • HR policy. • Cloetta's leadership platform. • Cloetta's sustainability board. • Lean 2020. • Fraud and whistle-blower policy. • Internal control policy.	Cloetta has a zero-tolerance vision for workplace injuries. Improvement of Great Place to Work index.	Health and safety in production. Challenges to secure the right competence.	3 Good health and well-being 8 Decent work and economic growth
Consumer front and centre	The consumer should feel confident that products are safe and of high quality, and that Cloetta is transparent about product content and the impact of raw materials.	Product safety and quality are paramount. Cloetta develops alternatives with natural raw materials and less sugar, or no sugar, and markets products responsibly and ethically.	• Code of Conduct. • Cloetta's sustainability board. • Cloetta's product board. • Responsible marketing. • Lean 2020. • BRC. • Good manufacturing practice. • Internal control policy.	All products must be of high quality and safe. All larger brands will have an alternative with less sugar or no sugar. By 2020, Cloetta's products will not contain artificial flavourings or colourings.	Brand-related risks resulting in decreased sales. Political decisions such as sugar taxes. Risk that the consumer no longer chooses sugar.	2 Zero hunger 12 Responsible consumption and production 17 Partnerships for the goals
Responsible sourcing of raw materials	Many of the raw materials contained in Cloetta's products originate in countries where there is a higher risk of deviation from our Code of Conduct.	By integrating environmental and social requirements into the sourcing process, Cloetta controls that suppliers comply with its requirements. Cloetta maintains highly ethical standards in its business relations. Cloetta has a programme for sourcing of certified raw materials (palm oil, cocoa and shea), which aims to increase traceability and contribute to improved social and environmental conditions in places where the raw materials are made.	• Code of Conduct. • Cloetta's sustainability board. • UTZ and RSPO. • Internal control policy. • Fraud and whistle-blower policy.	Sustainability programme implemented for priority raw materials. Palm oil will be RSPO-SG certified no later than 2020. Palm oil in glazing agents has largely been replaced with alternatives. 100% of cocoa and chocolate must be UTZ certified. 100% sustainable shea butter.	Respect for human rights. Brand-related risks resulting in decreased sales. Limited access to important raw materials.	3 Good health and well-being 8 Decent work and economic growth 12 Responsible consumption and production 13 Climate action 15 Life on land 16 Peace, justice and strong institutions 17 Partnerships for the goals

* SDG – UN Sustainable Development Goals

GRI index

	Organizational Profile (2016)	Page
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102-13	Memberships of associations and national or international advocacy organizations	160
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102-41	The percentage of total employees covered by collective bargaining agreements	55
102-42	Identification and selection of stakeholders	150
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	Reporting profile (2016)	
102-45	Entities included in the organization's consolidated financial statements	136
102-46	Defining the report content and the topic boundaries	148–152
102-47	List of material topics	151–152
102-48	Restatements of information	From 2018 reporting of LTIR replaces Days between accidents, as LTIR is considered more relevant. CO_2e/prod kg data have been adjusted for 2016 and 2017. 37, 45, 153
102-49	Changes in reporting	153
102-50	Reporting period	1 January–31 December 2018
102-51	Date of most recent previous report	8 March 2018
102-52	Reporting cycle	Calendar year
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Cloetta's annual and sustainability report is prepared in accordance with the GRI Standard's guidelines for sustainability reporting, level Core, which is a change compared to last year's reporting according to GRI G4 Core. Cloetta's sustainability reporting covers all of its operations unless otherwise stated. The most recent sustainability report was presented on 8 March 2018. 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 agenda. The specific disclosures and other contents of the sustainability report have been selected based on Cloetta's materiality analysis on page 151. The focus of Cloetta's sustainability work and therefore also the reporting is Employee development and health, Consumers, Increased resource efficiency and Responsible sourcing. KPMG has performed limited assurance procedures on Cloetta's sustainability report, see page 155.

Contact for sustainability information

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Performance indicators

		EMPLOYEE DEVELOPMENT AND HEALTH Working conditions (2016)	Scope/Comments	Page
GRI 103 *Management approach*	103-1	Explanation of the material topic and its boundary		37-38, 53–55, 150–152
	103-2	The management approach and its components		51–54, 75, 77, 148–150, 152
	103-3	Evaluation of the management approach		38, 77
GRI 405 *Diversity and Equal opportunity*	405-1	Composition of governance bodies and breakdown of employees by gender and age group	Information about minority groups is not available.	51–55, 84–87
	Own	Occupational injuries, lost days, and absenteeism	Includes Cloetta/Defined as LTIR, is absence due to accidents (for more than 24 hours) per 1,000,000 hours worked.	5, 51, 53–54
		CONSUMER FRONT AND CENTRE Product responsibility (2016)		
GRI 103 *Management approach*	103-1	Explanation of the material topic and its boundary		24–25, 37–40, 71, 150–152
	103-2	The management approach and its components		77, 152
	103-3	Evaluation of the management approach		38, 77
GRI 416 *Customer health and safety*	416-1	Evaluation of products and services with regard to consumer health and safety	Refers to Cloetta's customers/ All factories are BRC certified.	37–40
	Own	Consumer complaints/returns	Refers to Cloetta's customers	40
		INCREASED RESOURCE EFFICIENCY Environment (2016)		
GRI 103 *Management approach*	103-1	Explanation of the material topic and its boundary		44–45, 68, 71, 148–152
	103-2	The management approach and its components		44–45, 77, 148–150, 152
	103-3	Evaluation of the management approach		38, 77
GRI 302 *Energy*	302-1	Energy consumption inside the organization	Includes Cloetta/Information on distribution renewable/non-renewable is not available.	44–45, 149
GRI 305 *Emissions*	305-1 305-2	Direct and indirect greenhouse gas emissions, by weight (Scope 1, Scope 2)	Refers to Cloetta and the supply chain	44–45, 149
GRI 306 *Effluents and Waste*	306-1	Total water discharge by quality and destination.	Refers to Cloetta and the supply chain/Detailed information on treatment method is not available.	44–45
	306-2	Total weight of waste, by type and disposal method	Refers to Cloetta and the supply chain/ No detailed information about disposal method available. Reported in percentage, not weight.	44–45
	Own	Recycling of materials	Refers to Cloetta and the supply chain	44–45
	Own	Transportation	Refers to transportation within Cloetta's supply chain/ Reported only in kg CO_2 per transported tonne.	44–45
		RESPONSIBLE SOURCING OF RAW MATERIALS Human rights (2016)		
GRI 103 *Management approach*	103-1	Explanation of the material topic and its boundary		37–38, 48–50, 71, 148–152
	103-2	The management approach and its components		48, 77, 148–149, 152
	103-3	Evaluation of the management approach		38,77
GRI 414 *Supplier social assessment*	414-1	Percentage of new suppliers that were screened using human rights criteria	Refers to Cloetta's suppliers	48
	Own	Results of sustainability programmes for prioritized raw materials	Refers to Cloetta's suppliers	48–50
		ECONOMIC PERFORMANCE (2016)		
GRI 103 *Management approach*	103-1	Explanation of the material topic and its boundary		4, 148–151
	103-2	The management approach and its components		74–79, 82–83, 148–149
	103-3	Evaluation of the management approach		82–83, 149
GRI 201 *Economic performance*	201-1	Direct economic value generated and distributed	Refers to Cloetta and external stakeholders	9, 149
		ANTI-CORRUPTION (2016)		
GRI 103 *Management approach*	103-1	Explanation of the material topic and its boundary		76–77, 148-149
	103-2	The management approach and its components		74–79, 82–83, 148–149
	103-3	Evaluation of the management approach		38, 77
GRI 205 *Anti-corruption*	205-3	Confirmed incidents of corruption	Cloetta's employees or third party acting on behalf of Cloetta. Measured through incidents reported to whistleblower service.	149

Auditor's Limited Assurance Report

on Cloetta AB's 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 President and CEO of Cloetta AB to undertake a limited assurance engagement of Cloetta AB's Sustainability Report for the year 2018. Cloetta AB has defined the scope of the Sustainability Report on the inside front cover page of this document, which also constitutes the Statutory Sustainability Report as defined on the inside front cover page.

Responsibilities of the Board of Directors and the Group Management Team

The Board of Directors and the Group Management Team 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 153 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. Our assignment is limited to the historical information that is presented and does not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance engagements other then 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 Group Management Team 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 Group Management Team.

A Statutory Sustainability Report has been prepared.

Stockholm, 12 March 2019

KPMG AB

Tomas Forslund
Authorized Public Accountant

Torbjörn Westman
Expert Member of FAR

Definitions

General	All amounts in the tables are presented in SEK millions unless otherwise stated. All amounts in brackets () represent comparative figures for the prior year, unless otherwise stated.	
Margins	**Definition/calculation**	**Purpose**
Gross margin	Net sales less cost of goods sold as a percentage of net sales.	Gross margin measures production profitability.
Operating profit margin (EBIT margin)	Operating profit expressed as a percentage of net sales.	Operating profit margin is used for measuring the operational profitability.
Operating profit margin, adjusted	Operating profit, adjusted for items affecting comparability, as a percentage of net sales.	Operating profit margin, adjusted excludes the impact of items affecting comparability, enabling a comparison of operational profitability.
Profit margin	Profit/loss before tax expressed as a percentage of net sales.	This metric enables the profitability to be compared across locations where corporate taxes differ.
Return	**Definition/calculation**	**Purpose**
Cash conversion	Operating profit, adjusted for items affecting comparability, before depreciation and amortization less capital expenditures as a percentage of operating profit, adjusted for items affecting comparability, before depreciation and amortization.	Cash conversion measures the proportion of profits that are converted to cash flow. It is used to analyze how much of the profit attributable to shareholders is turned into cash that could be paid to investors without damaging the business, except for cash flows related to interest and tax.
Return on capital employed	Operating profit plus financial income as a percentage of average capital employed. The average capital employed is calculated by taking the capital employed per period end and the capital employed by period end of the comparative period in the previous year divided by two.	Return on capital employed is used to analyse profitability, based on the amount of capital used. The leverage of the company is the reason that this metric is used next to return on equity, because it includes equity, but takes into account borrowings and other liabilities as well.
Return on equity	Profit for the period as a percentage of total equity.	Return on equity is used to measure profit generation, given the resources attributable to the owners of the Parent Company.
Capital structure	**Definition/calculation**	**Purpose**
Capital employed	Total assets less interest-free liabilities (including deferred tax).	Capital employed measures the amount of capital used and serves as input for the return on capital employed.
Equity/assets ratio	Equity at the end of the period as a percentage of total assets. The equity/assets ratio represents the amount of assets on which shareholders have a residual claim.	This ratio is an indicator of the company's leverage used to finance its activities.
Gross debt	Gross current and non-current borrowings, credit overdraft facilities, derivative financial instruments and interest payable.	Gross debt represents the total debt obligation of the company irrespective of its maturity.
Net debt	Gross debt less cash and cash equivalents.	The net debt is used as an indication of the ability to pay off all debts if these became due simultaneously on the day of calculation, using only available cash and cash equivalents.
Net debt/EBITDA	Net Debt at the end of the period divided by the EBITDA, adjusted, for the last 12 months, taking into consideration the annualisation of EBITDA for acquired or divested companies.	The net debt/EBITDA ratio approximates the company's ability to decrease its debt. It represents the number of years it would take to pay back debt if net debt and EBITDA were held constant, ignoring the impact from cash flows from interest, tax and capital expenditure.
Net debt/equity ratio	Net debt at the end of the period divided by equity at the end of the period.	The net debt/equity ratio measures the extent to which the company is funded by debt. Because cash and overdraft facilities can be used to pay-off debt at short notice, the leverage takes into account net debt instead of gross debt.
Working capital	Total inventories and trade and other receivables adjusted for trade and other payables.	Working capital is used to measure the company's ability, besides cash and cash equivalents, to meet current operational obligations.
Data per share	**Definition/calculation**	**Purpose**
Cash flow from operating activities per share	Cash flow from operating activities in the period divided by the average number of shares.	The cash flow from operating activities per share measures the amount of cash the company generates per share from the revenues it brings irrespective of the capital investments and cash flows related to the financing structure of the company.
Earnings per share	Profit for the period divided by the average number of shares adjusted for the effect of forward contracts to repurchase own shares.	The earnings per share measures the amount of net profit that is available for payment to shareholders per share.
Equity per share	Equity at the end of the period divided by the number of shares at the end of the period.	Equity per share measures the net-asset value backing up each share of the company's equity and determines if a company is increasing shareholder value over time.

Definitions, continued

Other definitions	Definition/calculation	Purpose
EBITDA	Operating profit before depreciation and amortization.	EBITDA is used to measure the cash flow generated from operating activities, eliminating the impact of financing and accounting decisions.
EBITDA, adjusted	Operating profit, adjusted for items affecting comparability, before depreciation and amortization.	EBITDA, adjusted increases the comparability of EBITDA.
Effective tax rate	Income tax as a percentage of profit before tax.	This metric enables the income tax to be compared across locations where corporate taxes differ.
Items affecting comparability	Items affecting comparability are those significant items which are separately disclosed by virtue of their size or incidence in order to enable a full understanding of the Group's financial performance. These include items such as restructurings, impact from acquisitions or divestments.	Items affecting comparability increase the comparability of the Group's financial performance.
Net financial items	The total of exchange differences on borrowings and cash and cash equivalents in foreign currencies, other financial income and other financial expenses.	The net financial items reflects the company's total costs of external financing.
Net sales, change	Net sales as a percentage of net sales in the comparative period of the previous year.	Net sales, change reflects the company's realized top-line growth over time.
Operating profit (EBIT)	Operating profit consists of comprehensive income before net financial items and income tax.	This metric enables the profitability to be compared across locations where corporate taxes differ, irrespective of the financing structure of the company.
Operating profit (EBIT), adjusted	Operating profit adjusted for items affecting comparability.	Operating profit, adjusted increases the comparability of the operating profit.
Organic growth	Net sales, change excluding acquisition-driven growth and changes in exchanges rates.	Organic growth excludes the impact of changes in group structure and exchange rates, enabling a comparison of net sales growth over time.
Structural changes	Net sales, change resulting from changes in group structure.	Structural changes measure the contribution of changes in group structure to the net sales growth.

Glossary

Branded packaged products	Products that are mainly sold under brands and are packaged.
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 14001 addresses environmental management.
Line extension	New packaging, sizes and flavours for an established brand.
The Perfect Factory	Cloetta's development project to improve engagement, trustworthiness and resource-efficiency throughout production.
OHSAS 18001	International occupational health and safety management system specification.
Polyols	Sugar alcohols that resemble sugar and are used as sweeteners.
Pick & mix	Cloetta's range of candy and natural snacks that are picked by the consumers themselves.
Pick & mix concept	Cloetta's complete concept in pick & mix including products, displays and accompanying store and logistic services.
UTZ	Certified standards for sustainable farming with a number of social and environmental criteria.

Cloetta's history filled with legendary brands

The Cloetta brothers

In 1862 the three Swiss Cloetta brothers, Bernard, Christoffer and Nutin Cloetta, founded the company "Brødrene Cloëtta" for manufacturing chocolate and confectionery in Copenhagen, Denmark. The brothers later moved their manufacturing to Sweden and the company was owned by the Cloetta family until 1917, when the Svenfelt family took over the majority shareholding in Cloetta via the newly formed Svenska Chokladfabriks AB. The Svenfelt family has major ownership interests in Cloetta to this day.

1800s

Cloetta's oldest brands date from the 1800s

Venco is launched in 1878 when Gerrit van Voornveld started manufacturing liquorice and peppermint pastilles in a steam factory in Amsterdam. Liquorice, peppermint and jujubes have long been known for their cough suppressing effects.

1900–1910

1900–1913, exploiting industrialization

Electrification and railway construction accelerate the pace of industrialization, a critical enabler for businesses like the Swedish companies Ahlgrens and Cloetta, which are active in industrial production of confectionery. Läkerol is launched in 1909 and Guldnougat in 1913. Läkerol is also launched in Denmark in 1910 and Norway in 1912.

1920

The roaring twenties

The confectionery industry grows after the war. The slogan "Choose right – choose Cloetta" is created in 1921. In the Netherlands, the pastille brand King is launched in 1922. In 1928 Sisu is launched in Finland, Red Band in the Netherlands and Tarragona in Sweden.

1930–1940

The 1930–40s, launch of strong brands

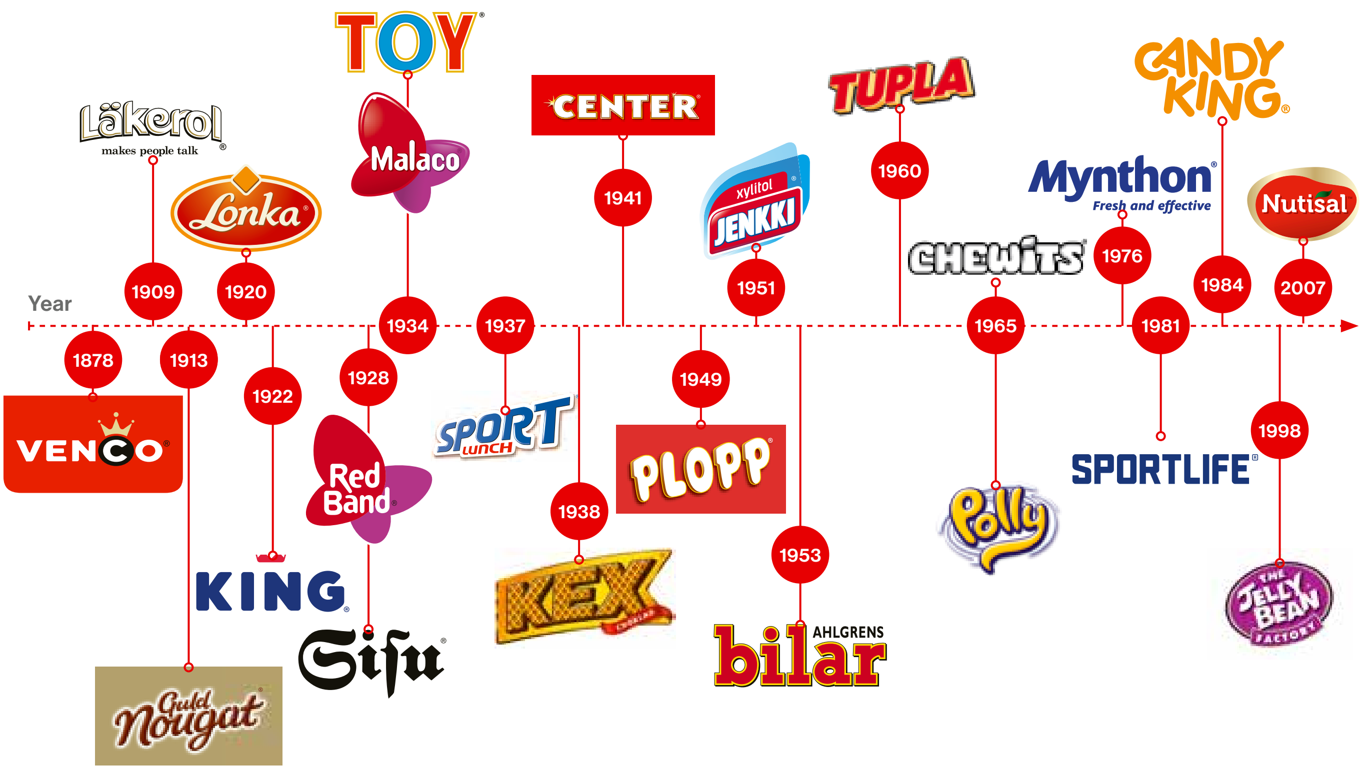
Malaco (Malmö Lakrits Compani) is founded in 1934 during the period between the two world wars. Sportlunch (then called Mellanmål) is launched in 1937. Kexchoklad is introduced in 1938 and Center in 1941. Plopp is launched after WWII in 1949.

1950–1960

1950–60s, an interest in the USA and cars

The chewing gum Jenkki (Yankee) is launched in Finland in 1951. Ahlgrens bilar – the world's best-selling car, is launched in 1953 with Italian Bugatti as its inspiration. The double countline Tupla is launched in Finland in 1960. In Sweden, Polly is launched in 1965 and Bridgeblandning in 1966. Chewits are launched in the United Kingdom in 1965. The first marshmallow Santas are also sold in the 1960s.

Strong brands with long traditions



1970	1980	1990	2000	2010–

1970s – fresh and healthy

In 1975, the world's first chewing gum with xylitol is launched by Jenkki in Finland. The Mynthon pastille is introduced in Finland in 1976.

In Sweden, the mixed candy bag Gott & Blandat is launched in response to the growing popularity of pick & mix.

1980s, more chewing gum

In 1981 Sportlife is launched as the first chewing gum in "blister" packaging. In the Netherlands, the country's first chewing gum with 100 per cent xylitol, Xylifresh, is launched in 1988.

1990s – consolidation of the industry

CSM, a Dutch sugar and food products company, acquires Red Band in 1986. Leaf acquires Ahlgrens (with Läkerol and Ahlgrens bilar) in 1993, CSM acquires Malaco in 1997, Cloetta acquires Candelia (with Polly and Bridgeblandning) in 1998 and CSM acquires Leaf in 1999. Cloetta's share is listed on the Stockholm Stock Exchange in 1994.

2000s – new groups formed

During the period from 2000 to 2009, Cloetta is part of the Cloetta Fazer group. After the de-merger in 2009, the independent Cloetta is relisted on NASDAQ OM Stockholm. In 2000 CSM acquires Continental Sweets and thereby strengthens its position primarily in France and Belgium, but also in the Netherlands and the UK. In 2001 CSM acquires Socalbe in Italy (with Dietorelle and Dietor). In 2005 CVC and Nordic Capital acquire CSM's confectionery division and changes its name to Leaf.

2010s – Cloetta grows

Cloetta and Leaf are merged in 2012. In 2014 Cloetta acquires Nutisal, a leading Swedish company that roasts and sells dry roasted nuts.

In the same year Cloetta acquires The Jelly Bean Factory with the main market in the UK.

In 2015 Cloetta acquires Lonka, a Dutch company that produces and sells fudge, soft nougat and chocolate.

In 2017, Cloetta acquires Candyking and becomes market leader in pick & mix. The Italian operations are divested.

Membership of organizations

Cloetta is a member of several organizations aimed at contributing to more sustainable cultivation of raw materials and improving the conditions for growers in developing countries.

World Cocoa Foundation (WCF)

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

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.

Round Table on Sustainable Palm Oil

The Round Table on Sustainable Palm Oil (RSPO) is committed to promoting the growth and use of sustainable palm oil worldwide.

FN Global Compact

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 law, the environment and anti-corruption.

UTZ

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.

Bonsucro

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: *"A sugarcane sector that is continuously improving and verified as sustainable".*

Global Shea Alliance

The GSA is a non-profit 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.

Industry organizations

- 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.

Shareholder information

Shareholder contact

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or ir@cloetta.com

Annual General Meeting

The Annual General Meeting of Cloetta AB (publ) will be held on Thursday, 4 April 2019, at 3:00 p.m., at Stockholm Waterfront Congress Centre in Stockholm.

The Notice of the Annual General Meeting will be published on 28 February 2019 and will be posted on www.cloetta.com.

Registration

Registration to participate in the AGM must be received by the company no later than Friday, 29 March 2019.

Mail: Cloetta AB
"Annual General Meeting"
c/o Euroclear Sweden
Box 191
SE-101 23 Stockholm, Sweden

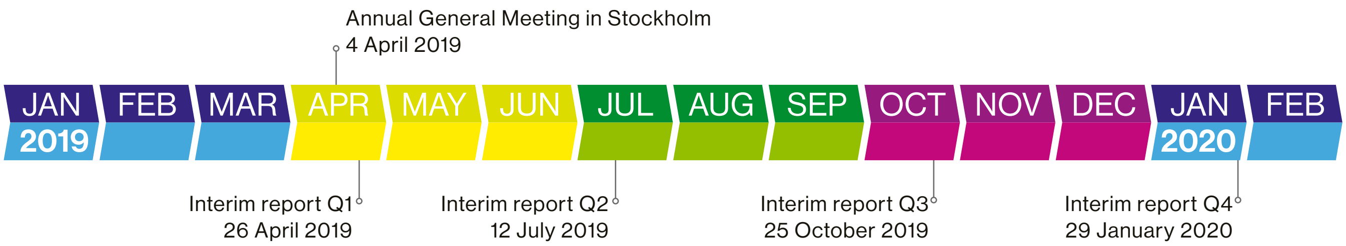
Telephone: +46 70 186 52 22

Website: www.cloetta.com

To order the annual report

The annual report is available in Swedish and English.
The printed annual report can be ordered via the website.
It can also be downloaded from www.cloetta.com.

Financial calender 2019



Production: Cloetta in collaboration with Addira
Photos: Joakim Folke
Printing: åtta45
Translation: Lisa Cockette, Anything English

MILJÖMÄRKT 3041 0001 TRYCKSAK
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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.

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