Cloetta

Annual and sustainability report 2019

"We believe in the Power of True Joy"

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 64–140.

The reviewed sustainability account consists of pages 5, 12–16, 41–42, 48–57, 150–154. The statutory sustainability report can be found on pages 6–11 (business model), 15–16, 73 (risks and risk management) and 5, 14–16, 41–42, 48–49, 56–57, 150–152 (material sustainability matters, governance and performance indicators).

The annual report and sustainability report are published in Swedish and English. The Swedish version is the original.

Cloetta

– a leading confectionery company in the Northern Europe.

FOUNDED IN
1862

2,600
EMPLOYEES

SALES IN
>**50**
COUNTRIES

LEADING
BRANDS

8

ANNUAL SALES
SEK
6.5
BILLION

CHOCOLATE

CANDY

PASTILLES

CHEWING GUM

PICK & MIX

NUTS

Our purpose
“We believe in the Power of True Joy”

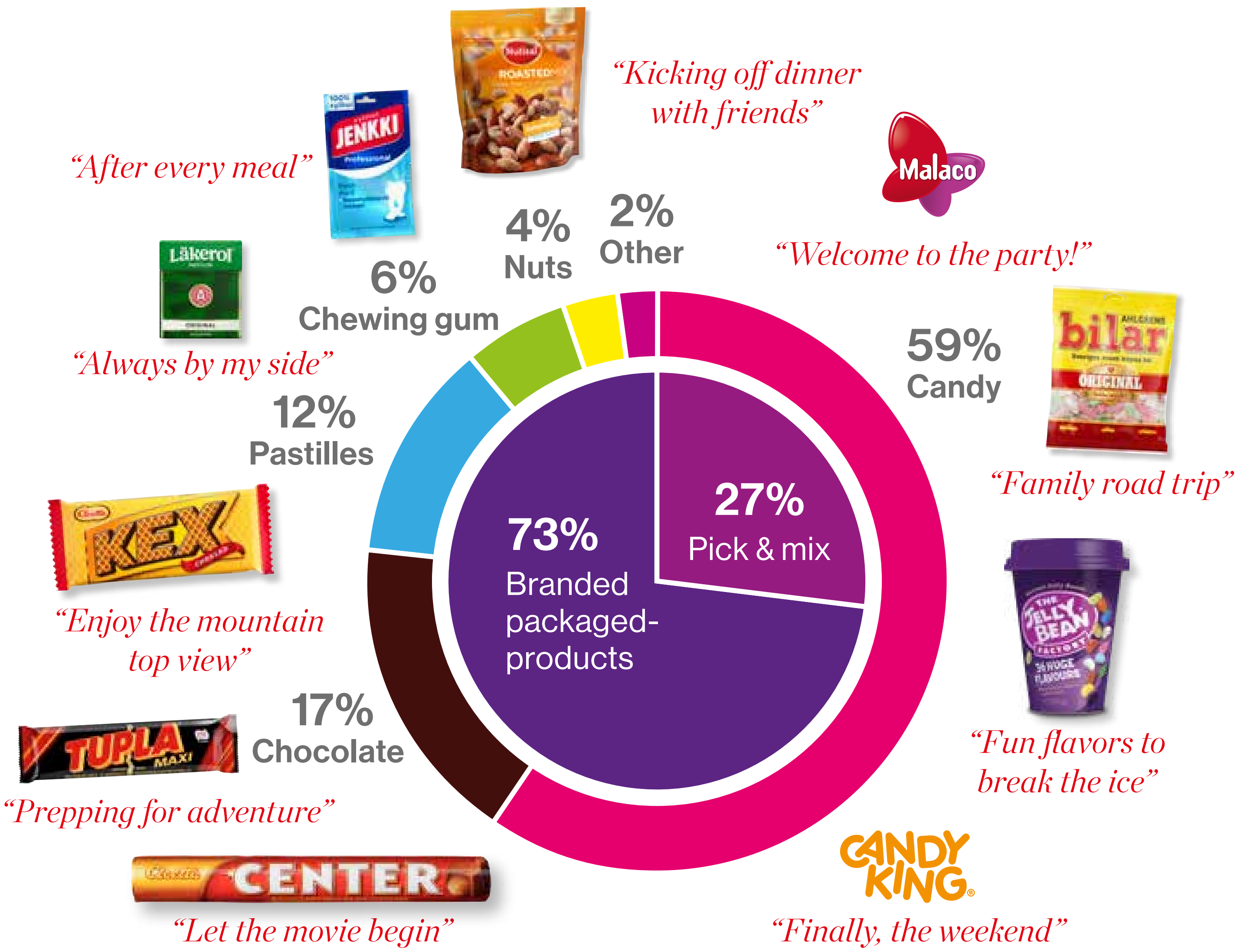
Cloetta’s purpose, strategies and goals express the company’s business idea.

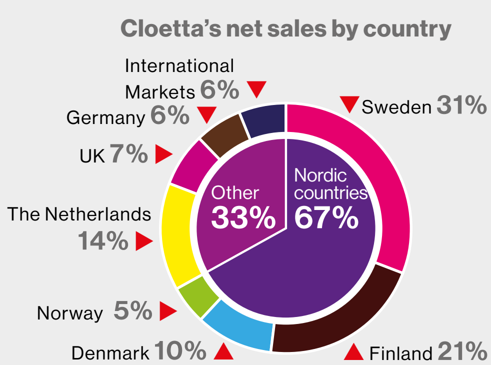
Cloetta’s strengths

- *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.*

A joyful product portfolio

Cloetta's net sales by category



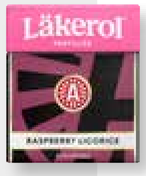


2019 in brief

Q1

- Cloetta Capital Markets day held in Stockholm.
- Niklas Truedsson appointed as Chief Pick & Mix Officer.
- Value Improvement Program Plus launched, a new company-wide program to increase profitability and invest in growth.
- Earn-out consideration of SEK 146m related to the acquisition of Candyking settled.

Q2



- Dividend of SEK 1 per share is paid out .
- Läkerol given a new design, and a wide media campaign is launched.
- Cloetta Leading Performance Program is launched, the next step in Cloetta's Lean program for increased manufacturing efficiency.

Q3

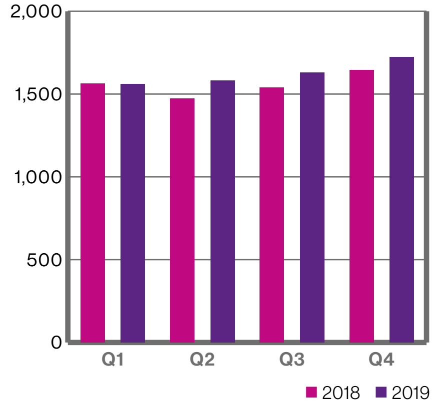
- Cloetta launches a new employer branding concept "*Sweet spot for your career*".
- Cloetta's annual report 2018 ranked by e.com-ReportWatch as one of the top six in a selection of more than 300 companies worldwide.
- Cloetta in the Netherlands ranked by MT 500 magazine as the top employer of all FMCG companies in the Netherlands.

Q4

- Nathalie Redmo appointed as Head of Investor Relations and Communi-cations .
- Cloetta signs a new global contract with communications agency PHD Media International.

Net sales

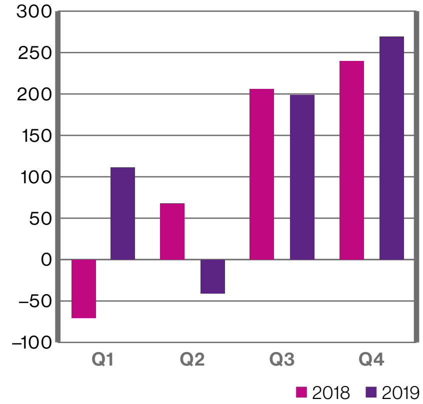
SEKm



Examples of new product launches during the year

Free cash flow

SEKm



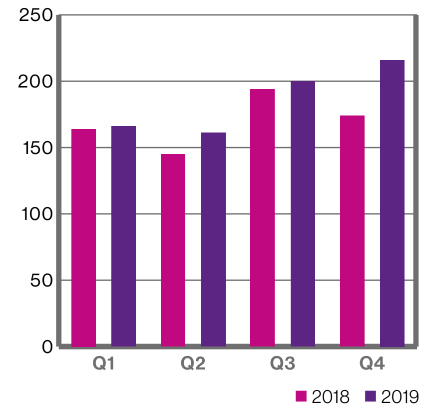
Key ratios

SEKm	2019	2018	2017	2016	2015
Net sales	6,493	6,218	5,784	5,107	5,674
Operating profit (EBIT), adjusted[1]	743	677	604	695	690
Operating profit margin (EBIT margin), adjusted, %[1]	11.4	10.9	10.4	13.6	12.2
Operating profit (EBIT)[1]	727	660	527	635	671
Operating profit margin (EBIT margin), %[1]	11.2	10.6	9.1	12.4	11.8
Profit before tax	648	562	443	469	493
Profit for the period	498	483	–97	–191	386
Earnings per share, basic, SEK	1.74	1.69	–0.34	–0.67	1.35
Earnings per share, diluted, SEK	1.74	1.68	–0.34	–0.67	1.35
Net debt/EBITDA, x[1]	2.2	2.3	2.4	2.4	3.0
Free cash flow[1]	538	444	555	719	766
Cash flow from operating activities[1]	724	628	712	889	927

1) This metric has been affected by IFRS16 'Leases' as of 1 January 2019. Comparative figures are not restated. See Note 29 for indicative key figures excluding the impact of IFRS16.
For definitions, see page 156.

Operating profit, adjusted

SEKm



Cloetta well positioned to deliver on financial targets

During 2019, Cloetta delivered strong growth in both branded packaged products and pick & mix, whilst improving the operating profit.

When summarizing 2019, I am particularly pleased that we have continued to deliver branded packaged growth, whilst making good progress on our journey towards bringing sustainable value to the pick & mix business. This has been achieved through focused attention and investments in our core markets, categories and brands.

Increased sales and improved profitability

This year's net sales increased by SEK 275m to SEK 6,493m (6,218) compared to the same period of last year, driven by strong growth in branded packaged products as well as pick & mix. Organic growth was 2.3 per cent. Operating profit, adjusted for items affecting comparability, amounted to SEK 743m (677). The improvement in operating profit, adjusted, was driven by sales growth and cost efficiencies, partly offset by increased marketing investments.

Dividend in line with policy

I am also pleased that we have achieved the target of 2.5x net debt/EBITDA for the fourth consecutive year. In combination with improved profitability and a healthy cash flow, this enables the Board to propose a dividend in line with our dividend policy of SEK 1.00 (1.00) per share for 2019.

"We believe in the Power of True Joy"

It is our belief that when consumer demands and expectations are met or exceeded, Cloetta will grow as a company and our brands will flourish.

This consumer-centric approach is well reflected in our new purpose statement "We believe in the Power of True Joy". We want our products to play a positive part in adding that special touch to people's daily lives. When they savor Cloetta's products, people experience a moment of true joy.

Cloetta will continue to strengthen its position as the leading confectionery company in northern Europe within its key categories. Thanks to the Group's strong local brands, Cloetta is well prepared to respond to the growing trend of consumers requesting local brands.

Updated sustainability agenda

We continue to incorporate sustainability into our business strategy and operations. This means anticipating, understanding and exceeding stakeholders' expectations of Cloetta. Among other things, consumers should be offered high-quality products as well as alternatives such as products with less or no sugar.

Cloetta's sustainability work also aims to reduce environmental impact from production and packaging and to require sustainability-related actions of our suppliers. During the year, we achieved our goals for responsible sourcing of prioritized raw materials in 2019, with 100 per cent UTZ certified cocoa and 100 per cent segregated palm oil.

We are currently intensifying our ambitions in sustainability. Cloetta's new sustainability agenda and targets will be finalized and presented in 2020.

Cloetta continues to support the UN Global Compact's ten principles in human rights, labor, environment and anti-corruption. In this annual and sustainability report, we present our performance indicators and results to integrate the Global Compact's principles into our business, culture and daily operations.

Strategic initiatives

My goal is to grow Cloetta organically, in line, or better than the market, and at the same time reach an EBIT margin, adjusted of at least 14 per cent.

By focusing on our core categories and markets and, over time, doubling sales in International Markets, we will be able to achieve our desired growth. Additionally, we will consider selective acquisitions in our core categories in our main markets or adjacent markets.

We have identified three key focus areas that support us in reaching our financial targets. These are growing the branded packaged business, bringing sustainable value to the pick & mix business as well as reducing costs and driving efficiencies across the organization.

Branded growth

We have now been able to organically grow the branded packaged business, which has a margin above 14 per cent, for eight consecutive quarters. This has been achieved through working with fewer but bigger innovations as well as increasing our marketing investments that are visible to the consumers. During the year, the share of marketing visible to consumers reached 60 per cent compared to 40 per cent a year ago.

We have also increased our focus on premiumization and value growth, both in terms of achieving a higher price on the same volume as well as the same price for less volume.

"We have all the building blocks in place to drive both growth and profitability."

We will continue to focus on profitable growth within the branded packaged business, thereby driving a favorable mix effect across the business and enabling us to reach an EBIT margin, adjusted of at least 14 per cent.

Sustainable value to pick & mix

Pick & mix is a growing and important consumer market for us based on underlying global consumer trends such as individualism and less use of plastic packaging. With the shift to e-commerce, retailers are also increasingly looking for products that can give consumers an experience in stores. This is something that the pick & mix category can offer. As a leading confectionery company in Northern Europe we see great opportunities to develop the category further, thereby driving profitability and growth.

In the short term, our focus is on improving the operating profit margin from pick & mix in Sweden. During the year, price increases have been implemented in the Swedish business to address higher costs as well as to turn around the loss-making business by year-end 2020. We have also finalized the contract to consolidate two warehouses into one, effective mid-2020. We continue to focus on activities to optimize the assortment and improve merchandizing efficiency across all markets.

Reduce costs and drive efficiency

Several initiatives were carried out during 2019 to reduce costs as well as to drive efficiencies throughout the business.

As we close the year, 11 out of 17 targeted production lines have been addressed by the "Perfect Factory" program, aiming to create higher efficiency and less waste in our factories.

In 2019, indirect costs were addressed through the Value Improvement Program Plus, that is centered around zero-based budgeting. In the Netherlands, we increased our central sales capabilities in response to our customer demands, whilst reducing our field sales-force, thereby delivering both increased collaboration service and savings.

Furthermore, we will continue to focus on creating "One Cloetta" with a common agenda and scale synergies to produce better conditions for growth. During the year, we reached an agreement with PHD Media International, part of Omnicom Media Group, to consolidate to one media agency. The agreement will create additional synergies and scale, and allow us to invest more effectively in our brands to enable continued organic growth.

From acquisition to organic growth

For many years, the growth of Cloetta was only driven by acquisitions. Today, Cloetta has successfully made a strategic shift from acquisition growth to organic growth and at the same time delivered margin expansion. We have all the building blocks in place to drive both growth and profitability, and in the medium term this will drive Cloetta's EBIT margin, adjusted to at least 14 per cent.

2019 has been a great stepping stone for us where we had another four quarters of growth in branded packaged products and we started our value creation journey with pick & mix. Across the organization people worked hard to reduce costs as well as to increase the capacity in our factories. I hereby want to thank all employees for their hard work and contribution to the achievements in 2019.

For 2020, my focus remains on the above-mentioned focus areas of growing the branded packaged business, bringing sustainable value to the pick & mix business as well as reducing costs and driving efficiencies across the organization. We will continue to increase our pricing, to compensate for higher commodity costs and a weaker SEK, with a potential negative impact on volumes for the Swedish pick & mix business. Cloetta has a profitable business with a healthy cash flow in stable markets. We have leading local brands, which we are making more competitive, as well as competent and committed employees that are proud of our company and our products. In conclusion, we continue to execute on our organic growth strategy and are well positioned to deliver on all our financial targets.

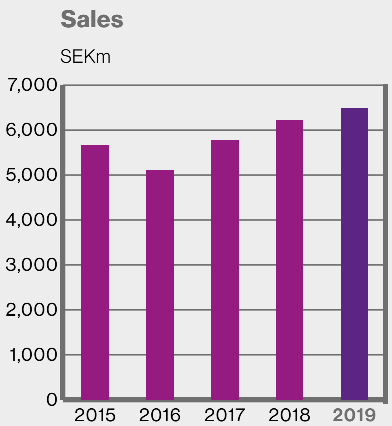
Stockholm, March 2020

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.

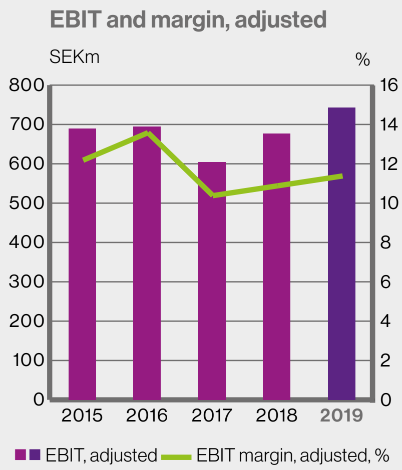


Comment on the year's outcome

Historically, total annual growth in the markets where Cloetta is active has been around one to two per cent. In 2019 organic growth accounted for 2.3 per cent, encompassing growth of branded packaged products and pick & mix which both amounted to 2.3 per cent.

EBIT margin

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

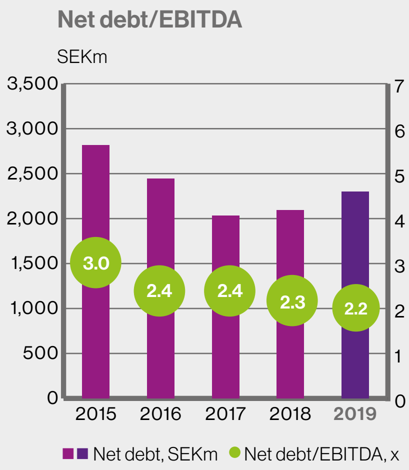


Comment on the year's outcome

The EBIT margin, adjusted improved during the year. The improvement was driven by sales growth and cost efficiencies, partly offset by increased marketing investments.

Net debt

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



Comment on the year's outcome

In 2019, and for the fourth year in a row, Cloetta met its long-term target for net debt/EBITDA. Net debt/EBITDA reached 2.2x.

Dividend policy

Cloetta's policy is to have a dividend payout ratio of 40 to 60 per cent of profit for the year.

Comment on the year's outcome

In line with the policy, the Board of Directors proposes a dividend of SEK 1.00 (1.00) per share for 2019, which corresponds to 58 per cent (60) of the profit for the year.

Sustainability targets

Consumers

Less sugar and sugar-free

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

No artificial colors or flavours

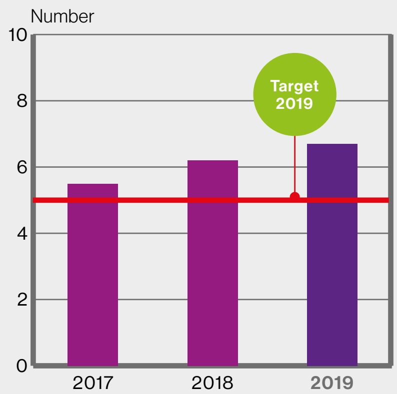
Cloetta believes it is important to increase the proportion of natural ingredients. Cloetta's target is to have switched entirely to natural colors and flavors in its products by the end of 2020. Read more about ingredients on page 21.

Employees

Employees

Cloetta has zero tolerance for occupational injuries. The LTIR target for 2019 was 5.0. Read more about Health and safety on page 41.

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



Responsible sourcing

Cloetta's ambition

Cocoa: All cocoa and chocolate purchased by Cloetta must be UTZ certified. In this way, the chocolate that Cloetta produces will be based on UTZ certified cocoa.

Palm oil: All palm oil in Cloetta's products must be RSPO certified (RSPO: Round Table on Sustainable Palm Oil). The factories must also be RSPO certified.

Shea butter: All shea butter purchased by Cloetta must be sustainably produced according to AAK's principles.

Outcome 2019

Cocoa: All cocoa purchased by Cloetta in 2019 was UTZ certified.

Palm oil: Cloetta has removed palm oil from most of its range. All palm oil in Cloetta's products were RSPO certified in 2019. RSPO certification of all Cloetta's factories commenced during the year. We estimate that we will be fully certified in 2020.

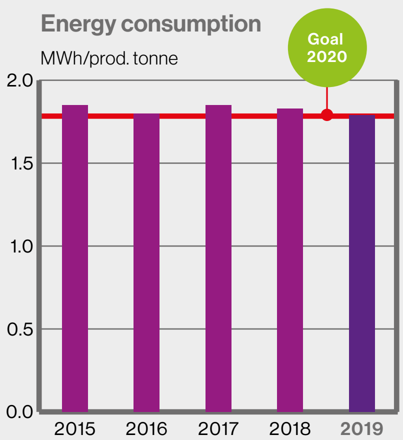
Shea butter: All shea butter purchased by Cloetta in 2019 was sustainably produced according to AAK's principles..

Read more about responsible sourcing on pages 52–53.

Reduced climate and environmental impact

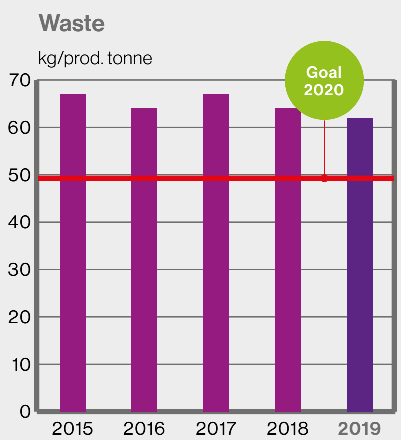
Energy consumption

Energy consumption per produced tonne to be reduced by 5 per cent by 2020, compared with 2014 levels.



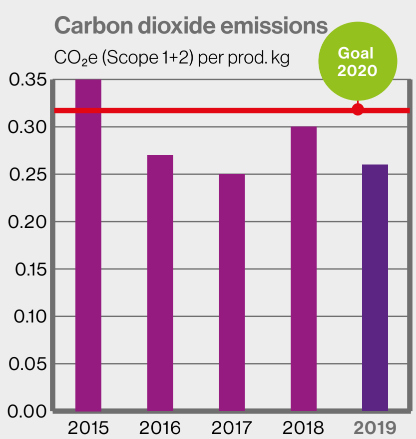
Waste

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



Carbon dioxide emissions

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



The figures for 2016 and 2017 have been adjusted.

Strategic priorities

"We believe in the Power of True Joy". Cloetta's purpose is that our products play a positive part in adding that special touch to people's daily lives. When they savor Cloetta's products, people experience a moment of true joy. The consumer always comes first in everything that we do. We are convinced that when consumer demands and expectations are met, Cloetta will grow as a company and our brands will flourish.

Cloetta will strengthen its position as the **leading confectionery company** in Northern Europe within the candy, chocolate, pastilles, chewing gum, nuts and pick & mix categories.

Thanks to the Group's **strong local brands**, Cloetta is well positioned to respond to the growing trend of consumers demanding local brands.

Individualization is another strong global trend. As the **leading pick & mix player**, this trend is favorable to Cloetta as the category allows consumers to choose the mixture of candy that suits their individual preferences, every time. The grocery retail trade also desires products that can give consumers an experience in stores, which is something that pick & mix can offer.

Cloetta's goal is to grow organically by 1–2 per cent, which is in line with or better than the market. This would mean an organic growth of 1–2 per cent in Cloetta's **core markets**, Sweden, Finland, the Netherlands, Denmark, the UK, Germany and Norway and to expand and grow faster with selected brands in **International Markets**. Cloetta will create the conditions for growth by building **"One Cloetta"** with a common agenda across the entire Group.

Furthermore, a focus on **cost-efficiency** enables Cloetta to increase profitability and invest for the future. Investments are being made to strengthen and increase the company's manufacturing capacity, and to enhance the value of the company's most attractive brands. Cloetta's goal is to achieve an EBIT margin, adjusted of at least 14 per cent.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Driving growth

- Strengthen local brands and selectively expand brands internationally
- Focus on the core markets and double sales in International Markets
- Grow market shares and volume in branded packaged products
- Grow the pick & mix penetration and value in core markets
- Make selective acquisitions in Cloetta's categories in core or adjacent markets
- Offer consumers in all markets the choice of regular, less-sugar, or sugar-free products

Enabling growth

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

Financing growth

- Drive cost-saving activities throughout the entire organization within Value Improvement Program Plus
- Further develop the "Perfect Factory" a Lean program in manufacturing
- Increase capacity to be able to insource additional manufacturing
- Improve the effectiveness of marketing, and internal systems and processes

Strategic background

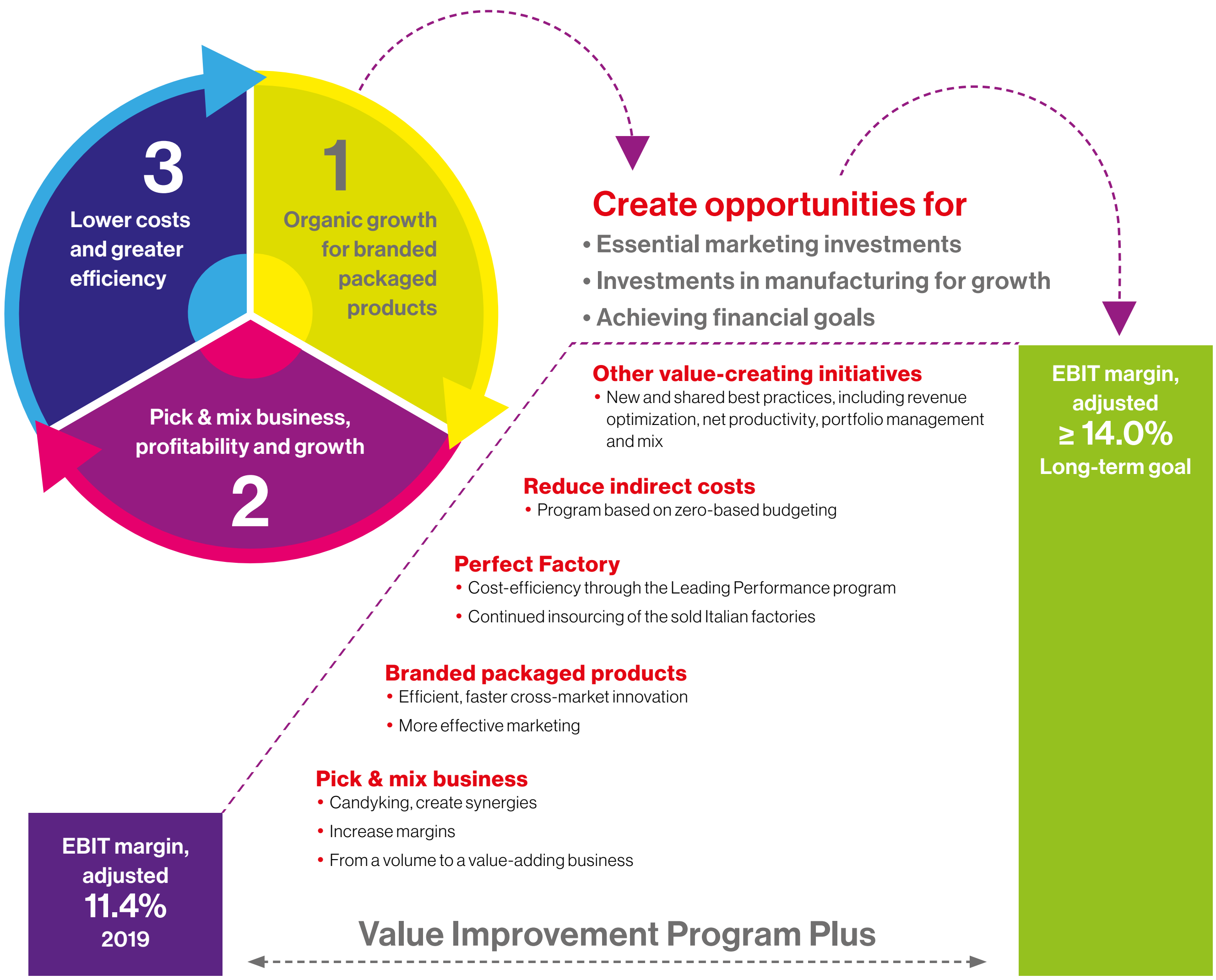
Since today's Cloetta was created in 2012 through the merger of Cloetta and Leaf, the Group has developed in several phases. Immediately after the merger, the focus was on streamlining the network of factories, which involved approx. 40 per cent of the products changing factories. At the same time, the implementation of the group-wide business system commenced, which has enabled fact-based decision-making and allows orders to be traced from the customer through purchasing of raw materials, manufacturing, warehousing, delivery and invoicing. Implementation will conclude in 2020 with Germany as the last market.

Two large structural changes took place in 2017. First, Cloetta's Italian business was sold including several factories and a large number of brands, and second came the acquisition of Candyking, which made pick & mix an important part of the Group's business.

Since 2018, the Group has focused on achieving organic growth with the customer front and center. This is how Cloetta will reach its financial goals.

Focus for 2019–2020

Cloetta will continue to create organic growth and generate a profitable pick & mix business by focusing on lower costs, greater efficiency and increased investments in marketing of the largest brands. The long-term goal of at least 14 per cent EBIT margin, adjusted will be achieved through three prioritized focus areas:



1 Organic growth for branded packaged products

Focus on organic growth for branded packaged products

Sales of the Group's branded packaged products have increased for eight consecutive quarters and Cloetta grew its market shares in 5 of 16 categories in its core markets during 2019. As branded packaged products have an EBIT margin, adjusted of over 14 per cent at a Group level, growth within the branded packaged products category is important for Cloetta to be able to reach its profitability target.

There is a clear strategy for growth for branded packaged products which focuses on both the core operations and the Group's strong brands, and also more clearly focuses on the Group's main markets.

Innovations and new products

Cloetta has made fewer but larger investments in new products and flavors during the year. New products are needed for the confectionery sector as interest is growing in the brands. At the same time, innovations should fulfil a purpose for both Cloetta and the retail trade, and there should be consumer demand for them. By being more selective with new products, focus can be given to novelties that have a chance of becoming permanent. If possible, new products and flavors should be able to be launched in several markets under different brands. Fewer new products also allow reduced lead times from concept/idea to final product on the market.

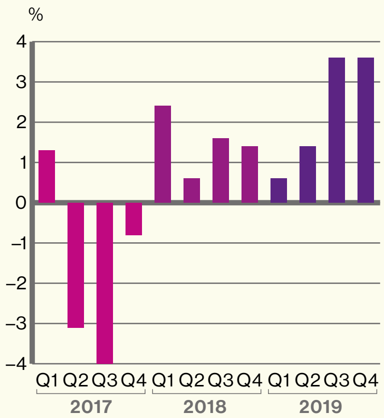
One of the most important innovations during recent years has been successively offering lower sugar and sugar-free alternatives for the major brands. New alternatives of Red Band, Malaco and Venco have enabled these brands to reach new consumers. One quarter of the lower-sugar products were purchased by consumers who are new to the segment.

Media investments

Media investments have increased during 2019 in absolute terms, while the company's media campaigns have become more focused with fewer but larger campaigns with greater consumer visibility. Cloetta knows that the Group's largest brands are loved by their consumers, and the brands need to be visible constantly to remain top-of-mind for consumers.

In terms of the global brands, the Group has carried out common campaigns that have, to a greater extent, been suitable for use in several markets. The purpose was to increase visibility of marketing investments amongst consumers. During the year, Cloetta also signed a global media contract for the core European markets.

Growth in branded packaged products, change from previous year



The fact that Cloetta now offers lower-sugar and sugar-free alternatives is important for the organic growth of branded packaged products.

Global brands

2
Pick & mix business, profitability and growth

Focus on the pick & mix business

The pick & mix category constitutes a large share of the confectionery market in the Nordic countries and Cloetta has several years of experience and great knowledge of the category. Cloetta implemented a new pick & mix strategy in 2019 to drive the business towards sustainable value creation.

As a result of these market activities, sales of pick & mix once again increased from the second quarter of 2019. Yet, the main short-term focus during the year has been to increase profitability in the business.

Increase profitability in Sweden

In 2018, the pick & mix business in Sweden experienced a loss of SEK 60m. During 2019, price increases have been implemented in the Swedish business to address higher costs as well as to turn around the loss-making business by year-end 2020. In conjunction with increased prices, activities to make in-store merchandizing more effective as well as reduce costs for warehousing and distribution were initiated for implementation in 2020.

Insourcing of Cloetta's products in the pick & mix range has continued according to plan. Since the acquisition of Candyking at the end of 2017, approximately 7.5 tonnes have been insourced and about 4 tonnes remain to be insourced.

Optimization of the product assortment has been carried out to coordinate the assortment across all markets, where possible. The pick & mix concept is based on the consumer being able to select their own individual bag of candy, making a large assortment an important part of this business model as well.

Increase growth in other markets – medium-term

In the core markets outside Sweden, Cloetta continues to focus on creating profitable growth together with the retail trade. Cloetta offers a holistic concept including stands, bags and merchandizing, both under Cloetta's name and under the customer's own name. Furthermore, there is a hybrid service in which the customers themselves manage merchandizing. In addition to Cloetta's own pick & mix concepts Cloetta offers bulk sales to other concept suppliers enabling availability of Cloetta products and additional profitable sales.

Unique position

The Group is on the right path towards creating a more unique offering and positioning pick & mix to compete more effectively for consumers. A single concept is currently being developed, which will work in all markets with common stands, bags and containers. A project to develop e-commerce is also underway. Cloetta's objective is to be able to offer the best service to the retail trade and to consumers.

Four business models

Cloetta offers customers four different pick & mix business models:

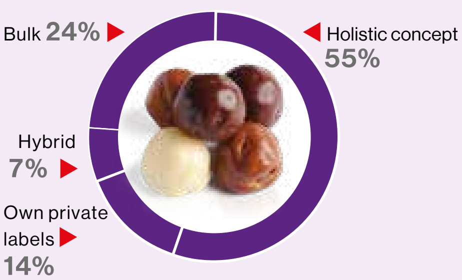
Holistic concept
- Includes branding, the assortment, fixtures and in-store merchandizing.

Own private labels
- Similar to the holistic concept but products are sold under the own private brands of the retailer.

Hybrid
- In the hybrid model, the customer handles in-store merchandizing themselves.

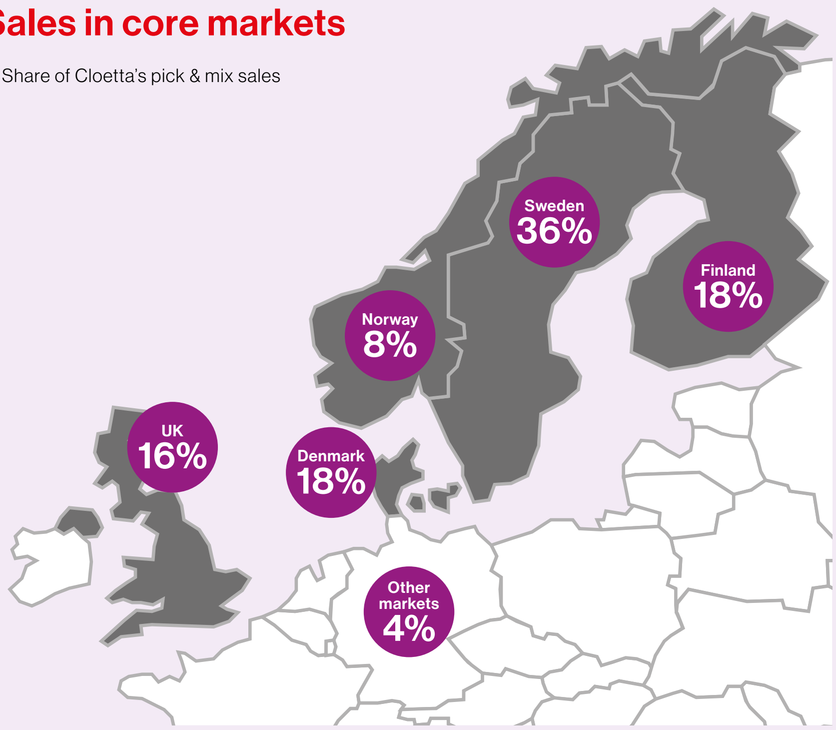
Bulk
- Bulk sales to other pick & mix concepts or sales of individual products.

Business models



Sales in core markets

● Share of Cloetta's pick & mix sales



3
Lower costs and greater efficiency

Focus on lower costs and greater efficiency

Cloetta needs to invest to continue to grow. This includes both increasing market investments for branded packaged products and also responding to increased demand. The Group's network of factories is running at full capacity due to the increased sales of branded packaged products, and insourcing of Candyking's products and products that were previously produced by the Italian factories.

Increased efficiency in the Group's factories – Perfect Factory Program

The "Perfect Factory" program was launched in 2019 and will run over several years. A systematic approach with tools, training, knowledge exchange and other improvement activities will lead to greater efficiency and reduced waste per unit produced, which translates into lower costs and increased capacity. By increased resource effectiveness Cloetta also reduces its negative impact on the environment.

The program is built on standardized tools, real-time measurement, process control and skilled employees. Essential investments in manufacturing are being carried out gradually to increase capacity, efficiency and to reduce carbon dioxide emissions. As an example, drying capacity will be increased during 2020 through investments in new drying chambers.

Value Improvement Program Plus

In 2019, Cloetta launched a group-wide holistic program aimed at improving profitability, referred to as the Value Improvement Program Plus. Part of the program focused on optimizing the cost structure of Cloetta. By using industry leading best practices and zero-based budgeting principles all indirect and marketing costs are being reviewed. Several activities are being driven in parallel within the scope of the program to improve profitability and provide flexibility for Cloetta to invest in its brands.

To create visibility into Cloetta's cost structure benchmarking was performed at the beginning of 2019 for an analysis and evaluation of Cloetta's costs. Through transparency, accountability and rigor, Cloetta has improved cost control and created a structure through which all cost-saving opportunities are reviewed and the need for all spend is challenged. Overlapping projects are screened with the objective of confirming that all activities that occur contribute to profitable growth as a part of the journey to achieving our financial targets.

Cloetta's value chain

Cloetta creates value through the purpose
"We believe in the Power of True Joy".

Cloetta creates value for the company and its stakeholders through great products, innovative product development, efficient purchasing and high-quality manufacturing, as well as good relations with the retail trade and marketing that strengthens the brands.

Value creation

1 Product development

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

Sustainable corporate development

- Cloetta has prioritized increasing the proportion of natural ingredients. The goal is for Cloetta's product portfolio to be free from artificial flavorings and artificial colorants during 2020.
- Cloetta develops and offers lower-sugar or sugar-free alternatives for its major brands. Under the Malaco, Red Band and Venco brands, Cloetta has launched lower-sugar and sugar-free alternatives.

2 Purchasing

- Cloetta's total purchasing costs amounted to SEK 4,023m during the year, of which SEK 2,539m was for raw materials and consumables. The three main raw materials in terms of purchasing costs are sugar, cocoa and milk powder.

- Cloetta's suppliers are subject to an approval process in which product safety, quality and social and environmental requirements are assessed.
- Cloetta promotes sustainable manufacturing of prioritized raw materials such as cocoa, palm oil and shea butter. Read more on pages 52–53.

3 Manufacturing

- Cloetta had 2,629 employees during 2019 and total personnel costs amounted to SEK 1,440m. Cloetta's eight factories had 1,680 employees.
- During the year, Cloetta produced 106 thousand tonnes of candy, chocolate, chewing gum, pastilles and nuts.

Environment

- Continuous improvements enable more efficient energy consumption in manufacturing aimed at reducing carbon dioxide emissions.
- Increased resource efficiency through reduced wastage.
- Systematic environmental management is being used in all factories.

Workplace environment

- Focus on leadership, management of workplace environment risks and reduction of work-related injuries.
- Health and safety activities with a systematic way of working are part of daily follow-up and control.

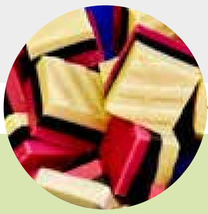
Product safety

- All factories have a product safety system.
- The factories work proactively with product safety and quality to ensure more satisfied customers and fewer product complaints.

Profit for the year SEK 498m

5 Consumers

- Cloetta believes in "The Power of True Joy" in that our products give that special touch to people's daily life. Cloetta provides strong brands and a large range of pick & mix products.
- Cloetta always provides feedback on complaints and points of view.



- Cloetta provides high-quality products that are marketed responsibly.
- Consumers are offered a wide range of products with non-artifical flavorings and colorants.
- Cloetta uses environmentally adapted packaging solutions.

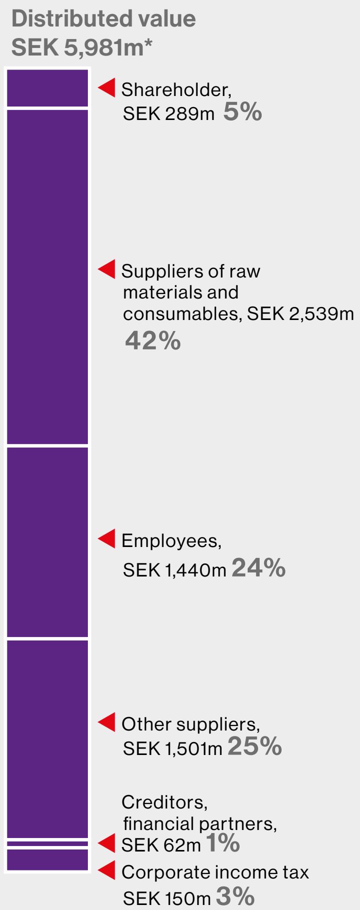
4 Customers

- Total net sales amounted to SEK 6,493m. Cloetta's largest customer category is the grocery retail trade. The service trade is also a very important customer group.

- Cloetta fulfils environmental and food safety requirements, such as through BRC and ISO certification.
- Cloetta is reducing the amount of transportation packaging and optimizing transportation to improve financial and environmental performance.

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 2019 the Board of Directors has proposed a dividend of SEK 1.00 per share, which corresponds to approx. 58 per cent of the profit for 2019, to be paid in 2020. In 2019, SEK 289m was distributed to the shareholders through dividend distribution.



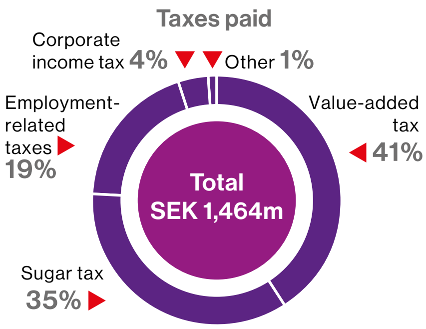
* Generated value of SEK 6,493m excluding profit for the year, amortization, depreciation and impairments and including paid dividends. Total retained economic value of SEK 512m.

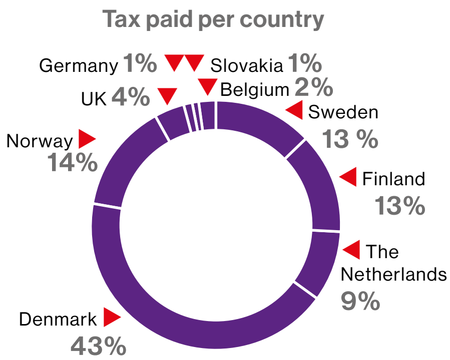
Economic impact

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

Tax information

Cloetta paid SEK 1,464m (1,326) in various taxes in 2019. These were mainly value-added tax, sugar tax and employment-related taxes. The difference between corporate income tax paid and the income tax charge for the year is mainly driven by timing differences.





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

Cloetta's sustainability agenda

Cloetta continues to integrate social and environmental aspects into its business strategy and operations. This allows the company to identify risk and opportunities, understand and manage its impact on people and the environment, and live up to external expectations. This is also how Cloetta creates the conditions for growth.

Materiality analysis

Cloetta reports the results of its sustainability work in accordance with the Global Reporting Initiative (GRI). Amongst other things, this means that the Group has defined the sustainability-related aspects that are most relevant for creating long-term value for the company and its stakeholders and for running business operations responsibly. Representatives of the primary stakeholders regularly contribute to Cloetta's materiality analysis. Read more on pages 150–152.

Cloetta's sustainability agenda encompasses the following areas: consumer first, employee development and health, reduced climate impact and responsible sourcing. Goals, programs and follow-up systems are in place for each area. The goals cover the period until the end of 2020 and are detailed under each section of the annual report. Cloetta's sustainability agenda contributes to eight of the 17 UN Global Sustainable Development Goals (SDG).

Sustainability agenda in development

During the year Cloetta carried out a new materiality analysis to further develop the sustainability agenda and set new goals. This work will be finalized and the updated sustainability agenda will be presented during 2020.

Cloetta's sustainability agenda contributes to eight of the 17 UN Global Sustainable Development Goals

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

The consumer comes first

Cloetta will offer high-quality and safe 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.

Significance

Consumers should feel confident that Cloetta's products are safe and of high quality, and that Cloetta is transparent about product content and the impact of raw materials.

Approach

- Product safety and quality are always top of mind.
- Cloetta develops alternatives with natural raw materials and less sugar or no sugar, and markets products responsibly and ethically.

Governance

- Code of conduct
- Cloetta's sustainability board
- Cloetta's product board
- Responsible marketing
- Lean 2020
- BRC (British Retail Consortium Global Standard for Food Safety)
- GMP (Good Manufacturing Practices)
- Internal control policy

Most important goals

- All products must be of high quality and safe.
- All major brands will have a lower-sugar or sugar-free alternative.
- By 2020, Cloetta's products will not contain artificial flavorings or colorings.

Significant risks

- Brand-related risks resulting in decreased sales.
- Political decisions such as sugar taxes.
- Risk of changing consumer dietary preferences, with negative consequences for Cloetta.

Global goal

2. Zero hunger
12. Responsible consumption and production
17. Partnerships for the goals

Employee development and health

Cloetta's employees are essential to the company's success. It is therefore of fundamental importance that Cloetta is able to attract, retain and develop the most competent and engaged employees. Cloetta has activities, plans and goals in place for ensuring that the workplace is as attractive and safe as possible.

Significance

Being able to attract, develop and retain the right employees is a pre-requisite for Cloetta's long-term profitability.

Approach

- Cloetta secures its future supply of skills by being an inclusive employer that prioritizes employee health and safety and well-being, offers interesting opportunities to grow and places sustainability high up on its agenda.

Governance

- Code of conduct
- HR policy
- Cloetta's leadership platform
- Cloetta's sustainability board
- Lean 2020
- Fraud and whistleblower policy
- Internal control policy

Most important goals

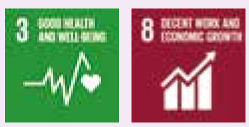
- Zero-tolerance vision for workplace injuries.
- Improvement of employee engagement through the Great Place to Work Trust index.

Significant risks

- Health and safety in Cloetta's factories.
- Inability to recruit and retain the right employees.

Global goal

3. Good health and well-being
8. Decent work and economic growth



Reduced climate impact

Cloetta endeavors to consume resources as efficiently as possible. Cloetta is developing packaging solutions with improved environmental performance. The climate impact of Cloetta's own operations and from transportation is being reduced by Cloetta optimizing energy consumption, reducing emissions and waste, and prioritizing climate-smart transportation.

Significance
Management of global challenges, in terms of climate change, access to resources, dissemination of chemicals and plastics.

Approach
- Cloetta is becoming more resource-efficient and monitors, thereby staying ahead of, new regulations. The company thus manages its environmental and climate impact and creates the conditions for long-term profitability.

Governance
- Code of conduct
- Cloetta's sustainability board
- ISO 14001
- Lean 2020
- Internal control policy

Most important goals
By 2020:
- 5% less energy consumption vs 2014.
- 5% reduced CO_2 emissions vs 2014.
- 25% less waste vs 2014.

By 2025:
- 100% recyclable or reusable packaging.

Significant risks
- Negative impact on the environment.
- Legislation.
- Lower availability and/or higher prices of important raw materials.

Global goal
12. Responsible consumption and production
13. Climate action
15. Life on land

Responsible sourcing

Cloetta integrates social and environmental requirements into the sourcing process and controls that suppliers comply with them. The purchasing departments for each raw material (palm oil, cocoa and shea butter) endeavor to increase transparency and traceability, and also contribute to better environmental and social conditions in places where the raw materials are produced.

Significance
Many of the raw materials contained in Cloetta's products originate in countries where there is a higher risk of deviation from Cloetta's Code of Conduct.

Approach
- Cloetta includes environmental and social requirements into the sourcing process, thus promotes supplier compliance with the company's requirements.
- Cloetta maintains high ethical standards in its business relations.
- Cloetta has a program for sourcing of certified raw materials (palm oil, cocoa and shea), which aims to increase transparency and traceability and contribute to improved environmental and social conditions in places where the raw materials are produced.

Governance
- Code of conduct
- Cloetta's sustainability board
- UTZ and RSPO
- Internal control policy
- Fraud and whistleblower policy

Most important goals
- Sustainability program applied to priority raw materials.

No later than 2020:
- Palm oil will be RPSO-SG certified.
- Palm oil in glazing agents largely replaced with alternatives.
- All cocoa and chocolate must be UTZ certified.
- 100% sustainable shea butter.

Significant risks
- Infringement of human rights.
- Brand-related risks resulting in decreased sales.
- Limited access to important raw materials.

Global goal
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

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, the UK, Germany and Norway. The total market for confectionery in Cloetta's main markets amounts to approximately SEK 269bn (253).

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 mostly through the development of existing strong confectionery brands, the continuous launch of new flavors and products is a key success factor.

In terms of value, candy including pastilles accounts for 30 per cent, chocolate for around 62 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, in the past two years the growth has been around 4 per cent a year due to price increases and a shift to the premium product category.

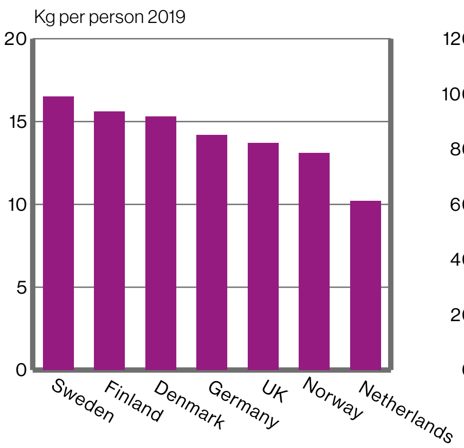
Consumption patterns

Confectionery is one of the most impulse-driven categories in the retail trade. With up to 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, flavor, quality and curiosity about new products.

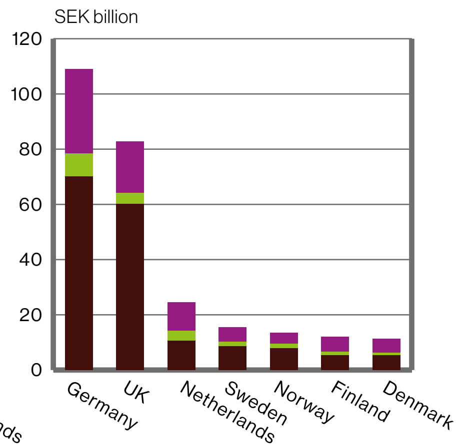
Consumption patterns and taste preferences vary between the different markets. For example, compared to the rest of Europe,

Confectionery consumption per capita



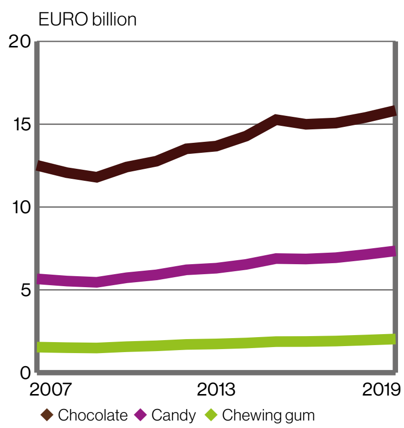
The graph refers to candy and chocolate in the countries where Cloetta is active.
Source: Mintel and Global data

Market size, by region, Cloetta's main markets, 2019



◆ Chocolate ◆ Chewing gum
◆ Candy incl. pastilles
Source: Global data

Market development in Cloetta's main markets



Source: Global data

Market size and growth rates have been calculated based on new data to Cloetta for 2019, comparative figures have also been adjusted.

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.

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. 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 with almost half of e-commerce revenue coming from mobile devices in 2019. Historically, the consumer goods industry has not been a leader in the e-commerce segment, but forecasts continue to indicate that half of this industry's growth in the next five years will be driven by online sales. E-commerce now accounts for 36 per cent of global FMCG growth, making it crucial for retailers and brand owners to understand and unlock the channel. Kantar (market research and insight company) expects that online grocery sales will continue to flourish and should account for 10 per cent of total FMCG sales worldwide in 2025.

According to recent research, Europe with 5.6 per cent value share is the second largest market in the world for e-commerce following Asia. However, despite the proximity and economic similarities of European countries, they are still embracing e-commerce at varying speeds. While the UK and France remain in the lead, with 7.5 per cent and 5.6 per cent market share respectively, Germany 1.7 per cent and the Netherlands 2.6 per cent lag behind. Mega-cities hold a much larger share of the online grocery market than smaller towns and cities, or rural areas. For example, in London e-commerce accounts for almost 10 per cent of the total FMCG market.

The profile of people who buy groceries online is mainly young families with children. In emerging markets, e-commerce is also more popular with young high-income consumers. The key driver for buying online is convenience. The major accelerator is technology with mobile and voice assistants set to play a crucial role. Read more about Cloetta's e-commerce development on page 27.

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

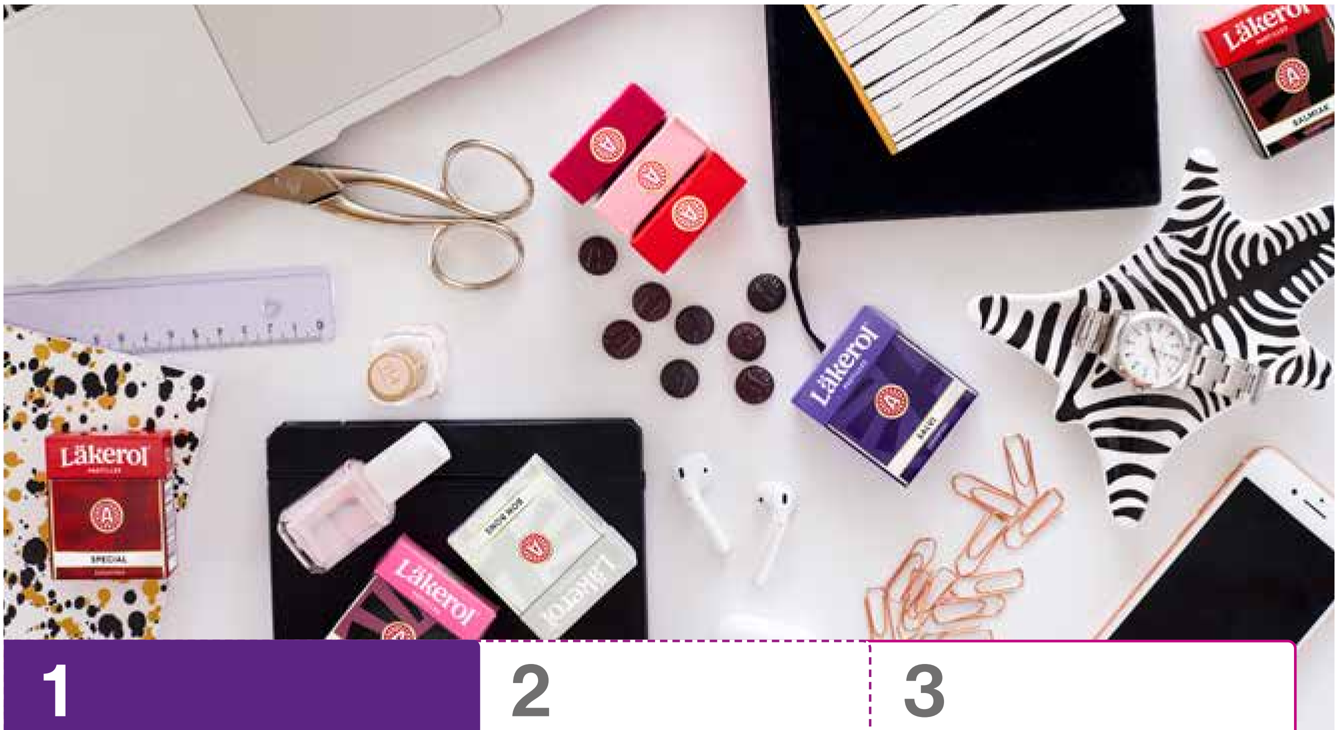
Generous opening hours, centrally located in the form of convenience stores and filling stations. An increasingly wide range of snack alternatives.

Travel, home and e-commerce

Includes 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.

Strategies for growth:

Brand, category and product development



1

The consumer in the spotlight

Listen, understand and evolve

Consumers are the key to growth, which is why they are at the center of all the Group's strategies.

- Understand trends and values
- Assess behaviors, preferences and needs
- Validate concepts, products and advertising
- Ensure safety, quality and transparency
- Provide the right choices
- Use all feedback to improve every day

2

Strategic product development

Innovate to enable growth

- Enter new markets and segments and implement new initiatives
- Enhance experiences through new flavors and textures
- Ensure sustainability and consumer choice
- Increase the value of products
- Develop new packaging technologies and sizes

3

Brand and category leadership

Accelerate growth

- Continuous support for core brands through effective marketing campaigns
- Leverage category development strategies and future key growth drivers with retail customers
- Develop pick & mix concepts
- Develop consumer-centric and customer-centric activities through a strong and competent sales force
- Increase visibility in stores
- Sales and in-store campaigns

The consumer in the spotlight

Consumer insights and trends are the key source of input for Cloetta's strategies, development and continuous improvement. To ensure consumer satisfaction we apply the principle that consumers must feel confident that products are safe and of high quality, and that Cloetta is transparent in the information provided about the content of the product.

6 distinct consumer trends

On-the-go

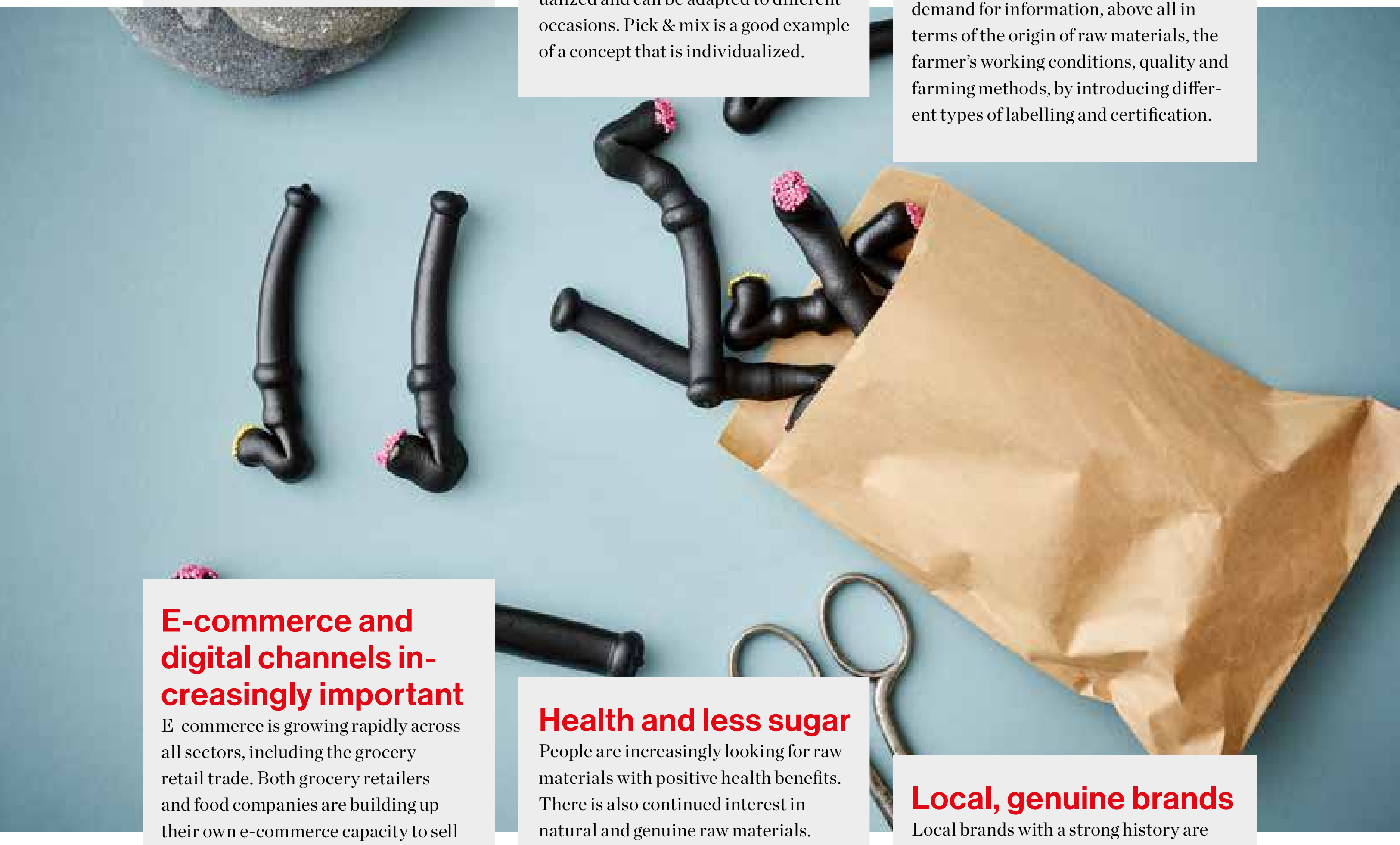
More and more, we eat away from home on our way to and from different activities. Greater availability of products and different packaging solutions allow consumers to satisfy their desires immediately.

Greater individualization

Consumers increasingly wish to satisfy 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.

Responsibility for the environment and human rights

One key trend is the interest in the effects of food production on the environment and the social conditions of the producer. Suppliers have responded to consumer demand for information, above all in terms of the origin of raw materials, the farmer's working conditions, quality and farming methods, by introducing different types of labelling and certification.



E-commerce and digital channels increasingly important

E-commerce is growing rapidly across all sectors, including the grocery retail trade. Both grocery retailers and food companies are building up their own e-commerce capacity to sell their products online. New players are also capitalizing on the fast growth of e-commerce. Alongside the growth of e-commerce, direct communication with consumers via social media is emerging as one of the most important channels for feedback, capturing trends and sharing inspiration and preferences with others.

Health and less sugar

People are increasingly looking for raw materials with positive health benefits. There is also continued interest in natural and genuine raw materials. Additives of various types and artificially produced substances are being questioned in favor of natural materials. E-numbers are being replaced with the name of the additive in plain language. Natural sugar or stevia are preferred to artificial sweeteners.

Less sugar is another important trend.

Local, genuine brands

Local brands with a strong history are very popular with consumers. This is evident in social media. During the year, Cloetta has carried out campaigns in several markets that are based on this trend: Venco as the typical Dutch brand, Sisu as the most Finnish there is, and stadium advertising for Gott & Blandat when Sweden has played in the football European Championship qualifiers.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Fulfil consumer expectations on choice and transparency

The importance of transparency

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

Cloetta offers choices

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

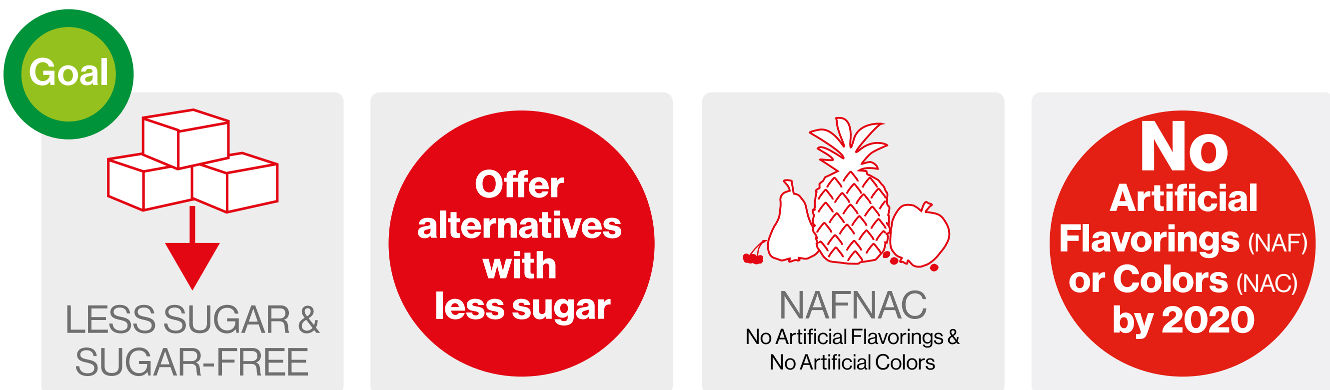
Cloetta's purpose, *"We believe in the Power of True Joy"* means that Cloetta also provides alternatives in the form of sugar-free products, products with less sugar and products that are naturally free from sugar.

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

No artificial flavorings, no artificial colorants

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 flavorings and colorants from its assortment.

Cloetta's target is to have switched entirely to non-artificial colorants and flavorings in its products by the end of 2020.



Cloetta's consumer promise

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

Natural raw materials
Artificial colorants and flavorings will be entirely replaced by natural fruit and plant extracts during 2020. This means that all other unnecessary additives will be removed. The Jelly Bean Factory is an example of a product that only contains natural ingredients.

Nuts – full of nutrients
Nuts are a natural source of many beneficial 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.

High quality and product safety
High quality and product safety are pre-requisites for food production and are strictly adhered to in every step of Cloetta's manufacturing process, from inspection of raw materials to finished products. Good quality raw materials, correct handling and well-controlled processes create the right flavor, appearance and texture and eliminate any risks to consumers. Cloetta also endeavors to reduce its direct negative climate impact by using resources more efficiently.

Clear declaration of ingredients, and certification
Cloetta works continuously to develop responsible and clear information about the contents of the products via packages and our website. If the product contains ingredients that are certified by third parties, this is also stated on the packaging, as well as on the website.

Better dental health 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.

Strategic product development

Strategic product development includes the expansion into new segments (pure innovations) but also product extensions as launch of new flavors and textures. Strategic initiatives also include the product adaptation to new geographical markets and the pricing strategies with potential changes in packaging sizes.

Strategic product development during the year

Plopp Almond + Bridge

Gott&Blandat 30% less sugar (original, sour and Liquorice)

Tupla Mint Finland

Malaco Moustache

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 re-launches.

Fashion and trends are present in all sectors, including confectionery, where they are primarily related to colors, packaging, flavors and ingredients. Identifying the trends that could be significant to Cloetta is of major importance. Knowledge about market trends and consumer behavior 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 matters are factors that are increasingly affecting the confectionery market. Cloetta continuously reviews all products and questions their ingredients. For example, sweeteners and fruit flavorings have been replaced with stevia and fruit juice. Stevia is used in Läkerol and xylitol is used in Läkerol Dents, Jenkki and Mynthon. Cloetta has an ambition to launch sugar-free or lower-sugar alternatives for all major brands. Examples of products launched include Red Band 30% less sugar and Gott & Blandat 30% less sugar, 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 opportunities and consumer behavior with existing brands.

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

A focus on taste

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

To systematically gather consumer feedback, Cloetta uses a consumer panel that regularly provides feedback and ideas online after receiving product samples to their homes. The ideas received are extremely valuable to 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.

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.

Package design

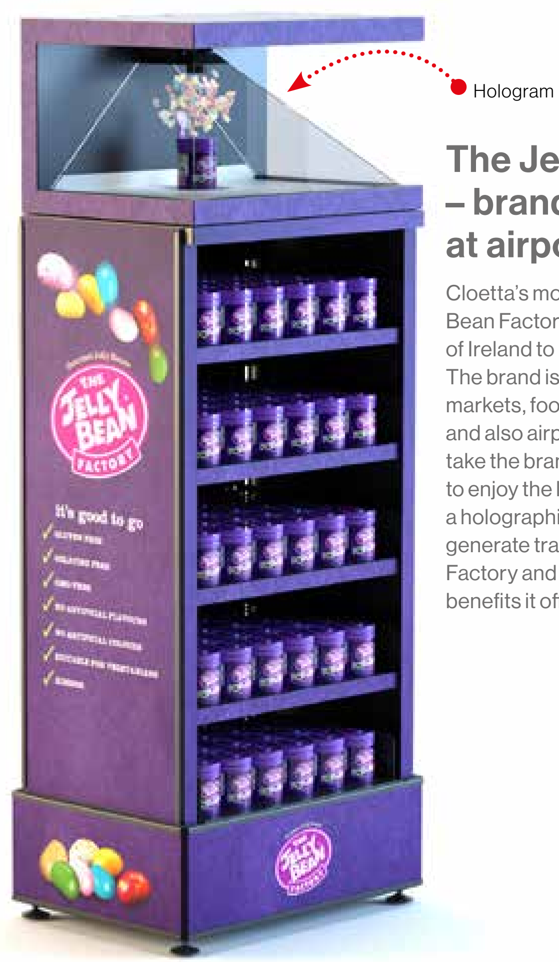
In addition to tasting good and being affordable for the consumer, a new product must be commercially attractive to the retail trade and be part of a category strategy reflecting local consumer expectations. Its weight, packaging and distribution are adapted to the various sales channels and markets.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

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.



The Jelly Bean Factory – brand building at airports

Cloetta's most international brand, The Jelly Bean Factory, is sold from its home country of Ireland to markets as far away as China. The brand is sold in several channels, major markets, food stores, department stores and also airports, where travellers love to take the brand home or to their destination to enjoy the lovely flavors. In 2019, a holographic display was created, to generate traveller interest in The Jelly Bean Factory and provide information about the benefits it offers.

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 and care of its brands, together with a strong sales force, are therefore of vital importance.

Brand management

Cloetta's ten largest brands account for around 49 per cent (49) of the Group's sales. Read more about the leading brands on pages 30–33.

For each brand there is an individual development plan aimed at continuously updating and developing the brand. To ensure strong and sustainable consumer connection with our brands, activities such as impactful and relevant communication, new flavors and line extension, package development and marketing 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 behavior, is the key driver for building consumer awareness, preference and emotional connection to Cloetta's products. When combined with in-store activities and visibility, marketing communication stimulates product trial, cements loyalty and increases overall demand for products.

Cloetta's marketing is based on each brand's strategy and position. Marketing is often characterized by images and emotion-creating brand advertisements, sponsorship and events directed at selected target groups.

One overarching ambition is to ensure that the marketing investments Cloetta makes are effective. This involves identifying the factors that influence and create consumer impressions, which must be carefully developed and planned ahead of each campaign based on the defined performance objectives. See campaign examples on page 29.

Category development

Confectionery is a very important and profitable category in grocery retail. Hence, category development and category management are key levers in developing penetration and loyalty through consumer experience and service. Profitable growth for both Cloetta and its customers is supported by always having the best facts and insights.

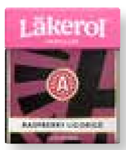
Category vision and strategy

A long-term category vision supports the development of the confectionery shelf, the assortment and consumer experience both today and in the future. Powerful brands and a differentiated product portfolio that fits today's and future consumer and customer needs are important parts of the category vision. Thus, any category strategy in support of this vision must be built on solid and

Examples of new flavors during the year

Juleskum Polka

Gott & Blandat Fizzypop & Co



Läkerol Raspberry Liquorice

relevant insights on consumers and how they shop in the store.

New flavors

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

Since successful product innovations inspire trial of both the new product and the original product, good seasonal products and innovations normally lead to 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, fixtures and merchandizing as well as in-store and logistics services. A customer can choose from different concepts containing between 16 and 200 articles. The assortment consists of chocolates, gummy candy, hard-boiled candy, toffee, foam, liquorice and natural snacks that the consumer can pick in bags or cups. Today, pick & mix accounts for 27 per cent (28) 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. Read more on page 10.

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 Cloetta's 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 route to the consumer, enabling easy handling of the product, providing product information and communicating the brand. Package development also includes retail packaging for various sales channels.

Cloetta's goal is that all packaging will be reusable or recyclable by no later than 2025. Read more on page 48.

Visibility in stores

One decisive success factor for consumer sales is good exposure in the store, thus, how the retail trade perceives Cloetta's new products and innovations is a crucial factor. Customers must consider products to be needed, easy to handle and profitable for retail.

Cloetta has a large, trend-setting and innovative sales force in its core markets. Through good retail trade relations and extensive knowledge about the industry, market and products, Cloetta can present attractive sales solutions that support the cus-

Further develop core brands

Awareness and loyalty

Tools for strengthening the brands

- Impactful, visible and effective brand communication.
- Consumer focus: valuable insights drive relevance.

Challenges

- Leverage technology to improve consumer services and experience.
- Be visible wherever the consumer is: optimise goals for marketing and sales campaigns.

Development

Tools for strengthening the brands

- New flavors, innovations and seasonal products to respond to relevant consumer needs.
- Package development to make the product visible and also to adapt to different sales channels.

Challenges

- Further coordination between markets and brands will create opportunities, economies of scale and cost synergies.

Availability

Tools for strengthening the brands

- A large competent sales force supports retail.
- Cloetta offers the retail trade a complete product range to satisfy consumer freedom of choice.

Challenges

- Continuously identifying new channels through which to reach consumers.
- Developing sales solutions that suit different customer categories.

tomers' 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 28.

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

E-commerce is one of the key focus areas for Cloetta with its products being sold across a wide-range of online players from "Brick & Clicks" (e.g. ICA.se and AH.nl), "Pure Play" (e.g. Mathem.se and PicNic.nl), "Cross-border Marketplaces" (e.g. Amazon) to its own e-commerce shop in Finland (www.ksylitolikauppa.fi). Confectionery is known as an impulse-purchase category, to which arrival of online shopping brings both challenges and new opportunities. In an online channel consumers do not walk through the shopping aisle the same way as they do offline. To bridge this gap Cloetta constantly develops new marketing tools to get noticed and end up in a shopping cart. However, the positive side is that it has never been easier to become part of a non-food shopping mission. Cross-border marketplaces offer new opportunities to cross-sell Cloetta's products in combination with goods from completely different categories such as books and outdoor gear.

Cloetta's e-commerce strategy is focused on growth through a dynamic channel that matches our strong offline shares in online trade. Online sales of confectionery are still lower than for other consumer product categories, but they are growing at double-digit pace. In line with the European trend, the e-commerce maturity of Cloetta's key markets is varied. For instance, online grocery spend per capita in the Netherlands is double that of Finland. This means that Cloetta will set clear priorities for where and how to drive e-commerce projects, such as through mobile image optimization, e-trade marketing activation and limited-to-online product development.

Measurement tools

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

Cloetta uses tools to track specific brands in different media and performs general brand performance measurement (e.g. brand consideration and preference). The most important method for gauging the success of marketing investments for fast moving consumer products, such as Cloetta's, is always immediate reactions during sales.

Protection of intellectual property rights

To prevent infringement of Cloetta's intellectual property rights, the company uses a special monitoring service, which 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.

Categories in which Cloetta is a market leader

Success factors for the sales organization

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.

Good visibility for Cloetta's products

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

Boost sales

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

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.

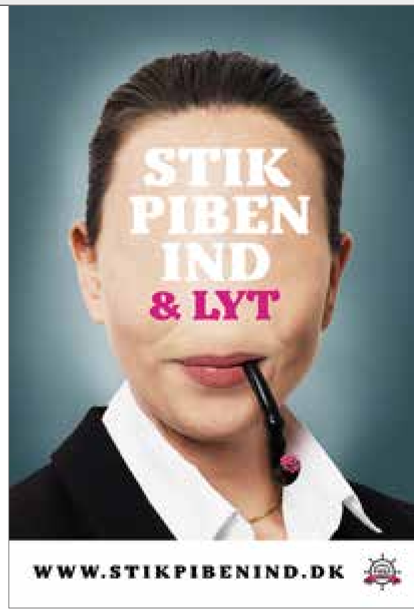
Effective sales campaigns in cooperation with customers

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

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 well located and effective, which provides good opportunities for a presence at many different sales points.

Impactful campaigns



Skipper's Pipes in the 2019 Danish election

There is a general tendency in society for politicians and people to speak more than they listen. Ahead of the Danish election, the ambition for Skipper's Pipe was to make people's ears bigger and their mouths smaller, i.e. encourage people to listen more. Which was the background to the message: Stik Piben ind (stick a pipe in your mouth). Politicians received Skipper's pipes and postcards with the message "Stik piben ind" which was supported by a campaign web site, print advertising, outdoor posters, postcards with pipe stickers in cafés and train stations, digital screens in city centers and activities in social media. In total, 55,000 pipes were handed out as samples.

Malaco Gott & Blandat salty liquorice 30% less sugar

New choices continue to support growth in the core markets. Sweden's most popular mixed bag range, Gott & Blandat, gave the consumer new choices with the launch of a new mixed bag of salty liquorice with 30% less sugar. The launch was supported by media campaigns and visibility in stores.

Aakkoset – brand re-launch

The classic Finnish candy bag Aakkoset has undergone a comprehensive re-positioning and brand upgrade during the year, encompassing new packaging design and broad communication. The new distinctive identity was launched in spring as a multi-channel strategy including high impact presence at Helsinki railway station. Communication achieved significant attention value and was well liked, contributing to record-high market share during summer.

Venco – continued success for the Netherland's number one liquorice brand

In 2019 Cloetta continued to build on the story of the Venco brand. The objective was to both further strengthen the "Typical Dutch" brand positioning, and also to build a new position within sugar-free liquorice. The campaign built on communications in 2018 which included this new message. The campaign was rolled out through all relevant media channels; TV, online video and social media, combined with in-store sampling, displays and promotions.

Läkerol relaunch – Anytime, Anywhere

Läkerol is the refreshingly tasty pastille, that you can allow yourself to enjoy anytime, anywhere. This year's campaign for Läkerol set out to re-establish Läkerol in consumers' minds and make the brand more relevant in consumers' everyday life. TV campaigns combined with campaigns in other media reached consumers, driving increased awareness of the brand. In Norway Läkerol launched the world's biggest pastille box which successfully created a lot of awareness around the brand. In Sweden Läkerol took part in the pink ribbon campaign, driving significant consumer interest in the brand and the campaign itself.

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 purpose: "We believe in the Power of True Joy".

Ahlgrens bilar

is a car-shaped foam that a large majority of the Swedes love and enjoy. The original flavor and elegant design have remained unchanged since 1953, when Ahlgrens' candy factory decided to try to manufacture marshmallows. The result was not as expected; instead it turned out to be 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.

Sold in: Sweden, Norway, Denmark, Poland, Thailand and the US.

Aakkoset

has been a beloved Finnish candy bag classic since 1970. It has a bold, diamond-patterned design and clever, playful messaging. Aakkoset translates to "alphabets" and the slogan "literally good" encapsulates Aakkoset's positioning as the ultimate indulgence for sweet cravings.

Sold in: Finland and travel retail.

Bridge

is a candy mix that was created in 1966 when some employees were playing the card game 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 varied delicious flavours in a bag; including chocolate-coated hazelnuts, liquorice sticks and peppermint drops.

Sold in: Sweden, Norway and Denmark.

Candyking/Karamellkungen

allows you to put together the most delicious sweets on the market 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.

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

Center

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

Sold in: Sweden, Norway, Denmark, Estonia and Finland.

Chewits

has a strong brand heritage, launched in the UK in 1965 as a chewy sweet for children. Known for its unique chewy texture, the range of delicious fruity chews are individually wrapped in stick packs, sold in multi-packs and sharing bags. 2019 saw the launch of a new colorful pack design with "Chewie the Chewitsaurus" the cheeky dino who likes to chew. Newest to the range are Chewits Juicy Bites, liquid-filled bon-bons with a juicy strawberry flavour.

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

Familie Guf

is a well-known and beloved brand in Denmark and is the best-selling product within Cloetta Denmark. Familie Guf is a very inclusive brand and celebrates all different kinds of families with the slogan: "Candy for all kinds of families." Even the mix of candy in the bag is diverse, consisting of both sweet and salty liquorice, wine gums, foam, caramel etc.

Sold in: Denmark and Sweden.

The Jelly Bean Factory

offers 36 different flavors of gourmet jelly beans, made from 100 per cent natural flavors 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 manufactured in the factory in Dublin, packaged in a wide range of playful formats. "The most juicy, mouth-watering jelly beans on the planet."

Sold in: around 50 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 and New Zealand.

Jenkki

is the market-leading chewing gum brand in Finland, where it was 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: a breath freshener and a nice little treatment after each meal.

Sold in: Finland and Estonia.

Juleskum

is the original that has become a natural part of the Swedish Christmas tradition. Cloetta started making marshmallow Santas as early as the 1930s. Each year a limited edition is released, this year with a "polkagris" taste. Although Juleskum is only sold around Christmas, it is the third largest-selling candy bag in Sweden on an annual basis.

Sold in: Sweden, Norway and Denmark.

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 fill up their energy reserves.

Sold in: Sweden, Denmark and the Baltics.

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 nearly 100 years, it still contains the same secret peppermint blend that makes King so loved by many Dutch consumers.

Sold in: the Netherlands, Belarus, Belgium, Canada, Lithuania, Suriname, the UK and the US.

Lonka

are 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 favorites like caramel, fudge, soft nougat and chocolate. Lonka products make coffee and tea moments more indulgent.

Sold in: Benelux, Sweden, Denmark, Germany, the UK, Spain, Switzerland, France, South Korea, Latvia, Singapore and South Africa.

Läkerol

is a classic brand and the tastiest refresher for all occasions – “anytime and anywhere.” The first box was sold in 1909. In 2019 the brand was given a design make-over and an extensive media campaign supported the re-launch. Läkerol comes in a variety of flavors and is perfect when you want to soothe your throat, freshen your breath or just fancy something tasty. Läkerol YUP is the fresh and soft pastille sprinkled with a thin layer of xylitol crystals, with the perfect balance of sweet and sour. Läkerol Dents is the most delicious way to take care of your teeth. Läkerol makes people talk.

Sold in: Sweden, Norway, Denmark, Finland, Germany, Benelux, Switzerland, the US, Singapore, Suriname, India, Hong Kong and Lebanon.

Mynthon

is the leading pastille brand in Finland, where it was launched in 1976. Fresh and effective is the essence of the brand. Mynthon consists of chewy, hard and compressed pastilles in a variety of tasty flavors. In 2012, chewing gum was also launched under the brand.

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

Malaco

offers a wide variety of confectionery 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 long.

Sold in: Sweden, Denmark, Finland, the Baltics, Germany, Israel, Italy, Malta, Russia, Thailand, the UK and the US.

Nutisal

is the Group’s nut expert as of 2014. The business started in a shop in Beirut, Lebanon. 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, Suriname, Italy and Latvia.

Plopp

is the bar for indulging yourself or someone close to your heart. Originally introduced in 1949 Plopp is loved by many for its good milk chocolate and its sweet liquid toffee filling. In 2018, Plopp expanded its brand by launching milk chocolate tablets with exciting flavors from the candy, chocolate and snacks portfolio.

Sold in: Sweden.

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 flavored 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 and Poland.

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.

<< Back to contents

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 Wine Gum Mix, the original Drop Fruit Duo's 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: the Netherlands, Belgium, Austria, Switzerland, the Baltics, Canada, France, Ireland, Kosovo, Suriname and Taiwan.

Sisu

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

Sold in: Finland.

Skipper's Pipes

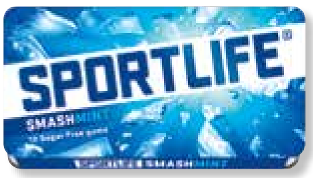
was established in 1920 and is a unique product due to its pipe shape and pink or yellow sprinkles on top, resembling embers. Today there are two different versions; sweet or salty liquorice. The original liquorice pipe has been a great success and is iconic for thousands of Danes, and is probably one of the most photographed pieces of candy! The pipe is 80% hand-made and packed.

Sold in: Denmark, Sweden, Norway, Finland, Greenland, The Faroe Islands and Estonia.

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's brand positioning is "unexpected freshness" and has an international brand profile. In 2015 Sportlife launched its best-selling flavors in tubs.

Sold in: The Netherlands, Belgium and Suriname.



Sportlunch

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

Sold in: Sweden, Norway, Estonia and Lithuania.

Tupla

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

Sold in: Finland, the Baltics and Russia.

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. In 2019 Venco launched a sugar-free range with three different flavors: Sweet, Salt and Honey. These sugar-free products are packed in smaller bags than the normal Venco products and the packaging is re-sealable.

Sold in: the Netherlands, Belgium, Germany, Israel, South Africa and Suriname.

TV mix

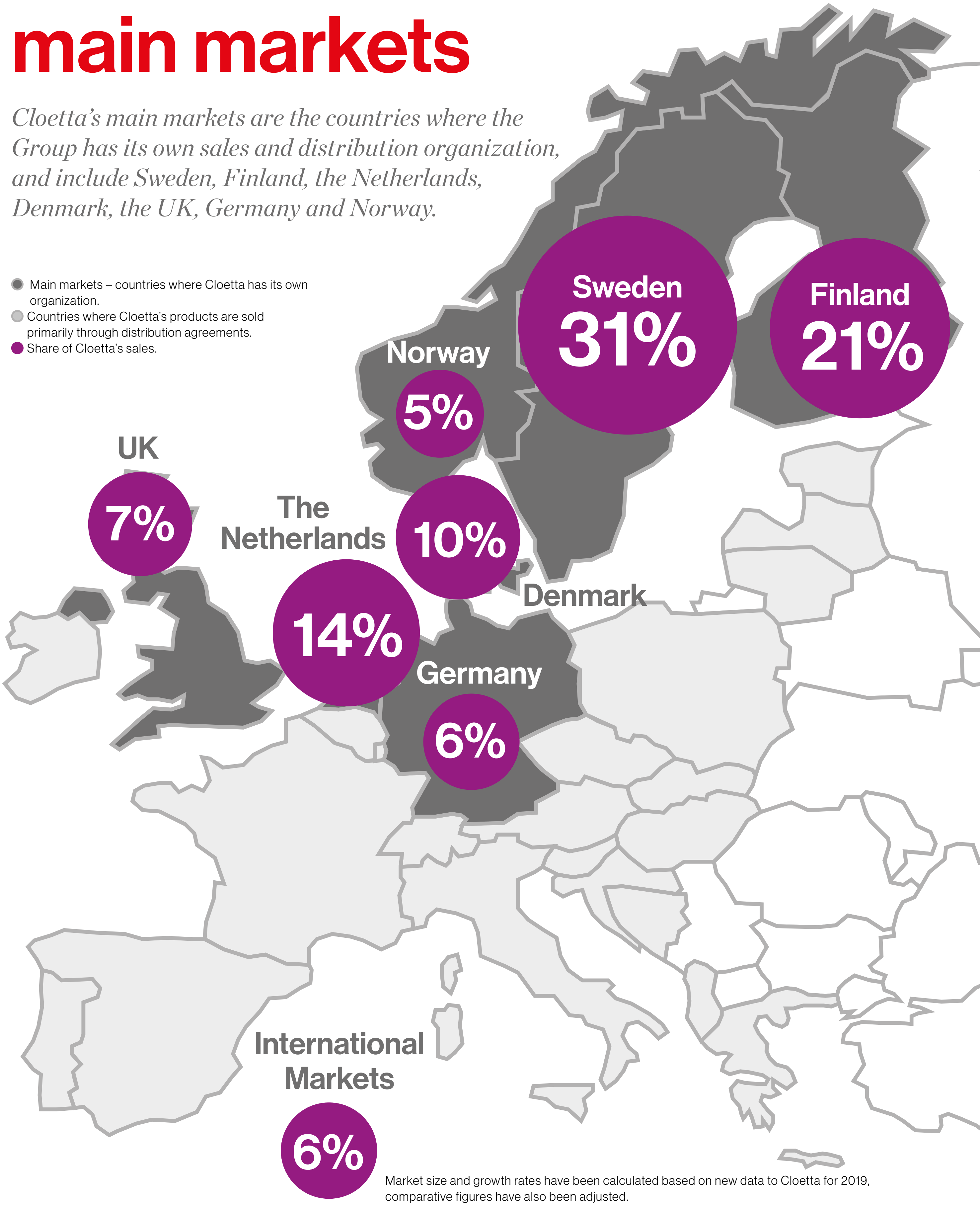
has been an important part of Finnish weekend candy since 1989. It is the most versatile mixed bag combining best-selling pick & mix candy with exciting novelties. Perfect for sharing with your friends and family.

Sold in: Finland.

Cloetta's main markets

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

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



Market size and growth rates have been calculated based on new data to Cloetta for 2019, comparative figures have also been adjusted.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CON-FECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DE-VELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHARE-HOLDERS
FINANCIAL PERFOR-MANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAIN-ABILITY

Sweden

Sweden is the largest single market in the Nordic region, with around one third of the total confectionery consumption. The total market grew in 2019.

Share of Cloetta's sales

31%

Population

10.2 million

Top-selling brands

Market size

Consumer sales of approx. SEK 16bn

Cloetta's largest customers

Axfood, Coop, ICA, Bergendahls and Privab

CAGR 2014–2019

1.6%

Cloetta's presence

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

Source: Nielsen

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 (30) of the market. The retail chains' private labels have a share of around 3 per cent (5) of the confectionery market and 43 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 sales 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 controlled, but with good opportunities for influence at the local store level. The task for Cloetta's sales force is to ensure distribution as well as placement and space in the stores in accordance with the 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 merchandizing organization.

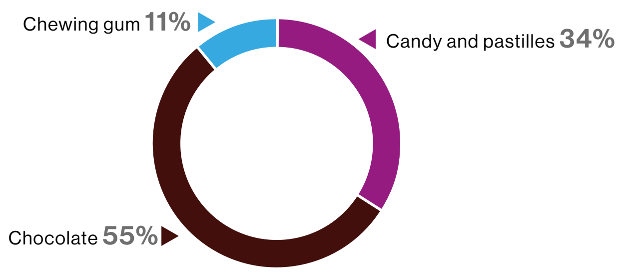
The service trade is a vital sales channel. In recent years, alternative sales channels like building supply stores, movie theatres, arenas, etc., have become increasingly important.

Organization

In Sweden, there are a total of around 300 employees including the sales and merchandizing organization and the office in Malmö.

Categories, Sweden

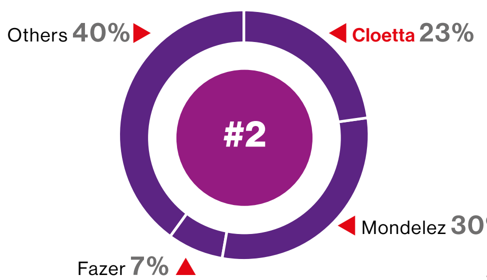
Confectionery market excl. pick & mix



Source: Global data

Largest players, Sweden

Confectionery market excl. pick & mix



Source: Global data

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 2019.

Share of Cloetta's sales

21%

FINLAND

Population

5.5 million

Top-selling brands

Market size

Consumer sales of approx. SEK **12**bn

Cloetta's largest customers

S-Group, Kesko and Tokmanni

CAGR 2014–2019

3.2%

Cloetta's presence

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

Source: SOK

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

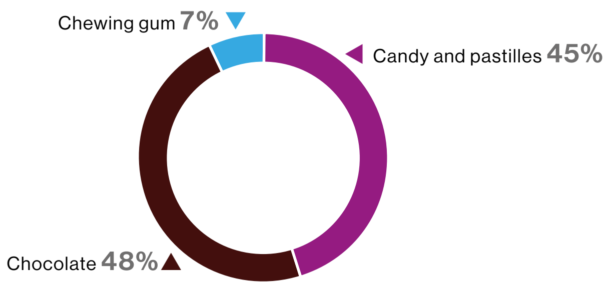
The Finnish grocery retail trade is dominated by two players, Kesko and S-Group. Lidl has a larger share of retail trade compared to the other Nordic countries with 10 per cent. Finland has the most centralized purchasing of all the Nordic region markets which enables new products to achieve wide distribution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

Organization

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

Categories, Finland

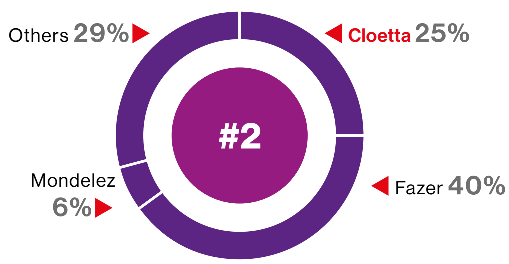
Confectionery market excl. pick & mix



Source: Global data

Largest players, Finland

Confectionery market excl. pick & mix



Source: Global data

The Netherlands

The Netherlands is the sixth largest confectionery market in Western Europe. The Dutch market grew slightly in 2019 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 25bn

Cloetta's largest customers
Albert Heijn, Superunie, Jumbo Supermarkten and Maxxam

CAGR 2014–2019
4.4%

Cloetta's presence

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

Source: IRI

Cloetta's sales and competitors

Cloetta is the largest player in the candy category in Holland with a market share of 21 per cent (20), and the second largest player in the chewing gum market with a market share of 30 per cent (30). This has enabled the company to build strong relationships with the Dutch retail trade. Cloetta's share in the overall chocolate and sugar confectionery market is 10 per cent (10). The private labels of retail chains have a share of around 9 per cent (9) of confectionery 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.

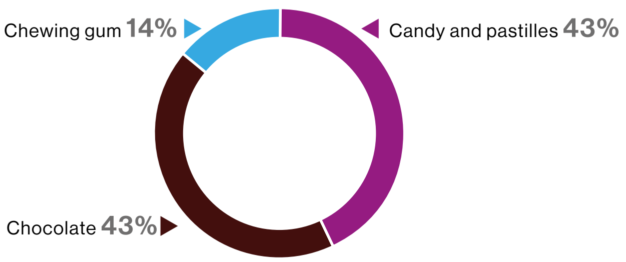
Online grocery shopping has a stronger position in the Netherlands than in any other of Cloetta's main markets, despite the fact that overall e-commerce is lagging in the Netherlands.

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

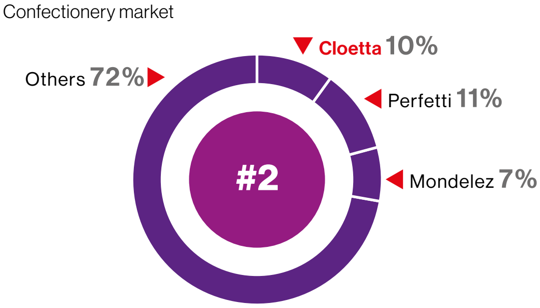
Confectionery market



Source: Global data

Largest players, the Netherlands

Confectionery market



Source: Global data

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

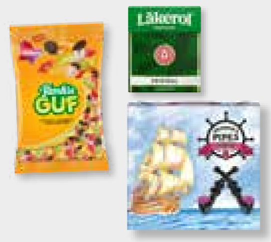
10%

DENMARK

Population

5.8 million

Top-selling brands



Market size

Consumer sales of approx. SEK **11**bn

Cloetta's largest customers

Coop, Salling Group and Reitan

CAGR 2014–2019

2.5%

Cloetta's presence

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

Source: Nielsen

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 (19). Haribo is the market leader with around 25 per cent (24). The private labels of retail chains have a market share of around 9 per cent (6). Cloetta is the leading pick & mix player in Denmark and has strong positions in both candy and nuts.

Sales channels

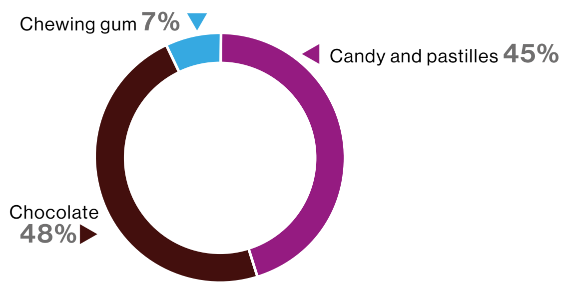
The grocery trade in Denmark is moving towards increasing centralization, albeit with a combination of centrally driven chains and a more decentralized approach than in the other Nordic countries. Extensive efforts are therefore required at an individual store level to achieve distribution and sales 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 merchandizing organization.

Categories, Denmark

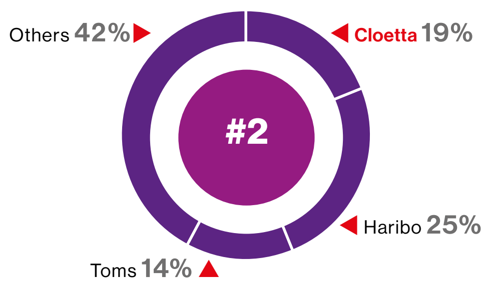
Confectionery market excl. pick & mix



Source: Global data

Largest players, Denmark

Candy and pastilles excl. pick & mix



Source: Global data

UK

The UK is the second largest market in Western Europe and accounts 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 **83**bn

Cloetta's largest customers

Hancocks, Wilko's and Tesco

Top-selling brands

Candyking
The Jelly Bean Factory
Chewits
Lonka

Source: Global Data

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 merchandizing team of approximately 130 people.

Germany

Germany is the largest market in Western Europe and accounts for 6 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 **109**bn

Cloetta's largest customers

Lekkerland, Edeka, Kaufland, Metro and Rewe

Top-selling brands

Red Band
The Jelly Bean Factory
Lonka
Nutisal

Source:Global Data

Cloetta's position and organization

Cloetta is primarily active with the wine gum and liquorice brand Red Band and the premium brand The Jelly Bean Factory. Lonka and Nutisal are also sold in Germany. Through its strong heritage in wine gum and liquorice products, Cloetta Germany has built a sustainable position with a candy portfolio covering different segments in the market. The Red Band premium standing 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 12 employees. The office takes care of customer contact and the brands, and also has direct contact with all the large customer groups, which are supplied directly out of the logistics center in central Germany. To ensure full country service coverage, Cloetta Germany works with 6 different agents and over 60 sales representatives representing Cloetta.

Norway

Norway is the smallest market in the Nordic region, with just under a fifth of the region's total confectionery consumption and accounts for 5 per cent of Cloetta's sales. The volumes in the Norwegian confectionery market increased in 2019.

NORWAY

Market size

Consumer sales of approx. SEK **13**bn

Cloetta's largest customers

Coop, NorgesGruppen and Rema 1000

Top-selling brands

Source: Nielsen

Cloetta's sales and competitors

Cloetta is the third largest player in the Norwegian confectionery market, with a market share of 8 per cent (9). The market leaders are Mondelez with 37 per cent (38) and Nidar (owned by Orkla) with 22 per cent (22). Cloetta is the leading player in the candy category and Cloetta is also the leading pick & mix concept provider with approximately one third of the market.

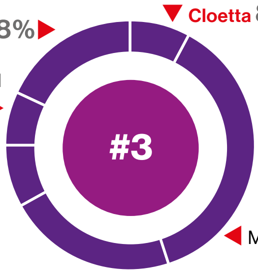
In 2019, the sugar tax was reduced back to the level it was at prior to the 2018 increase. This has had a positive effect on the confectionery market in Norway with increased volumes.

Organization

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

Largest players, Norway

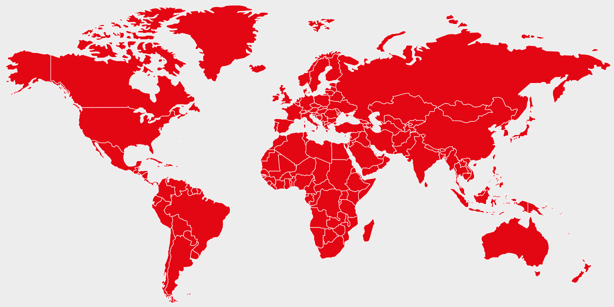
Confectionery market excl. pick & mix



Source: Global data

International Markets

International Markets accounted for 6 per cent of Cloetta's sales in 2019.



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 encompass six strategic Cloetta brands including The Jelly Bean Factory, Red Band and Läkerol 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 has been established in Dubai. All other distributors are managed by local Cloetta staff in Oosterhout, The Netherlands.

Supply chain

Cloetta has a total of eight factories, located in Sweden, Slovakia, the Netherlands, Belgium and Ireland. The company produced a total of approximately 106,000 tonnes of candy, chocolate, chewing gum, pastilles and nuts in 2019.

During 2019, the supply chain organization was re-organized into five functions: manufacturing, technology, supply chain, strategy development and the support organization. These functions are responsible for manufacturing, technology, safety, the environment, planning, logistics, purchasing, quality, value engineering and project management.

Furthermore, Cloetta started a new Leading Performance program during the year, with a vision to create the Perfect Factory. The program is a continuation of the previous Lean 2020 program and will improve efficiency even further, reduce waste and leftovers, as well as create increased flexibility and capacity in the factories. The program involves improving Operational Excellence, as well as strategic investments to modernize the factory network.

Health and safety

Health and safety in the workplace are fundamental to Cloetta. The company's health and safety work is focused on two areas. Firstly, Cloetta is working to reduce physical risks in its factories and other places of work, and the second focus is on promoting a safety mindset.

In 2019 Cloetta continued to reduce the risks by investing in safety systems for machine isolation and through new routines for chemicals management. The company also worked on strengthening the safety mindset through its Hearts and Minds program.

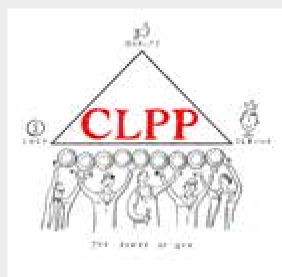
During the year, the Total Incident Rate (TIR) reduced by 30 per cent from 133.7 to 94.3. Despite this, the Lost Time Incident Rate (LTIR), which is absence due to an injury, increased from 6.2 to 6.7. This means that the 2019 target of 5.0 was not achieved. In all instances the employees returned to work in their full capacity.

Cloetta is naturally not satisfied with this result and is determined to drive health and safety even harder. The underlying causes have been analysed and Cloetta has dedicated more resources to strengthening workplace safety and employee health. As an example, a new Head of Health and Safety has been recruited to accelerate Cloetta's efforts in the area.

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

106 thousand tonnes produced 2019

1,680 FACTORY EMPLOYEES



WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

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 the workplace environment, quality, product safety and the environment. These systems are based on international standards (BRC Global Standard for Food Safety, ISO 14001 for the environment), 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 deviations and proposals for improvement. Goals and results are visualized on screens in the factories, to provide knowledge about the current situation, which helps to raise awareness and engagement of the employees. Actions can be taken immediately in the event of deviations and systematic follow-up enables proactive improvements.

Read about Cloetta's environmental work on pages 48–49.

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 program carried out by a specially trained audit team. A risk-based control plan is used to check that raw material is delivered in conformance with the specifications and EU regulation requirements.

Cloetta also has a Food Safety & Fraud Team to ensure timely knowledge of emerging risks from the supply chain. The team implements measures to prevent undesirable effects on products and the brands.

Manufacturing

Management of food safety in manufacturing is based on the HACCP method (Hazard Analysis Critical Control Points) whereby risks of chemical, biological, microbiological, and physical contaminants are identified and managed to eliminate and minimize any conceivable risks to consumers.

All of Cloetta's factories are certified according to the BRC Global Standard for Food Safety, an international standard that outlines requirements to manage product safety, integrity, legal compliance 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 is being implemented in all factories. Internal independent auditors monitor that implementation is effective. Each factory receives an audit score and requirements for improvement plans along with new target scores to be achieved for continuous improvement.

Products

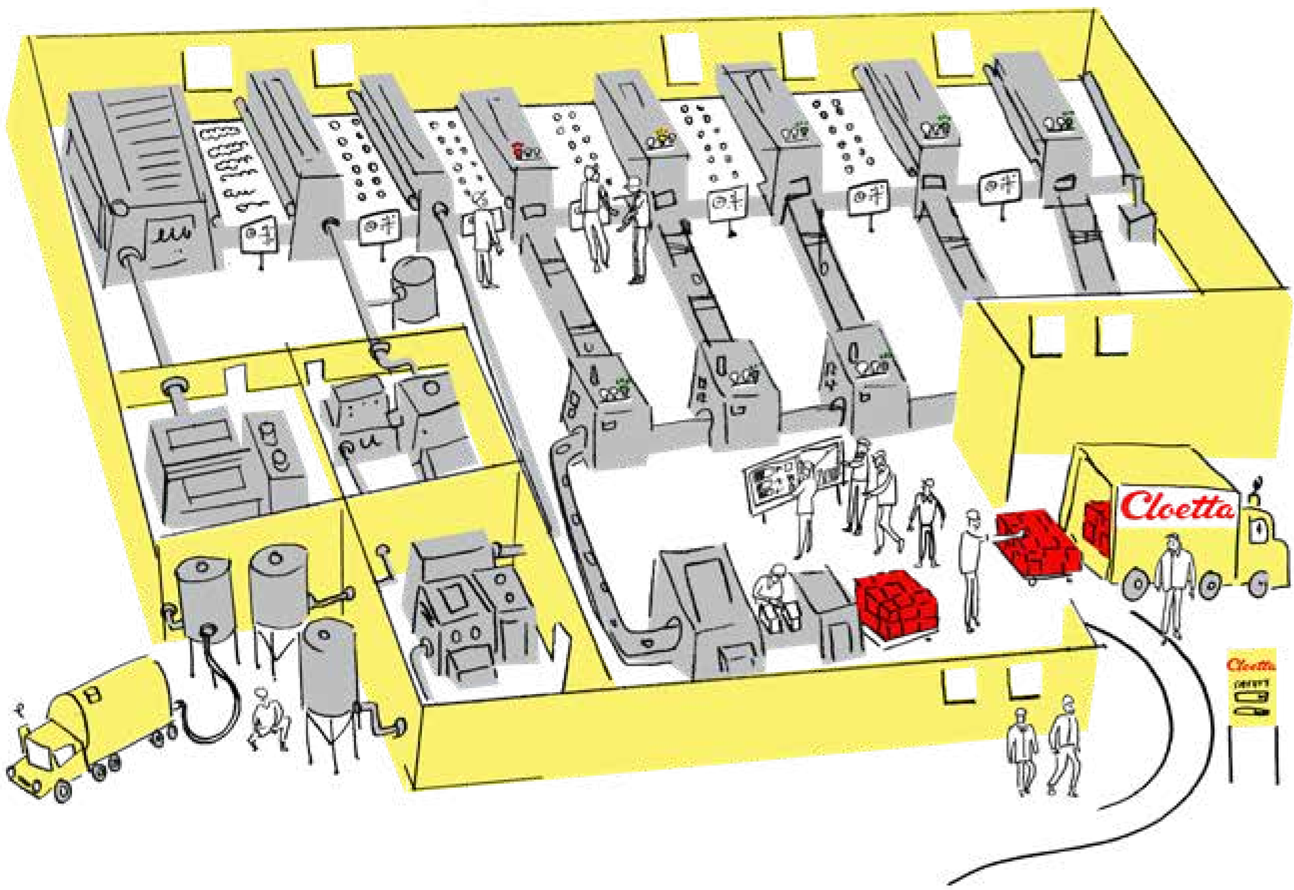
For each product there is a detailed specification of the flavor, aroma, appearance, texture and package. A central sensory panel carries out training and adaptation across the Cloetta factories to ensure that qualified tasters are in place to monitor the performance and conformity of the products.

Cloetta's tracking system enables tracing of all raw materials from 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.

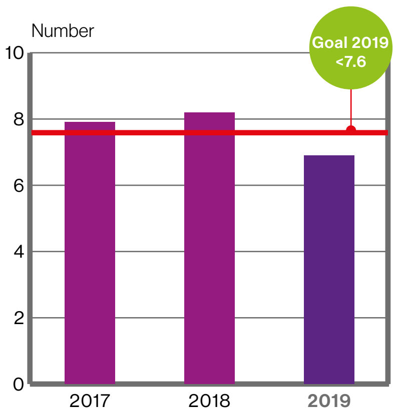
Vision for the Perfect Factory through Cloetta's Leading Performance Program (CLPP)

In 2019 Cloetta took the next step towards its vision for the Perfect Factory. Through cross-functional teams and high participation from the factory floor, reliability has improved, and the amount of waste and leftovers has further decreased.



- 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 visualization from every line. Real-time metrics and continuous dialogue so as to correct gaps between current and target performance.
- Engaged, visible leadership team that reinforces the desired culture with regular performance dialogue and improvement measures.

Complaints, feedback per million consumer units sold



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 feedback and complaints. In the event of quality defects, Consumer Service always contacts the relevant factory. The factory uses the information from complaints to systematically identify root causes and eliminate them.

Planning and logistics

Effective production planning leads to less capital being tied up in the form of inventories of both raw materials and finished products, while also increasing service levels. Delivery accuracy is one of the most critical parameters for the retail trade. To ensure a high level of service and effective utilization of the network of factories, Cloetta has developed a process for the entire supply chain, from raw materials to customers.

In 2019, Cloetta commenced a project to implement a new planning system for the supply chain, which will encompass the planning processes from demand forecasting in all markets, service and inventory optimization, delivery planning, scheduling and integration of third-party suppliers. The system was implemented as a pilot at the end of 2019 and roll-out to all markets and factories will take place in 2020. The system will also provide data for financial planning and long-term sales and production planning to ensure that all functions in the Group are coordinated. 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 are raw materials and packaging.

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

Cloetta's range includes products that are produced by other manufacturers. External production is only outsourced to manufacturers with the same high-quality standards that are applied to production in Cloetta's own factories. External manufacturers are evaluated and tested regularly.

Success factors for manufacturing

Employee health and safety

A healthy and safe workplace 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.

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 knows how to work on more than one line.

Cost efficiency

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

Delivery accuracy

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

High and consistent quality

The goal is to always deliver safe products with the required flavor, appearance and texture.

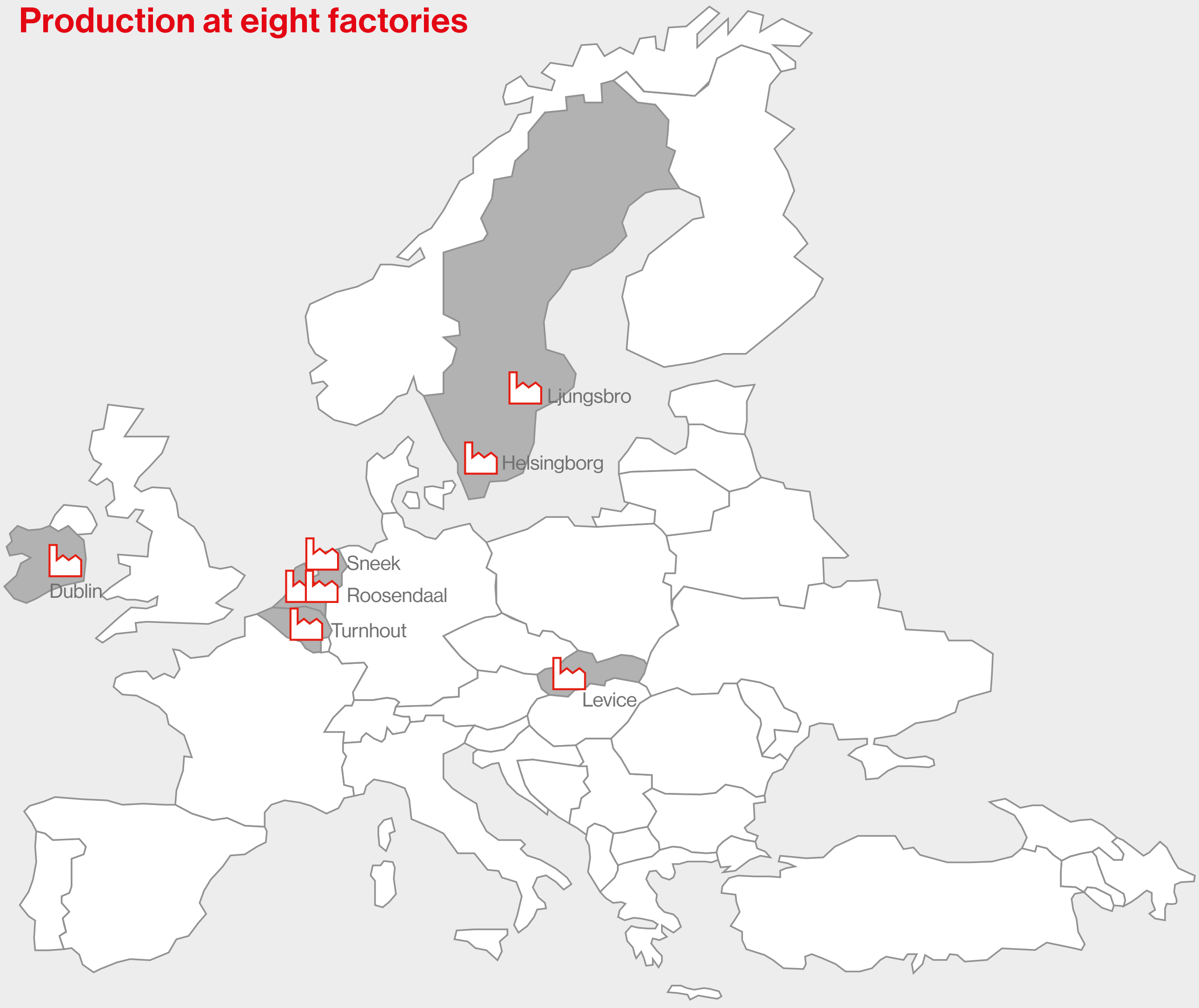
Engaged employees

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

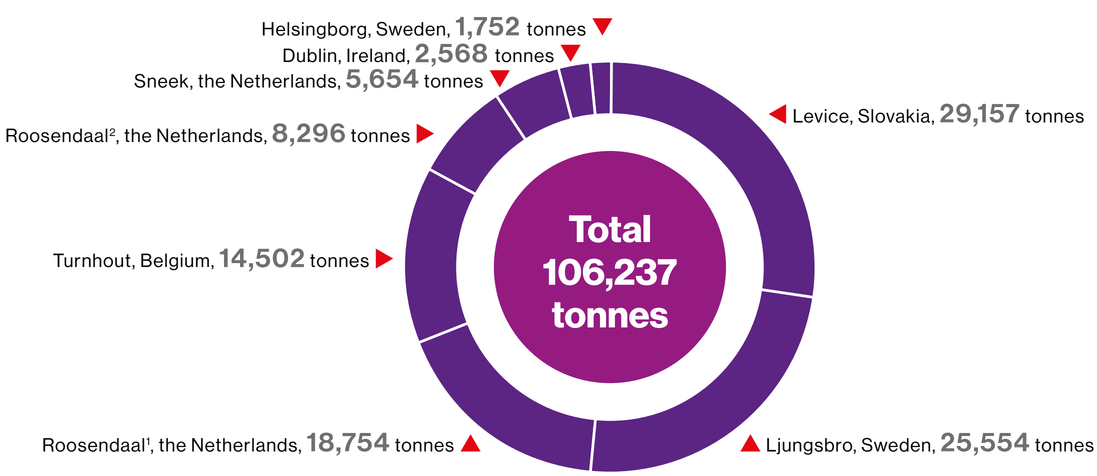
<< Back to contents

Factories

Production at eight factories



Production by factory in 2019, tonnes



1) Spoorstraat
2) Borchwerf

Levice, Slovakia
Production volume 2019: **29,157 tonnes**
Number of plant employees: **Approx. 765**
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 2019: **25,554 tonnes**
Number of plant employees: **Approx. 370**
Number of machine lines: 12 production lines with in-line packing, 3 separate packaging lines and 1 chocolate production center
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 2019: **18,754 tonnes**
Number of plant employees: **Approx. 145**
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 2019: **14,502 tonnes**
Number of plant employees: **Approx. 115**
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 2019: **8,296 tonnes**
Number of plant employees: **Approx. 65**
Number of machine lines: 7 production lines, 14 packaging lines
Largest brands: Lonka, Red Band
Manufacturing methods: Toffee manufacturing and nougat moulding
Certifications: IFS, GMP and BRC global standard for Food Safety

Sneek, the Netherlands
Production volume 2019: **5,654 tonnes**
Number of plant employees: **Approx. 105**
Number of machine lines: 7 production lines, 14 packaging lines
Largest brands: Sportlife, Jenkki, King
Manufacturing methods: Chewing gum, coating, lozengers and hard-boiled candy
Certifications: IFS, GMP and BRC Global Standard for Food Safety

Dublin, Ireland
Production volume 2019: **2,568 tonnes**
Number of plant employees: **Approx. 85**
Number of machine lines: 1 production line, 10 packaging lines
Largest brands: The Jelly Bean Factory
Manufacturing methods: Starch moulding
Certifications: BRC Global Standard for Food Safety and ISO 14001

Helsingborg, Sweden
Production volume 2019: **1,752 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

Resource effectiveness and environmental impact

Cloetta reduces its negative impact on the environment by using resources more efficiently during manufacturing, in packaging and during transportation.

Resource effectiveness

As a member of the UN's Global Compact, Cloetta applies the principle of caution in its environmental work. The principle of caution is particularly relevant to how the company deals with the impact from its emissions into the air and water, as well as chemical usage. We also apply the principle of caution concerning allergies and food products, supported by our quality and food safety programs.

Cloetta uses resources efficiently by focusing on the energy consumption of its manufacturing facilities, including recycling and waste.

Cloetta monitors the environmental impact of products and packaging throughout their entire lifecycle. This is done by understanding and dealing with the impact within each phase. In areas where Cloetta has a limited direct impact, the company works through partnerships, for example RSPO, UTZ and suppliers.

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 ISO 14001. Material local environmental matters, goals and activities are defined within the management system. Cloetta has set Group-wide goals for 2020 regarding energy, climate and waste. Processes and instructions for data collection are in place and data is reported monthly and consolidated at 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 program to develop more sustainable packaging solutions with improved environmental performance. The aim of the project is to make Cloetta's packaging 100 per cent recyclable by no later than 2025.

Cloetta defines packaging as recyclable if it has been manufactured from one single type of material, or if the packaging is a laminate, it is composed of at least 80 per cent polythene (PE) and/or polypropene (PP) plastic, and a maximum of 10 per cent of any other polymer materials, fibers or aluminium.

During the year, Cloetta started using recycled material in its plastic packaging. Cloetta is also gradually removing metallized films from plastic packaging, which increases their recyclability. Approximately 85 per cent of Cloetta's plastic packaging is now recyclable.

Energy efficiency

In 2019, the factories implemented a number of the energy-saving projects that were defined as part of the 2018 energy audits. The impact has been noticeable in the annual energy key performance indicator, in spite of the warm summer.

In 2019 energy consumption in relation to the volume produced decreased from 1.83 MWh/tonne to 1.79 MWh/tonne, resulting in a decrease from 0.30 to 0.26 kg CO_2/kg in the amount of carbon dioxide in relation to the amount produced. This means that Cloetta reached its 2020 carbon dioxide target already during 2019. The target was a reduction of 5 per cent in relation to produced volume compared with 2014.

Cloetta's direct emissions (scope 1) from combustion of oil, gas and LPG decreased by 7 per cent, from 12,079 tonnes CO_2e to 11,267 tonnes CO_2e. This is in line with Cloetta's increased production volumes. The indirect emissions (scope 2) from electricity and district heating consumption decreased by 15 per cent, from 19,206 tonnes CO_2e to 16,279 tonnes CO_2e.

Goal

–5% energy by 2020

–5% CO_2 by 2020

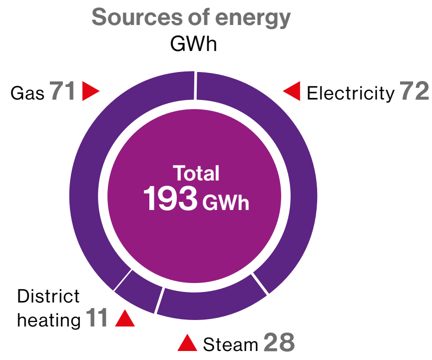
–25% waste by 2020

100% recyclable packaging material by 2025

Environmental key performance indicators

	2019	2018	2017	2016	2015
Energy consumption (total, GWh)[1]	193	188	179	180	215
Energy consumption (MWh/produced tonne)[1]	1.79	1.83	1.85	1.80	1.85
CO_2 e Scope 1 + 2 (kg/produced kg)[1]	0.26	0.30	0.25	0.27	0.35
Waste (kg/produced tonne)[2]	62	64	67	64	67
Recycling (%)[2]	88	88	82	81	81
Wastewater (m^3/produced tonne)[2]	2.0	1.7	1.7	1.5	2.9
COD* (kg/produced tonne)[2]	16.4	15.6	14.2	15.0	17.6

1) The sold Italian businesses have been excluded since 2016. The factories in Dublin, Helsingborg and Roosendaal Borchwerf were added in 2017 but have been included in the key performance indicators since 2014. For this reason, the values for 2014, the base year, have been adjusted for total energy consumption, energy consumption per produced tonne, and CO_2e (Scope 1 + 2) per produced kg.
2) The sold Italian businesses have been excluded from 2016 onwards. The factories in Dublin, Helsingborg and Roosendaal Borchwerf are included as of 2016.



Transportation

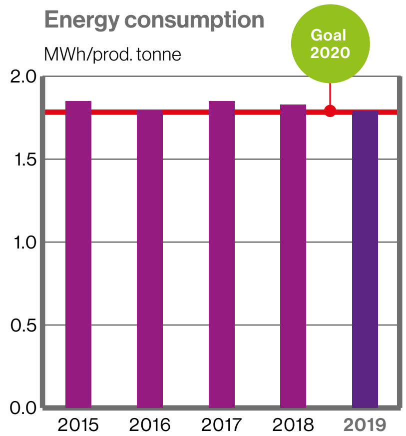
Cloetta optimises transportation to reduce freight costs and its impact on the climate and environment. This includes aiming for high fill rates and collaborating with carriers with larger load capacity. To the greatest extent possible, a combination of trains, ships and trucks are used, for a better environmental performance. In 2019, 4 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 13 per cent, which indicates increased efficiency. This equates to 41 kg CO_2e per transported tonne of product.

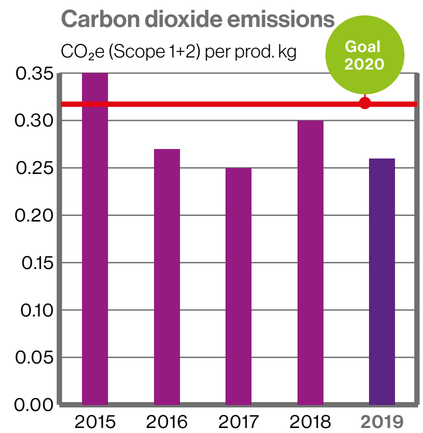
Waste and recycling

All eight factories sort their waste and aim to increase recycling and reduce waste. During the year, 5,873 (5,766) of a total of 6,689 (6,575) tonnes was recycled. This means that the recycling rate for the year amounted to 87.8 per cent compared with 86.2 per cent last year.

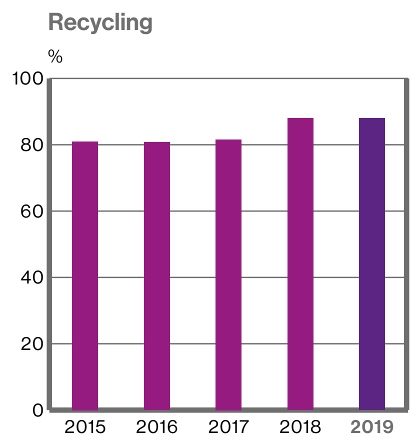
Wastewater

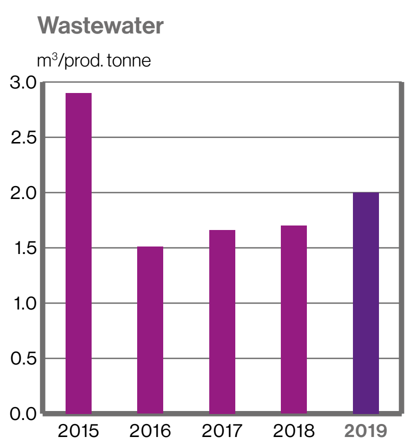
Factories work to reduce the amount of wastewater as well as improve the quality of wastewater. During the year the volume of wastewater was 210,786 (174,867) m^3 of water. This corresponds to 2.0 (1.7) m^3 per tonne of produced product. COD, a measurement of the quality of wastewater, increased from 15.6 to 16.4 kg per tonne of produced product.

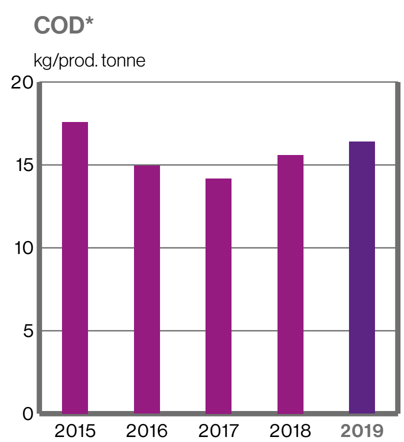




The figures for 2016 and 2017 have been adjusted.







*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 more than half of total manufacturing costs. In terms of value, the most significant raw materials are sugar, cocoa, nuts, glucose syrup and polyols.

Prices and costs

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, the price of which is influenced by the price of wheat and barley. 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 using local purchasing opportunities. As a rule, the central purchasing unit pre-purchases the most important raw materials so that raw materials are available for a period equal to six to nine months of production. This also creates predictability in prices and financial outcomes, since price changes affect Cloetta's purchasing costs after a certain delay. In this way, Cloetta usually avoids temporary price swings in the commodities market.

Agricultural policy

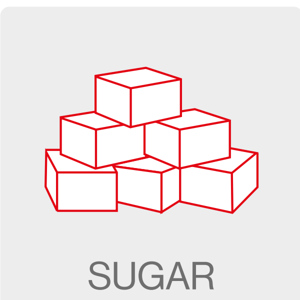
The prices of many of Cloetta's raw materials are affected by agro-political decisions regarding subsidies, trade barriers, and such. Within the EU for example sugar quotas were in place until 2017.

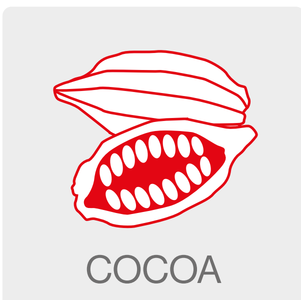
The prices of agricultural commodities are naturally also affected by supply and demand, i.e. the size of the harvest and consumption of food products in relation to production capacity. In recent years, speculative trading of agricultural commodities has increased dramatically, which has contributed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

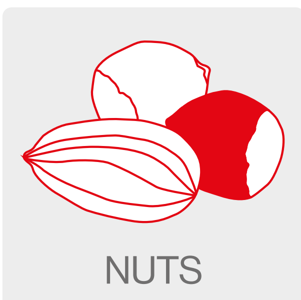
Suppliers

Cloetta uses several suppliers for the majority of raw materials, but significant consolidation has taken place among the suppliers, which has sometimes made it difficult to find alternative suppliers. The ten largest suppliers of raw materials and packaging account for around 30 per cent (27) of the total purchasing volume.

Suppliers to Cloetta are evaluated and approved before they can deliver to the factories. Read more on page 52.

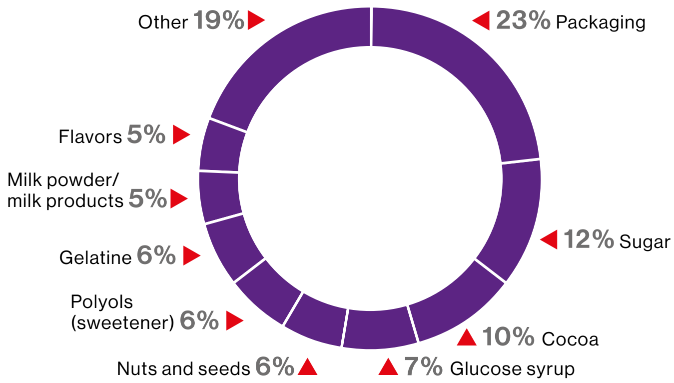




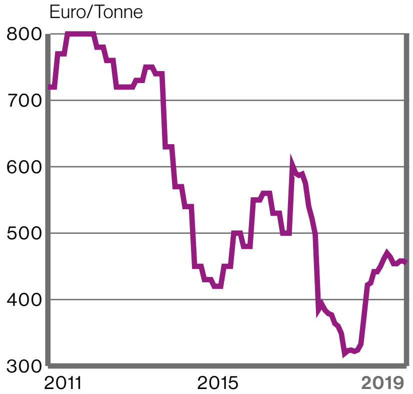


WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Breakdown of raw material and packaging costs

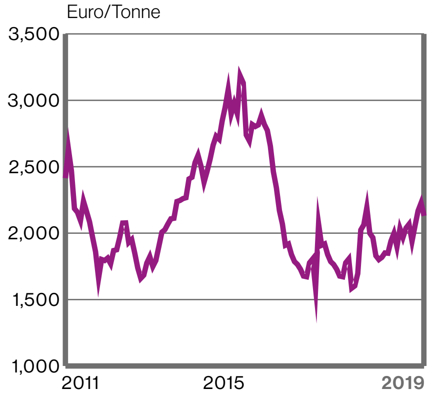


Sugar
Cost trend



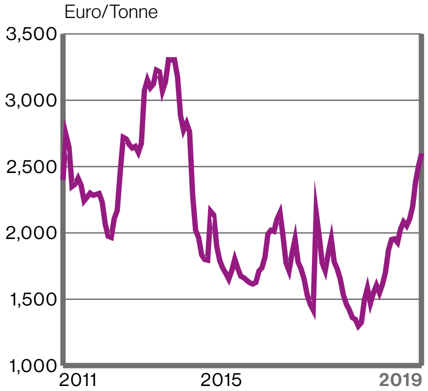
Source: Data Commodity

Cocoa beans
Cost trend



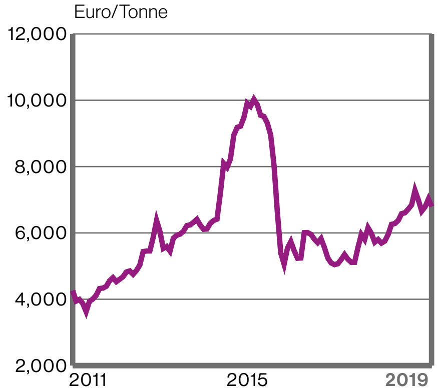
Source: Data Commodity

Milk powder
Cost trend



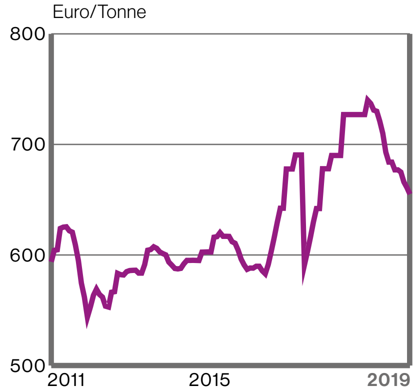
Source: Data Commodity

Almonds
Cost trend



Source: Data Commodity

Corrugated
Cost trend



Source: Data Commodity

Cost trend

Sugar

Sugar prices declined to their lowest levels in 2018 after the abolition of the European sugar quota system in 2017. In 2019, European sugar prices increased significantly due to a more balanced European market.

Cocoa

The price of cocoa was stable during 2019 due to a balance between supply and demand. The price of cocoa 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 and demand, weather conditions and thereby the harvest and exchange rates, since most nut prices are quoted in US dollars. The cost of nuts, particularly cashews, continued to decrease in 2019 while the cost of almonds was higher than in 2018.

Milk powder

The price of milk powder increased in 2018 and continued to rise in 2019 due to low stocks in Europe.

Gelatine

The price of gelatine from pork increased greatly, due to a large imbalance between supply and demand.

Packaging

Purchase costs for packaging materials, especially paper-based packaging material, such as corrugated material, decreased during 2019.

Responsible sourcing

Cloetta manages risks in its supply chain by setting and following up food-safety, environmental and social requirements.

Supplier controls are part of the sourcing process

Cloetta has an extensive product range that requires many different types of raw materials and ingredients. Consequently the company has many suppliers. Cloetta has processes in place to assess new suppliers and monitor existing ones. The work is based on Cloetta's Code of Conduct, Supplier Guiding Principles and Cloetta Quality Agreement. These documents cover human rights, rights and terms of work, environmental protection, and product quality and food safety.

Suppliers are obliged to adhere to these governance documents and report any changes in their operations that may lead to deviations from agreements with Cloetta. Suppliers must also submit self-assessments of social and environmental conditions. This includes describing their own risk management. Based on these evaluations, Cloetta decides on which suppliers to audit on location. The current focus is on product quality and food safety, and the auditing activities will be expanded to include other aspects of sustainability. All suppliers are part of Cloetta's risk-based program for supplier control. Suppliers are audited and/or monitored based on country and sector-specific circumstances, as well as their own performance over time. Audits are performed by specially trained auditors and monitoring takes place using specific indicators. The objective is for suppliers to retain their status as approved suppliers to Cloetta and continuously improve their performance.

Cloetta carried out 25 audits in 2019. All 75 new suppliers were assessed in terms of their food safety, product quality, environmental considerations, workplace conditions and human rights. 23 of these suppliers had operations in high-risk countries.

Goal

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

Sustainability programs include cocoa, palm oil and shea butter

Sustainability program 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 Cloetta's Code of Conduct is higher. Cloetta's sustainability program involves paying particular attention to purchasing of prioritized raw materials. For cocoa and palm oil, third-party certification is applied. For shea butter, Cloetta uses the AAK sustainability program. Cloetta purchases certified raw materials and cooperates with organizations who certify and work directly 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.

UTZ certified cocoa

COCOA

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 that are not affiliated with UTZ.

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

Since 2014 Cloetta has been buying cocoa solely from UTZ certified farmers. In this way, Cloetta secures access to high-quality cocoa, while contributing to sustainable production and 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 material to international cocoa wholesalers, after which the cocoa is sent to Europe. Every year, Cloetta purchases approximately 3,000 tonnes of cocoa in the form of cocoa pulp, cocoa butter and cocoa powder from suppliers in Europe.

Low productivity for the cocoa farmers

West African cocoa farmers face a number of economic, social and environmental challenges. One of the most significant is low productivity. Limited knowledge about how to grow high-quality cocoa efficiently is one of the root causes.

The farmers also struggle with ageing cocoa trees and declining soil fertility while often lacking the means to address the challenges.

RSPO certified palm oil


PALM OIL

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

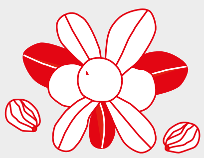
8
principles that farmers must respect

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 for individuals and communities affected by palm oil production
7. Responsible development of new plantations
8. Commitment to continuous improvement

By respecting the eight key principles, the negative impacts of palm oil cultivation on the environment and communities can be reduced.

A number of Cloetta's products contain palm oil. However, Cloetta does not buy pure palm oil, only 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 transitioned to RSPO segregated palm oil, which means that Cloetta will receive information about which mills the palm oil comes from. During the year, the process for RSPO certification of Cloetta's factories commenced. Certification is likely to be complete in 2020.

Sustainable shea butter


SHEA BUTTER

More then
100,000
women involved

Since 2017 Cloetta has been collaborating with AAK (a supplier of oil and fat solutions) regarding sustainable shea butter. In a number of West African countries, AAK has set up a sustainability program 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 program.

The basis of the program

AAK runs a program office for sustainable shea kernels in Ghana. The basic principle of the program is to establish a direct trade relationship with the women in rural areas that collect shea nuts. Traditionally, the supply chain would contain a series of intermediaries.

AAK helps the women to organize themselves into producer groups and trains them in business management and in good post-harvest practices.

Advantages for the women

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 advance payments. 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 income. It is also a guarantee that AAK will return and buy all their shea kernels.

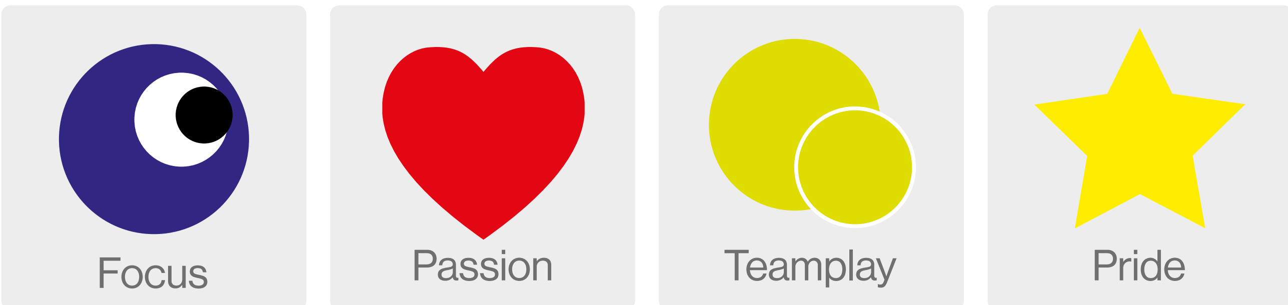
The program has been running since 2009 in Burkina Faso and since 2015 in Ghana. More than 100,000 women are involved in the program, which has had a major impact on the lives of the many women and their families.

<< Back to contents

Employees

Cloetta is driven by the 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 to the company's success.

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.

In 2019, Cloetta launched **Employee Journey**, a strategic review of the Group's focus areas within HR, which also clarifies Cloetta as an employer. Employee Journey was developed to provide a simple way to visualize the four overarching HR areas: Attract, Welcome, Develop and Engage.

Attract

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

Recruitment strategy

The Group's recruitment strategy to attract the best candidates is continuously developed and improved. The strategy includes recruitment processes for different target groups, best practices per country and training for managers in how to recruit, including a tool-kit containing aptitude tests and self-assessment tests. For all positions, selection is based on a job description with a competence specification against which the candidates are compared, in combination with an analysis of the different tests and interviews.

Welcome

Cloetta Tasting is a new introduction program that is now being rolled out in all countries. Cloetta Tasting includes welcome meetings, online courses, films and a welcome candy tub, which is also full of tasks to be completed during the induction period.

Develop

Cloetta uses the 70-20-10 method for learning, whereby 70 per cent happens on the job, 20 per cent together with others and 10 per cent through formal training.

A key aspect of employee development is Cloetta's annual performance management process, in which managers and employees evaluate and discuss objectives, behavior and performance. This process is supported by the Workday system.

Several Cloetta-specific courses in different areas are being developed into different academies. The core idea of an academy is to share best practice both internally and outside Cloetta. Within manufacturing, the core course is linked to continuous improvement under the banner of Perfect Factory. Within sales, the different countries collate knowledge to create the Perfect Store, for

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

"Sweet spot for your career" is Cloetta's employer branding slogan that has been further developed during the year. A common communication platform for employer branding has been created consisting of a common career portal, a common recruitment tool and integration with LinkedIn and other social media channels to reach the identified target groups.

There are many benefits to working at Cloetta:

- **Impact** – the chance to make a difference – Cloetta is a company that offers the best of two worlds: both international and local, large-scale and small-scale, personal and professional, challenging and decisive, free and responsible.
- **Fun** – Not only does Cloetta have fun products, its people also have fun on the job. Cloetta offers products that create joy, which is evident in the company's welcoming culture that is built on authenticity and camaraderie and where having fun together at work is encouraged. This is an important basis for creating an innovative, open and inclusive working climate.
- **Strong brands** – Cloetta was founded in 1862 and is famous for its well-known, strong local brands in categories including candy, chocolate, nuts, pastilles, chewing gum and pick & mix.

example how to create effective checkout counters, and other priorities for the sales organization. Within marketing, seminars are organized that take a deeper look at marketing when people share experiences, for example regarding the future model for brand platforms.

Leadership

Cloetta's management tool, Management Drives, includes analyses that map out what drives each employee, what energizes them and what drains them of energy. The tool helps both managers and employees become aware of their own motivations and thereby the kind of work approach they are best suited to. The tool has also been developed into Cloetta competencies.

Cloetta has a special process for talent and succession management aimed at developing individuals and the organization. In 2019, a program for potential Group Management Team candidates was developed.

Engage

Cloetta's organisation is made up of multi-cultural and internationally experienced people that work in an open environment. Cloetta works continuously to improve the workplace environment. The goal is to provide a healthy workplace environment in which all individuals feel safe and appreciated and have the opportunity to grow.

Cloetta encourages people to have a good work-life balance. Both men and women should be able to combine work with home and family. To the extent possible, the Group supports flexible working.

Cloetta is a workplace where diversity and employees' different qualities, knowledge and skills are respected, regardless of gender, gender neutrality or expression, ethnic background, religion or other faith, physical disability, sexual orientation or age. The Group has zero tolerance for discrimination and ensures that everybody is given the chance to provide feedback in meetings, through employee surveys or via the whistleblower service. Questions related to harassment and discrimination are included in the employee survey.

Cloetta Energy

Through a healthy workplace environment, employees are supported in managing stress and a heavy workload. The Cloetta Energy program is a fun and engaging way to promote well-being and a sustainable, healthy lifestyle, and thereby Workplace Happiness. Using common themes and

through local implementation, the program focuses on strengthening employee health and vitality and also supports well-being and engagement.

Areas that have been covered by Cloetta Energy include:

- *The body – physical well-being*
- *The mind – mental well-being*
- *Behavior – healthy habits*
- *Habitat – home and workplace environment*

Safety first

Continuous improvement and development of workplace safety programs is a natural part of Cloetta's operations. The aim is to create a good physical workplace environment and a healthy workplace climate where everybody feels safe. Read more about the "Safety first" program on page 41.

Employee survey

During the last few years Cloetta has conducted the Great Place to Work employee survey. The objective is to create a strong corporate culture characterized by trust, pride and enjoyment. It is essential that there is a genuine interest in how the employees perceive their place of work, what they appreciate and what they feel needs to be improved.

Cloetta's goal is that the Great Place to Work Trust Index will be equal to or exceed the previous year's level. At the end of 2019, Cloetta conducted the employee survey within the manufacturing units. The response rate totalled 74 per cent and the Trust Index was 51 per cent, a slight improvement compared to the last measurement of 47 in 2017.

In 2020, Cloetta will replace the Great Place to Work survey with another survey to promote employee engagement in the company even further.

Salary and remuneration

To ensure a clear framework and strategy for Cloetta's remuneration and salary structure, Cloetta is benchmarking this with the help of a consulting firm. Remuneration for all positions at Cloetta is being compared with equivalent positions at other FMCG companies. This comparison is being done for all of Cloetta's countries of operation. The Group Management Team and a number of other key people are part of a long-term share-based incentives program. Other remuneration varies from country to country based on local laws.

Code of Conduct

Towards the end of 2019 the Board of Directors approved a revised Code of Conduct. The purpose of the Code of Conduct is to ensure that Cloetta employees and business partners have a clear understanding of the principles and ethical values Cloetta upholds. The code applies to all Cloetta's employees and all other parties who act on behalf of Cloetta, including temporary employees, consultants, contractors and members of the Board, within the entire Cloetta Group. All employees and other representatives have a responsibility to adhere to the code. Employees should also be aware of the Group's other policies and guidelines as they may provide further guidance and information.

Cloetta's whistleblower service gives employees the opportunity to report suspected deviations from Cloetta's Code of Conduct anonymously.

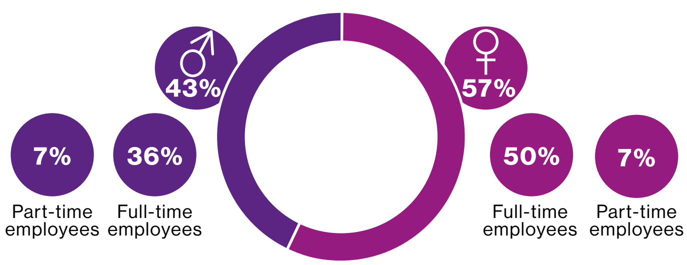
Number of employees

The average number of employees in 2019 was 2,629 (2,458). Of the average number of employees, 82 per cent (78) are covered by collective agreements. In production there are certain periods with a higher workload, such as ahead of Easter and Christmas, when extra staff is hired. Other areas of operation also use temporary and extra staff. 14,0 per cent (11.8) of the employees (headcount) were temporary staff per year end.

Facts about Cloetta's employees

Gender distribution, all employees

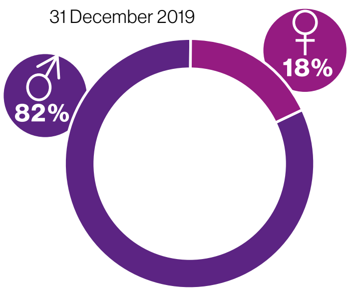
31 December 2019



Age distribution

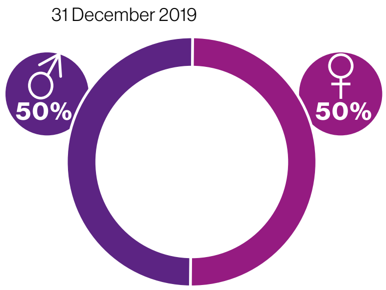
Gender distribution, Group Management Team

31 December 2019



Gender distribution, Board of Directors

31 December 2019



Number of employees by category and region as per 31 December 2019

Employees	Slovakia	Sweden	Netherlands	Finland	UK	Belgium	Denmark	Ireland	Norway	Germany	Italy	Others	Total
Number of employees													
– Women	485	488	176	297	178	24	71	32	19	10	2	3	1,785
– Men	278	379	345	53	56	93	55	52	18	5	2	3	1,339
Number of permanent employees													
– Women	413	421	137	287	178	18	69	23	18	10	2	3	1,579
– Men	218	323	266	51	56	77	53	37	17	5	2	2	1,107
Number of temporary employees													
– Women	72	67	39	10	–	6	2	9	1	–	–	–	206
– Men	60	56	79	2	–	16	2	15	1	–	–	1	232

See note 5 for average number of employees per country.

Share and shareholders

Cloetta's class B shares have been listed on Nasdaq Stockholm since 16 February 2009. 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 move towards Cloetta's financial target to reach an EBIT margin, adjusted of at least 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 for the year.

Shareholders[1]

At 31 December 2019 Cloetta AB (publ) had 24,910 (23,956) shareholders, an increase of 4 (19) per cent since the previous year-end. Of the shareholders, 1,072 were financial and institutional investors and 23,838 were private investors. Financial and institutional investors held 89.8 per cent of the votes and 88.0 per cent of the share capital.

There were 768 foreign shareholders who held 41.5 per cent of the votes and 48.9 per cent of the share capital. The 15 largest shareholders accounted for 64.2 per cent of the votes and 57.9 per cent of the share capital. At 31 December 2019, AB Malfors Promotor was Cloetta's largest shareholder with a holding representing 38.2 per cent of the votes and 27.2 per cent of the share capital in the company. The second largest shareholder was Franklin Templeton, with 5.8 per cent of the votes and 6.8 per cent of the share capital, and the third largest shareholder was Wellington Management with 4.1 per cent of the votes and 4.8 per cent of the share capital.

Share price and trading[2]

Between 1 January and 31 December 2019, 182,617,131 Cloetta shares were traded on Nasdaq Stockholm for a total value of SEK 4,951m, equal to around 65 per cent of the total number of class B shares at the end of the period. Trading on Nasdaq Stockholm accounted for 48.3 per cent, and other markets where the Cloetta share was traded include Cboe Global Markets at 39.1 per cent, LSE Group at 5.2 per cent, Aquis at 4.7 per cent, Liquidnet at 0.9 per cent, UBS at 0.7 per cent, ITG at 0.6 per cent, Sigma-X at 0.3 per cent and Nomura Group at 0.2 per cent.

The highest quoted bid price during the period from 1 January to 31 December 2019 was SEK 33.34 on 5 November 2019, and the lowest bid price was SEK 22.32 on 28 January 2019. The share price on 31 December 2019 was SEK 31.70 (last price paid). During the period from 1 January to 31 December 2019, Cloetta's share price increased by 30.5 per cent, while Nasdaq OMX Stockholm PI increased by 29.6 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 2019 was 0.45 (0.68), 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 (1.6) in 2019. 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.

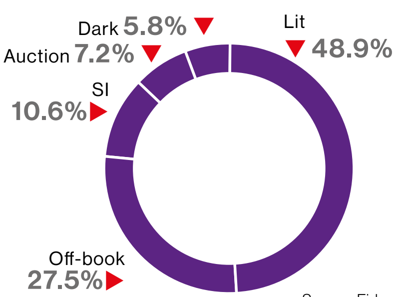
Share capital and capital structure

Cloetta's share capital at 31 December 2019 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

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

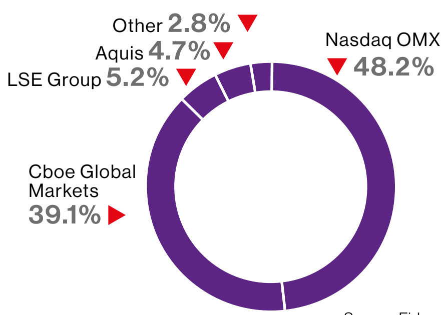
1 Source: Euroclear and Monitor
2 Source: Nasdaq Stockholm and Fidessa
3 Source: SIX

Trading categories, %
1 January–31 December 2019



Source: Fidessa

Marketplaces, %
1 January–31 December 2019



Source: Fidessa

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

SEK 400,000,000 and not more than SEK 1,600,000,000, divided between no less 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 for the year. The ambition is for the cash flow to be used for dividends, but that it should also provide financial flexibility for complementary acquisitions. 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 289m was transferred to the shareholders in 2019. For 2019 the Board proposes a dividend of SEK 1.00 (1.00) per share, which is equal to 58 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 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.

Individuals with an insider position

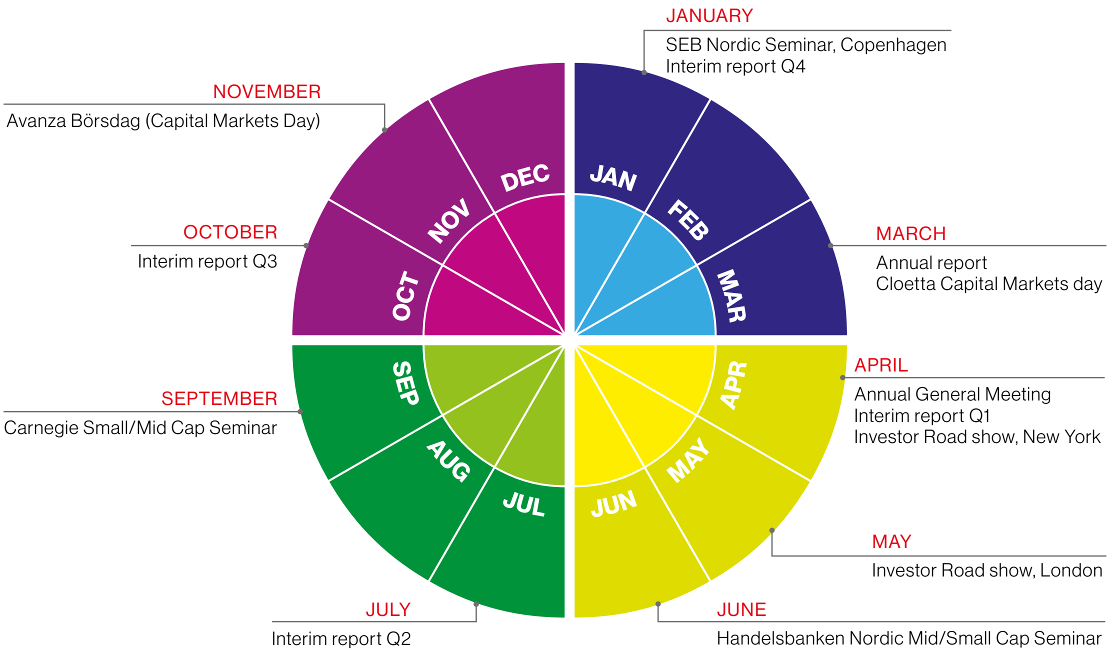
Persons discharging managerial responsibilities for Cloetta and persons or legal entities closely associated with them are obliged to notify Cloetta and the Swedish Financial Supervisory Authority of every transaction conducted related to changes in their holdings of Cloetta shares once a total amount 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.

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 do not meet with financial media, analysts or investors.

Investor relations 2019

Cloetta meets regularly with investors and analysts. 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).



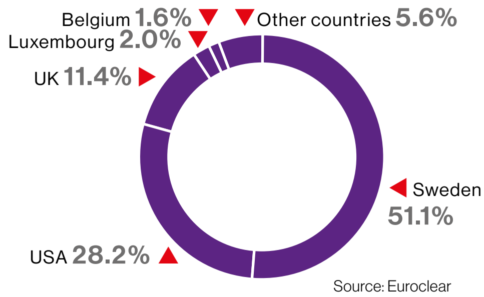
15 largest shareholders at 31 December 2019

	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
AB Malfors Promotor	38.2	27.2	78,552,542	5,729,569	72,822,973
Franklin Templeton	5.8	6.8	19,706,413	–	19,706,413
Wellington Management	4.1	4.8	13,878,706	–	13,878,706
Dimensional Fund Advisors	2.6	3.1	8,853,972	–	8,853,972
Norges Bank	2.3	2.7	7,764,529	–	7,764,529
Vanguard	1.7	2.0	5,854,381	–	5,854,381
AXA	1.5	1.7	5,019,893	–	5,019,893
Ulla Håkanson	1.5	1.7	5,000,000	–	5,000,000
Försäkringsbolaget PRI	1.2	1.4	4,081,282	–	4,081,282
Ohio Police and Fire Pension Fund	1.2	1.4	4,077,700	–	4,077,700
Carnegie Fonder	0.9	1.1	3,065,715	–	3,065,715
BlackRock	0.9	1.1	3,057,800	–	3,057,800
Olof Svenfelt	0.9	1.0	3,000,030	30	3,000,000
Swedbank Robur Fonder	0.9	1.0	2,900,200	–	2,900,200
XACT Fonder	0.6	0.7	2,160,392	–	2,160,392
Total, 15 largest shareholders	**64.2**	**57.9**	**166,973,555**	**5,729,599**	**161,243,956**
Other shareholders	35.8	42.1	121,645,744	5,650	121,640,094
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 (Sweden's financial supervisory authority) 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

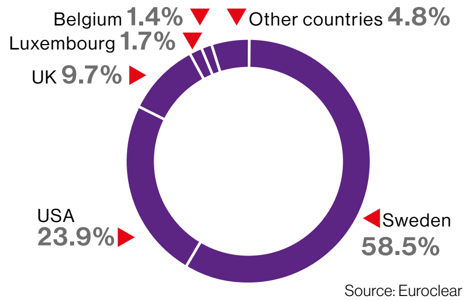
Shareholder countries, % share of capital

31 December 2019



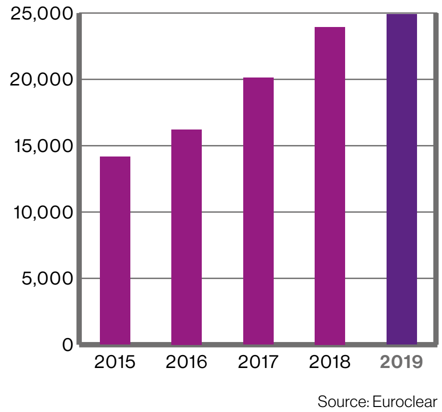
Shareholder countries, % of votes

31 December 2019



Number of shareholders

31 December
Number



Size categories at 31 December 2019

	No. of share-holders	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
1–500	18,632	0.7	0.8	2,315,903	3,204	2,312,699
501–1,000	2,558	0.6	0.7	2,150,370	500	2,149,870
1,001–5,000	2,757	1.9	2.2	6,472,110	1,832	6,470,278
5,001–10,000	391	0.9	1.0	2,996,668	–	2,996,668
10,001–15,000	120	0.5	0.5	1,521,577	–	1,521,577
15,001–20,000	80	0.4	0.5	1,452,746	–	1,452,746
20,001–	372	95.0	94.1	271,709,925	5,729,713	265,980,212
Total	**24,910**	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Euroclear

Shareholders by country at 31 December 2019

	No. of share-holders	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
Sweden	24,142	58.5	51.1	147,505,522	5,735,249	141,770,273
USA	55	23.9	28.2	81,340,248	–	81,340,248
UK	72	9.7	11.4	32,910,634	–	32,910,634
Luxembourg	23	1.7	2.0	5,860,927	–	5,860,927
Belgium	10	1.4	1.6	4,720,820	–	4,720,820
Other countries	608	4.8	5.6	16,281,148	–	16,281,148
Total	**24,910**	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Euroclear

Shareholder categories at 31 December 2019

	No. of share-holders	% of share-holders	% of votes	% of share capital
Private investors	23,838	95.7	10.2	12.0
Of which, Swedish residents	*23,686*	*95.1*	*10.1*	*11.9*
Legal entities	1,072	4.3	89.8	88.0
Of which, Swedish residents	*456*	*1.8*	*48.4*	*39.2*
Total	**24,910**	**100**	**100**	**100**
Of which, Swedish residents	*24,142*	*96.9*	*58.5*	*51.1*

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 de-merger 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

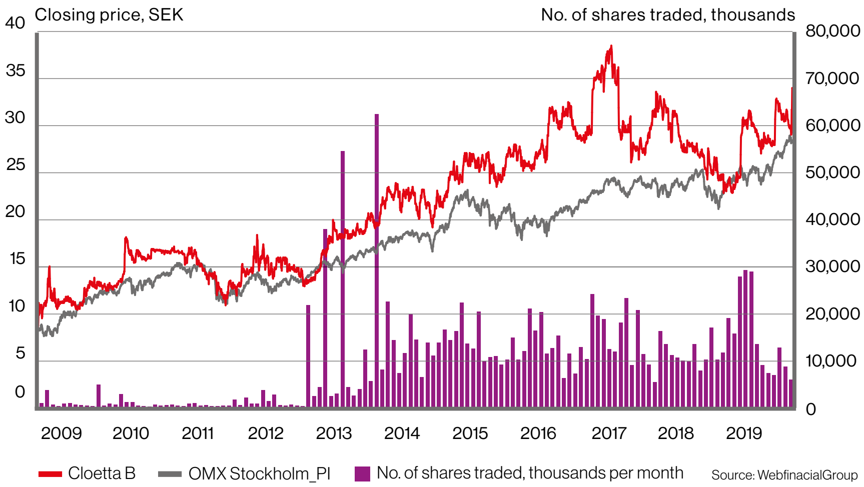
Source: Euroclear

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 82, and Note 23 on pages 121–122.

	LTI 2019	LTI 2018	LTI 2017	LTI 2016	LTI 2015
AGM approval date	4 April 2019	16 April 2018	4 April 2017	12 April 2016	23 April 2015
Maximum number of B shares to be allocated	1,648,046	1,201,602	1,221,698	1,524,100	2,000,000
as a percentage of total shares	0.6	0.4	0.4	0.5	0.7
as a percentage of voting rights	0.5	0.4	0.4	0.4	0.5
Number of employees offered the opportunity to participate	45	54	70	73	74
Number of participants at inception date	30	44	49	49	46
Estimated number of B shares to be allocated, subject to possible recalculation	912,533	404,979	97,325		
as a percentage of total shares	0.3	0.1	0.0		
as a percentage of voting rights	0.3	0.1	0.0		
Number of participants at reporting date	28	35	31		
Vesting date				29 April 2019	25 April 2018
Realized performance target, %				0.0	59.9
Actual number of matching shares granted on vesting date				109,369	100,542
Actual number of performance shares granted on vesting date				0	237,940
Total number of B shares granted on vesting date				**109,369**	**338,482**
as a percentage of total shares				0.0	0.1
as a percentage of voting rights				0.0	0.1
Number of participants at vesting date				30	29

Share price performance



IR contact

Nathalie Redmo

Investor Relations

Phone: +46 766 96 59 40

Switchboard: +46 8 527 28 800

E-mail: ir@cloetta.com

Analysts

The following analysts regularly monitor Cloetta's development:

Carnegie: Mikael Löfdahl,
miklof@carnegie.se

Handelsbanken: Nicklas Skogman,
nisk03@handelsbanken.se

Nordea: Stefan Stjernholm,
stefan.stjernholm@nordea.com

SEB: Andreas Lundberg,
andreas.lundberg@seb.se

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 A and B shares
Highest price paid in 2019	SEK 33.34 (5 November 2019)
Lowest price paid in 2019	SEK 22.32 (28 January 2019)
Last price paid 2019	SEK 31.70
Share price growth in 2019	30.5 per cent
The share's beta against SIXGX	0.45 (0.68)
The share's standard deviation	1.6 (1.6)

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?

The long-term goal of an EBIT margin, adjusted, of at least 14 per cent will be achieved through the following three prioritized focus areas: *Growing the branded packaged business, bringing sustainable value to pick & mix as well as reducing costs and driving efficiencies across the organization.*

When will you meet your 14 per cent margin target for EBIT margin, adjusted?

During 2019 we have continued once again to strengthen our margin. Our target EBIT margin, adjusted remains the same, and as communicated during the 2019 Capital Markets Day our ambition is to achieve it in the medium term.

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 2019 we reached our target net debt/EBITDA ratio of 2.5x for the forth consecutive year, we therefore deem that we have the capacity for both acquisitions and share dividends. The dividend pay-out 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.

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.

During 2019 we have also implemented price increases in the Swedish pick & mix business to address higher costs as well as to turn around the loss-making business by year-end 2020.

We will continue to increase our pricing during 2020, to compensate for higher commodity costs and a weaker SEK, with a potential negative impact on volumes for the Swedish pick & mix business.

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

For those seeking an alternative to products with sugar, Cloetta offers options such as nuts, chewing gum with xylitol and pastilles. Additionally, we are offering candy with lower sugar and no sugar.

We also believe that 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. Cloetta's products are among the most honest, since all consumers are aware that they contain 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 to, despite price increases.

Why do you use palm oil in your products?

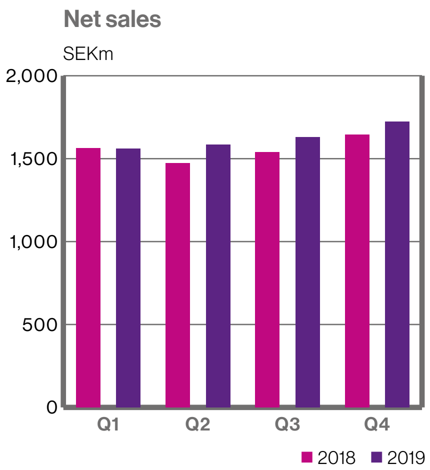
Palm oil in and of itself is a very good oil. It is very effective for surfaces and has excellent properties for food production. To prevent negative environmental consequences, Cloetta only uses RSPO-segregated palm oil, which means that the oil is produced sustainably and does not contribute to destruction of rain forests. However, the small amount of palm oil that was previously used in the glazing of a number of candy products to give them a protective surface and prevent them becoming sticky, has been exchanged for alternative oils.

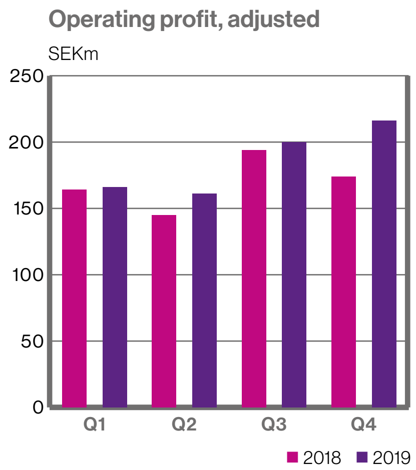
Financial performance

Net sales and profit

Condensed consolidated profit and loss account

SEKm	2019	2018
Net sales	6,493	6,218
Cost of goods sold	–4,112	–3,934
Gross profit	**2,381**	**2,284**
Other income	–	4
Selling expenses	–1,011	–1,025
General and administrative expenses	–643	–603
Operating profit	**727**	**660**
Net financial items	**–79**	**–98**
Profit before tax	**648**	**562**
Income tax	–150	–79
Profit for the year	**498**	**483**





Net sales

Net sales for the year increased by SEK 275m to SEK 6,493m (6,218) compared to last year. Organic growth was 2.3 per cent and exchange rate differences were 2.1 per cent. Sales of branded packaged products grew by 4.7 per cent. Pick & mix sales grew by 3.8 per cent.

Sales of branded packaged goods account for 73 per cent (72) of total sales, and pick & mix accounts for 27 per cent (28) of total sales. Divided by category, candy accounts for 59 per cent (58) of sales and chocolate accounts for 17 per cent (18). Pastilles account for 12 per cent (12), chewing gum for 6 per cent (6), 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 (31) 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 10 per cent (9), the UK for 7 per cent (7), Germany for 6 per cent (5) and Norway for 5 per cent (6).

Sales of branded packaged products grew in Sweden, Denmark, Norway, Germany and International Markets. Sales were stable in Finland but declined in the Netherlands and the UK. Sales of pick & mix grew in Denmark and Norway but declined in Sweden, Finland and the UK.

Other markets

In addition to the main markets, Cloetta's products are sold through distributors in about 50 additional markets. Sales in other markets increased in 2019 and accounted for 6 per cent (7) of the Group's sales.

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 (46) of the Group's sales.

Concentration of the grocery retail trade exerts strong price pressure on all of its suppliers. Cloetta is contentiously improving it's efficiency to cope with the pressure from the grocery retail trade. 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 2,381m (2,284), which is equal to a gross margin of 36.7 per cent (36.7).

Operating profit

Operating profit amounted to SEK 727m (660). Operating profit, adjusted for items affecting comparability, amounted to SEK 743m (677). The improvement in operating profit, adjusted, was driven by sales growth and cost efficiencies, partly offset by increased marketing investments.

Items affecting comparability

Operating profit for the year includes items affecting comparability of SEK –16m (–17) that are mainly related to costs for the integration of Candyking.

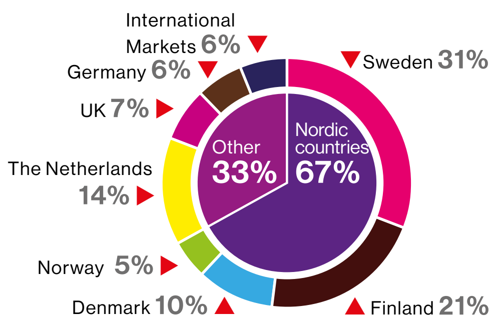
Employees

The average number of employees was 2,629 (2,458). Employee numbers have been updated following the implementation of a new company-wide HR system. Comparative numbers have not been restated.

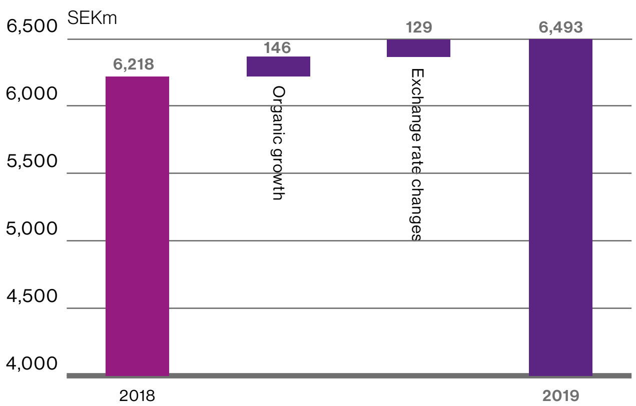
Research and development

Costs for research and development (R&D) were charged to operating profit in an amount of SEK 35m (22) 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.

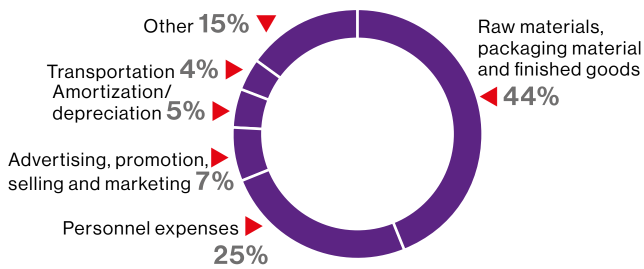
Cloetta's net sales by country



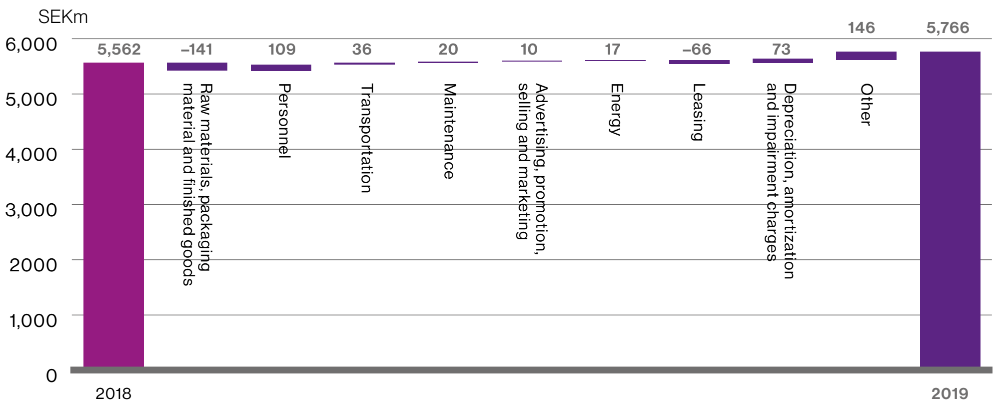
Net sales – change



Operating expenses



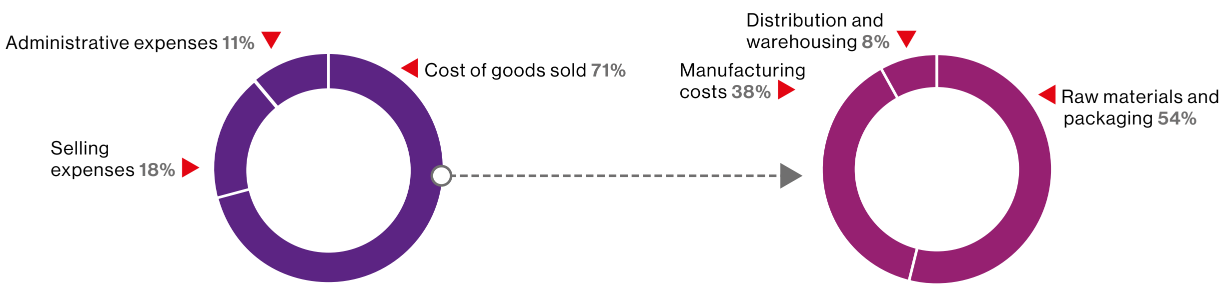
Total operating expenses – change
including cost of goods sold



<< Back to contents

Total operating expenses

Cost of goods sold



Quarterly data

	2019	Q4	Q3	Q2	Q1	2018	Q4	Q3	Q2	Q1
Net sales, SEKm	6,493	1,722	1,629	1,583	1,559	6,218	1,646	1,538	1,472	1,562
Operating profit, SEKm	727	209	195	159	164	660	159	180	155	166
Operating profit, adjusted, SEKm	743	216	200	161	166	677	174	194	145	164
Operating profit margin, %	11.2	12.1	12.0	10.0	10.5	10.6	9.7	11.7	10.5	10.6
Operating profit margin, adjusted, %	11.4	12.5	12.3	10.2	10.6	10.9	10.6	12.6	9.9	10.5

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 in which it occurs. In 2019, Easter was in the second quarter and in 2018 in the first 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 –79m (–98). Interest expenses related to external borrowings were SEK –29m (–31), exchange differences on cash and cash equivalents were SEK –19m (–16) which mainly related to the development of the Swedish krona against the euro during the year. Other financial items amounted to SEK –31m (–51). The decrease of the other financial items is for SEK 21m the result of the lower interest expenses related to the contingent earn-out consideration which was settled in the first quarter of 2019. Of the total net financial items, SEK –23m (–73) is non-cash in nature.

Net financial items

SEKm	2019	2018
Exchange differences on cash and cash equivalents in foreign currencies	–19	–16
Other financial income	2	5
Unrealized losses on single currency interest rate swaps	–1	–2
Interest expenses on third-party borrowings and realized losses on single currency interest rate swaps	–29	–31
Interest expenses, third-party pensions	–11	–10
Interest expenses, contingent earn-out liabilities	–4	–25
Other financial expenses	–17	–19
Net financial items	**–79**	**–98**

Profit for the year

Profit for the year was SEK 498m (483). Income tax for the period was SEK –150m (–79). The effective tax rate from continuing operations for the year was 23.1 per cent (14.1). The effective tax rate for 2018 was significantly impacted by the remeasurement of deferred tax balances as a result of changes in the enacted tax rates. Profit for the year equates to basic earnings per share of SEK 1.74 (1.69) and diluted earnings per share of SEK 1.74 (1.68).

Key ratios

%	2019	2018
Gross margin	36.7	36.7
Operating profit margin	11.2	10.6
Operating profit margin, adjusted	11.4	10.9
Return on capital employed	10.0	9.5
Return on equity	11.9	12.2

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–6 /SEK 2m
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 71–74.

Financial position

Consolidated balance sheet

SEKm	31 Dec 2019	31 Dec 2018
ASSETS		
Non-current assets		
Intangible assets	5,684	5,626
Property, plant and equipment	1,559	1,354
Deferred tax asset	9	16
Other financial assets	7	11
Total non-current assets	**7,259**	**7,007**
Current assets		
Inventories	888	765
Trade and other receivables	928	838
Current income tax assets	6	6
Derivative financial instruments	–	1
Cash and cash equivalents	579	551
Total current assets	**2,401**	**2,161**
TOTAL ASSETS	**9,660**	**9,168**
EQUITY AND LIABILITIES		
Equity	**4,197**	**3,968**
Non-current liabilities		
Long-term borrowings	939	2,076
Deferred tax liability	803	754
Derivative financial instruments	3	3
Provisions for pensions and other long-term employee benefits	499	419
Provisions	5	9
Total non-current liabilities	**2,249**	**3,261**
Current liabilities		
Short-term borrowings	1,870	500
Derivative financial instruments	68	61
Trade and other payables	1,227	1,342
Provisions	5	23
Current income tax liabilities	44	13
Total current liabilities	**3,214**	**1,939**
TOTAL EQUITY AND LIABILITIES	**9,660**	**9,168**

Assets

Total assets at 31 December 2019 amounted to SEK 9,660m (9,168), which is an increase of SEK 492m compared to the previous year. The change is for SEK 203m, the result of the application of IFRS 16 'Leases' as of 1 January 2019.

Non-current assets

Intangible assets totalled SEK 5,684m (5,626). The change consists mainly of exchange differences related to intangible assets recognized in foreign subsidiaries of SEK 83m (153). Investments for the year amounted to SEK 19m (23) and amortization amounted to SEK –43m (–46).

Of total intangible assets, 97 per cent (97) or SEK 5,540m (5,460) pertained to goodwill and trademarks at 31 December 2019. Goodwill and trademarks are tested at least yearly for impairment.

Property, plant and equipment amounted to SEK 1,559m (1,354). The initial application of IFRS 16 on 1 January 2019 led to the recognition of right-of-use assets for an amount of SEK 229m. The year's investments amounted to SEK 216m (161). The year's investments in property, plant and equipment referred primarily to continuous efficiency-enhancing and replacement investments in the existing production lines as well as investments in pick & mix fixtures. Depreciation amounted to SEK –258m (–184). Exchange differences related to tangible assets recognized in foreign subsidiaries amounted to SEK 23m (38) during the year.

Current assets

Current assets amounted to SEK 2,401m (2,161). This change is due to a combination of increased inventories of SEK 123m, higher trade receivables of SEK 90m and higher cash and cash equivalents of SEK 28m.

Equity and liabilities

Equity

Consolidated equity at 31 December 2019 amounted to SEK 4,197m (3,968), which equates to SEK 14.5 (13.7) 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 43.4 per cent (43.3).

Liabilities

Non-current liabilities amounted to SEK 2,249m (3,261), which is a decrease of SEK 1,012m compared to the previous year. Long-term borrowings totalled SEK 939m (2,076) and consisted of SEK 800m (2,078) in gross loans from credit institutions, lease liabilities of SEK 140m (0) and SEK –1m (–2) in capitalized transaction costs. The deferred tax liability increased by SEK 49m to SEK 803m. Pension provisions increased by SEK 80m to SEK 499m.

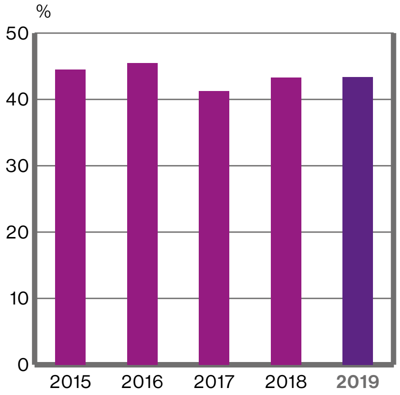
Total short-term borrowings amounted to SEK 1,870m (500) and consisted of gross loans from credit institutions of SEK 1,306m (0), commercial papers of SEK 499m (500), lease liabilities of SEK 64m (0), capitalized transaction costs of SEK –0m (–1) and accrued interest on borrowings from credit institutions of SEK 1m (1). Cloetta has an extension option for the current loans from credit institutions of SEK 1,306m for another two years, until July 2022.

Borrowings

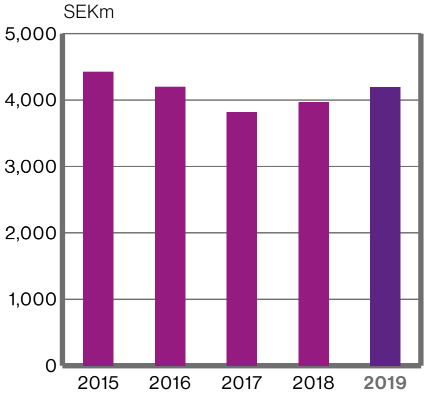
In June 2018, Cloetta entered into an amendment and restatement of the term and revolving facilities agreement with a group of four banks, in combination with the launch of a commercial paper program. The amendments to the term and revolving facilities agreement comprised a EUR 50m reduction (equivalent to SEK 519m) in the multi-currency loan and a SEK 200m reduction in the single-currency term loan.

<< Back to contents

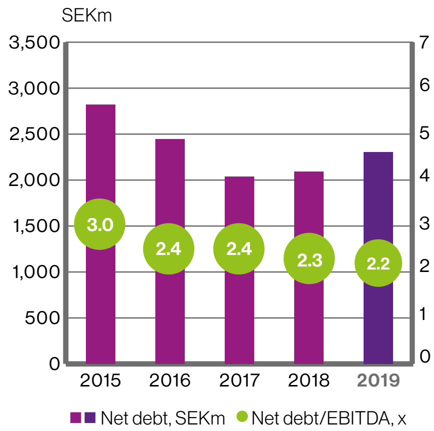
Equity/assets ratio
at 31 December



Equity
at 31 December



Net debt/EBITDA



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 2019 was 0.9 per cent (0.9) for the outstanding loans in SEK and 0.8 per cent (0.8) for the outstanding loans in EUR. Interest on the commercial paper amounted to 0.38 per cent on average (0.22). 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 0.74 per cent (0.86) for the year.

Change in capital employed

Capital employed during the year increased from SEK 7,027m to SEK 7,576m, i.e. an increase of SEK 549m.

Net debt

Interest-bearing liabilities exceeded cash and cash equivalents and other interest-bearing assets by SEK 2,302m (2,091). The net debt increased mainly due to the inclusion of the lease liabilities for an amount of SEK 204m. The net debt/equity ratio on the balance sheet date was 54.8 per cent (52.7).

Net debt

SEKm	31 Dec 2019	31 Dec 2018
Gross non-current loans from credit institutions	800	2,078
Gross current loans from credit institutions	1,306	–
Commercial papers	499	500
Lease liabilities[1]	204	–
Derivative financial instruments (current and non-current)	71	63
Interest payable	1	1
Gross debt	**2,881**	**2,642**
Cash and cash equivalents	–579	–551
Net debt	**2,302**	**2,091**

1) The lease liabilities related to the leased right-of-use assets are included in the gross debt as of 1 January 2019. Comparative figures have not been restated. See Note 29 for indicative key figures excluding the impact of IFRS 16 'Leases'.

Comments on the cash flow statement

Consolidated cash flow statement

SEKm	2019	2018
Cash flow from operating activities before changes in working capital	908	792
Cash flow from changes in working capital	–184	–164
Cash flow from operating activities	**724**	**628**
Investments in property, plant and equipment and intangible assets	–186	–184
Free cash flow	**538**	**444**
Other investing activities		
Acquisition of subsidiaries	–146	–
Disposals of property, plant and equipment	2	0
Cash flow from other investing activities	**–144**	**0**
Cash flow from operating and investing activities	**394**	**444**
Cash flow from financing activities	**–362**	**–665**
Cash flow for the year	**32**	**–221**
Cash and cash equivalents at beginning of year	**551**	**759**
Cash flow for the year	32	–221
Exchange difference	–4	13
Cash and cash equivalents at end of year	**579**	**551**

Free cash flow

The free cash flow was SEK 538m (444). Cash flow from operating activities before changes in working capital was SEK 908m (792). The increase compared to prior year is mainly the result of a higher EBITDA including the impact of SEK 74m related to IFRS 16 'Leases'. The cash flow from changes in working capital was SEK –184m (–164). The cash flow from investments in property, plant and equipment and intangible assets was SEK –186m (–184).

Cash flow from changes in working capital

Cash flow from changes in working capital was SEK –184m (–164). The cash flow from changes in working capital was negatively impacted by the increase in inventories of SEK –113m (–1) and an increase in receivables amounting to SEK –88m (50), which were partly offset by the increase in payables in an amount of SEK 17m (–213).

Cash flow from other investing activities

Cash flow from other investing activities was SEK –144m (0). In the first quarter of 2019 an amount of SEK –146m was related to the settlement of the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries.

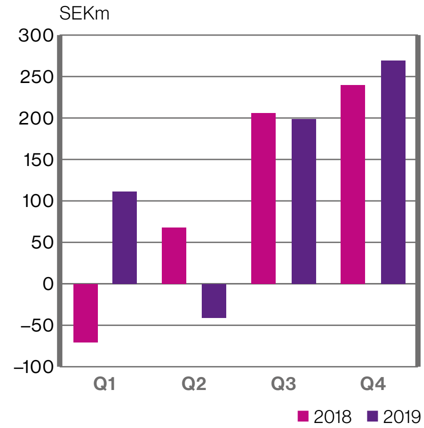
Cash flow from financing activities

Cash flow from financing activities was SEK –362m (–665). The cash flow from financing activities was related to the dividend distribution of SEK -287m (–433), payments of lease liabilities related to IFRS 16 'Leases' of SEK –74m (0) and other cash flow from financing activities of SEK –1m (–232). In 2018 the other cash flow from financing activities mainly related to net repayments on borrowings of SEK –219m as a result of the amendment and extension of the facilities agreement.

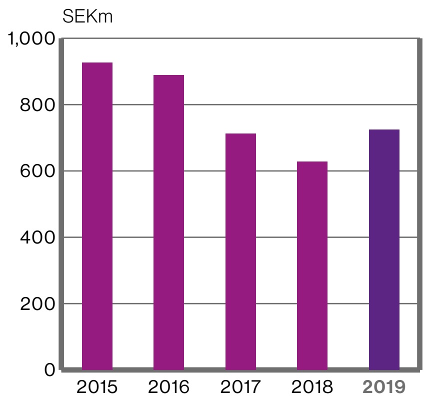
Cash and cash equivalents

The net cash flow was SEK 32m (–221), which together with exchange differences of SEK –4m (13) increased cash and cash equivalents by SEK 28m to SEK 579m, compared to SEK 551m in the previous year. In addition, Cloetta had unutilized overdraft facilities totalling SEK 1,254m (1,227). 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.

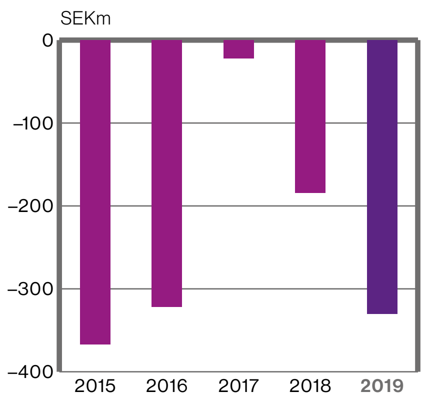
Free cash flow



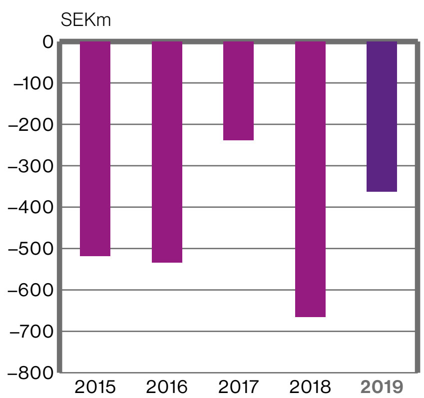
Cash flow from operating activities



Cash flow from investing activities



Cash flow from financing activities



Future outlook

During 2019 Cloetta delivered strong organic growth in branded packaged products as well as pick & mix, whilst improving the operating profit.

Goal attainment

The Group's target is an EBIT margin, adjusted of at least 14 per cent. In 2019, the EBIT margin, adjusted improved to 11.4 per cent (10.9). The improvement was driven by sales growth and cost efficiencies, partly offset by increased marketing investments. 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 2019, Cloetta's organic growth was 2.3 per cent. Sales of branded packaged products grew by 2.3 per cent and pick & mix sales increased by 2.3 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 2019 the net debt/EBITDA ratio was 2.2x (2.3).

Profitable growth

The strategy and financial targets for Cloetta stand firm. The focus in 2020 will be on growing the branded packaged business, bringing sustainable value to pick & mix as well as reducing costs and driving efficiencies across the organization. The Board proposes an ordinary dividend of SEK 1.00 per share (1.00), corresponding to around 58 per cent (60) of profit for the year. 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 for the year remains unchanged.

Financial outlook

As in earlier years, Cloetta is not issuing any financial forecast for 2020.

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 2019, 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 14–16, 48–49 and 150–152.

Sustainability report

Pursuant to the Swedish Annual Accounts Act, chapter 6, paragraph 11, Cloetta AB (publ) has chosen to prepare its statutory sustainability report as a separate report from the annual report. The sustainability report can be found on pages 6–11 (business model), 15–16, 73 (risks and risk management) and 5, 14–16, 41–42, 48–49, 56–57, 150–152 (material sustainability matters, governance and performance indicators).

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 oversee the company's risk management. Risk assessment associated with business development and long-term strategic planning is prepared 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 disrupt operations are essential to monitor and minimize. This takes place through business intelligence and dialogue with various stakeholders, among 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 26, on pages 122–124.

Pages 84 and 85 contain a description of the internal control processes and risk assessment aimed at preventing misstatements in the financial reporting.

Management of risks in the workplace environment is described on page 41.

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 managed both strategically through business and product development, and operationally through daily 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 experience lower profitability, which leads to price pressure.	Historically, the confectionery market has been relatively mildly affected by market downturns in consumption. This is particularly true for 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 may 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 retain 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, may 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 must therefore conduct effective marketing. Cloetta endeavors 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 retail trade, enable it 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 2019 Cloetta's ten largest customers accounted for around 46 (46) per cent of the Group's total sales. Cloetta is working actively with retailers regarding 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 maintain sales in the checkout area.
Consumer trends **Health** **Social responsibility**	Changes in consumer behavior give rise to both opportunities and risks. Health trends and the debate on health, weight and sugar may 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 all over 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 any 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 colorants 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 markets 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 2019, 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 takes a proactive approach by adhering to a Code of Conduct, ethical guidelines and routines.
Social conditions in the supply chain	Cloetta uses several raw materials that originate from regions or countries with an increased risk of human rights violations and corrupt behavior. Further, political instability in places where raw materials are produced can have a negative impact on availability and costs.	Cloetta's Code of Conduct is part of all supplier agreements. Cloetta assesses the raw materials and prioritizes involvement with suppliers and organizations for certain materials based on climate, social and human rights related 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. 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 was started in 2019 and will be concluded in 2020. During 2018 Cloetta changed to sustainable and traceable shea butter.
Environmental and climate related risks	There is a risk that climate change will impact Cloetta. This may involve transition risks such as changing rules and taxation, as well as physical risks. Physical risks include changes that are both long-term and urgent in nature, for example extreme weather conditions and natural catastrophes that could impact Cloetta's access to raw materials and disrupt business operations directly or indirectly.	Cloetta is managing climate-related transition risks by monitoring business operations and adapting them to changing rules and other circumstances. Cloetta contributes to resilient raw material production through the company's program and certification for prioritized raw materials. This encompasses support to raw material producers for developing farming methods and for new plantation. Cloetta manages the environmental and climate impact of its business operations through systematic work within the scope of the company's environmental management system.
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. These types of deficiencies in the handling of food products can lead to lower trust 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 collated in special policies. Plans for information or product recalls in the event of deficiencies have been prepared.
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 program for property and liability risks, and works systematically to limit the risk of incidents and to have robust contingency plans in place to limit the effects of any incidents.
Relocation of manufacturing lines	To optimize efficiency, Cloetta continuously monitors capacity utilization in manufacturing. Moving manufacturing 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 a negative impact on its performance.	Cloetta endeavors to continue to be an attractive employer. Employee development and follow-up plans, together with market-based and competitive compensation, enable Cloetta to recruit and retain employees. Cloetta has a strong and experienced organization that is well equipped to handle organizational changes.

<< Back to contents

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 finance 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 unfavorable 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 reducing the cost of measures such as currency hedging. Financial risk management is described in detail in Note 26, 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 reporting 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 (50) higher/lower. The Group hedges parts of its translation exposure through borrowing in EUR.
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 2019 Cloetta met its financial target related to a net debt/EBITDA ratio of 2.5x. Through the term and revolving facilities agreement with four banks and the commercial program, Cloetta has a favourable situation for accessing financing, for example for potential acquisitions.
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 2019, 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 6m (5) 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 2m (1) 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 also because distribution takes place primarily through the major grocery retail chains. 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 annually or when there is an indication that such testing may be necessary. Read more in Note 11, Intangible assets on page 108–109 and Note 30, Critical accounting estimates and judgements on page 129.

Letter from the Chairman

In 2019, Cloetta showed positive development on most fronts. Clarified focus areas and new ways of working have contributed to strong growth in both branded packaged products and pick & mix, whilst improving the operating profit.

Corporate governance creates systematic order

The Board's foremost responsibility to Cloetta's shareholders is to ensure that the company is managed as effectively as possible, and also that Cloetta complies with the laws and regulations required by legislators, regulatory authorities and the stock exchange. Corporate governance is aimed at creating order and systems for both the Board and Group Management. By having a clear structure, with well-defined rules and processes, we can also ensure that management and employees focus on developing the business and strengthening the company.

The work of the Board

During the year, the Board has worked together with the CEO and the Group Management Team to follow up and develop the focus areas that are aimed at improving growth and profitability. Greater attention has also been given to how to drive the business in a more sustainable way.

Through targeted efforts and investments in core markets and core categories, emphasis has been on growing the branded packaged business. With an EBIT margin, adjusted of above 14 per cent, growth within this category is important for Cloetta to reach its profitability target.

Following the acquisition of Candyking in 2017, pick & mix now represents a significant part of Cloetta's sales, but profitability in the Swedish business has not yet reached the desired level. Consequently, the Board has turned its attention to improvements that the company is working on within pick & mix to bring adequate profitability to the business.

Initiatives to reduce costs as well as to drive efficiencies across the organization constitute the third focus area. An example of this is the Value Improvement Program Plus.

In 2019, the Board endorsed a revised Code of Conduct, which together with the Group policies are key pillars of the organization. The purpose of the Code of Conduct is to ensure that Cloetta employees and business partners have a clear understanding of the principles and ethical values that Cloetta upholds. With the Code of Conduct and our other Group policies, we strengthen our corporate culture to ensure that we act consistently and with high ethical standards in all the markets where we operate.

More and new shareholders

During 2019 Cloetta gained 1,000 new shareholders and by the end of the year we had almost 25,000 owners of company shares. This means that the number of shareholders increased for the eighth consecutive year. 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 well positioned for the future

In the past year, Cloetta showed positive development on most fronts. Clarified focus areas and new ways of working have contributed to strong growth in both branded packaged products and pick & mix. For the fourth year running we have met our net debt/EBITDA target. In combination with improved profitability and a healthy cash flow, this enables us to propose a dividend in line with our dividend policy of SEK 1.00 (1.00) per share for 2019.

I have now had the privilege of serving as Board Chairman of Cloetta for four years. It has been interesting and exciting to work, on behalf of all Cloetta shareholders, on increasing the value of the company.

With Cloetta well positioned for the future, it is now the right time to place the responsibility for the company into new hands at the forthcoming Annual General Meeting. I am convinced that my proposed successor Mikael Norman, with his comprehensive expertise and deep knowledge of the company, will prove to be an excellent Chairman of Cloetta's Board of Directors.

I would like to express my heartfelt gratitude to the CEO, Group Management and employees for their many excellent contributions in 2019. I would also like to thank my colleagues on the Board of Directors for their dedication and hard work during the year.

I wish Cloetta, all its shareholders, business partners, employees, and last but not least the Board of Directors and the entire management team all the best and continuing success for the future.

Stockholm, March 2020

Lilian Fossum Biner
Chairman of the Board

“In the past year, Cloetta showed positive development on most fronts.”

Corporate Governance Statement

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, clear rules and processes allow the Board to ensure that the Group Management Team and employees focus on developing the business and 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 Nasdaq Stockholm, Mid Cap. 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 2019 Cloetta complied with the Code, with no deviations.

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. At 31 December 2019, the number of shares 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 corresponds to ten votes, although all shares carry equal entitlement to the company's assets and profits. The number of shareholders at 31 December 2019 was 24,910 (compared to 23,956 at 31 December 2018). On 31 December 2019, AB Malfors Promotor was Cloetta's largest shareholder, with a holding corresponding to 38.2 per cent of the votes and 27.2 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 58–61.

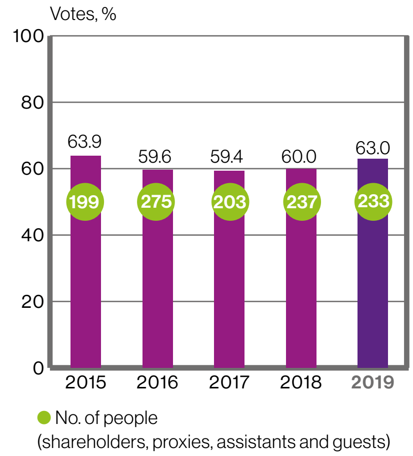
2 General meeting of shareholders

The general meeting of shareholders is Cloetta's highest decision-making body. At the general meeting, all shareholders have the opportunity to influence the company by exercizing 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.

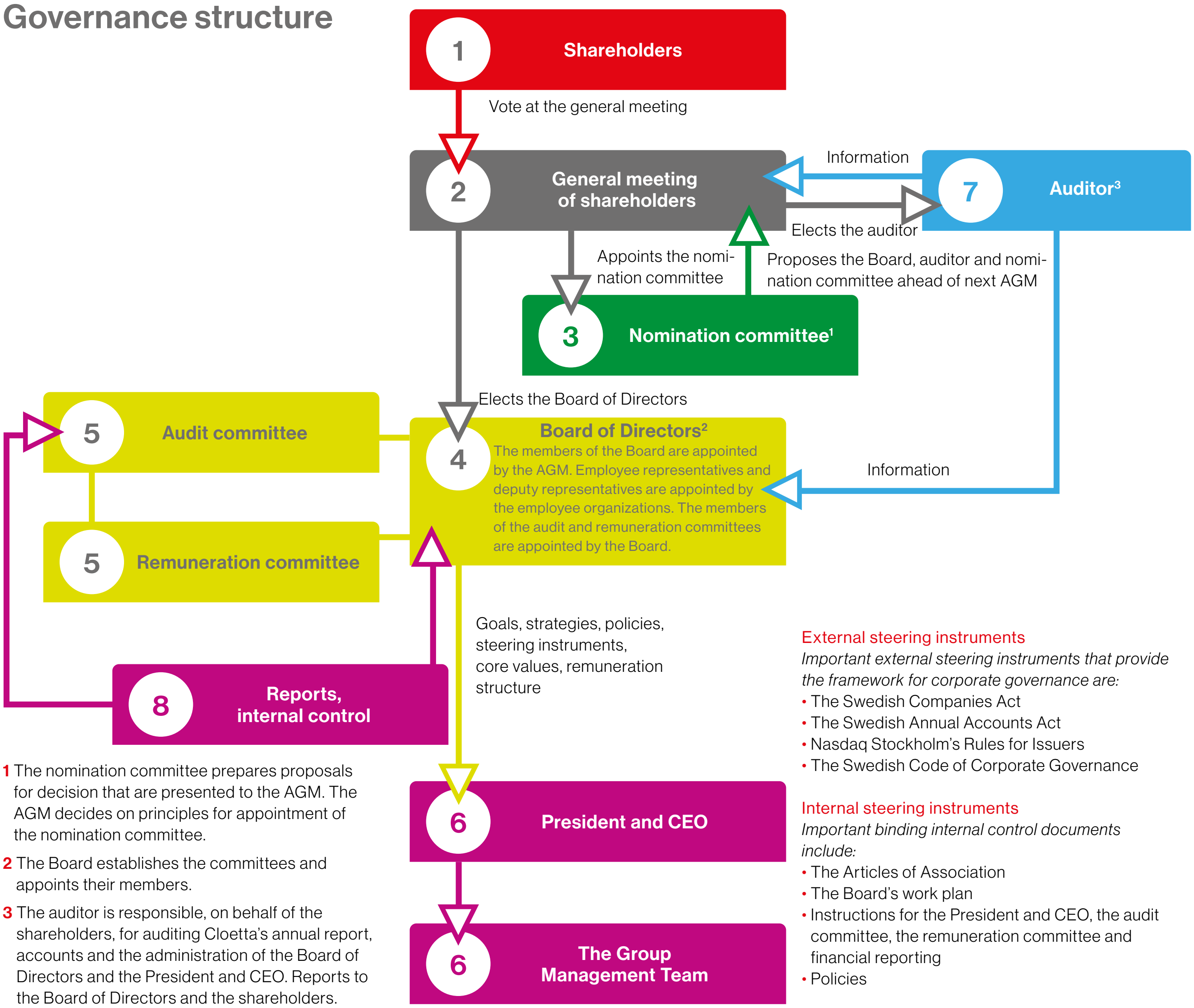
The Annual General Meeting (AGM) must be held within a period of six months after the end of the financial year. The date and location of the AGM must be communicated on the company's website no later than in conjunction with the publication of the third quarter report. Notice of the AGM must be given 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, confirmation 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 addressed 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, paragraph 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 addressed at the meeting and the financial situation of the company and the Group.

Attendance at General Meetings of the Shareholders



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 establishes 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

2019 Annual General Meeting

The most recent AGM was held on 4 April 2019 in Stockholm. The AGM was attended by 233 individuals representing 63 per cent of the votes in the company. The CEO, 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 1.0 per share, corresponding to SEK 288,619,299;
- Discharge of liability of the board members and the Managing Director;
- 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 Alan McLean Raleigh. Patrick Bergander was voted in as a new Board member. The AGM elected Lilian Fossum Biner as the Chairman of the Board. Former Board member Mikael Norman 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 685,000 for the Board Chairman and SEK 315,000 for each of the other Board members elected by the General Meeting of Shareholders. 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;
- The AGM decided to appoint the registered public accounting firm Öhrlings PricewaterhouseCoopers AB ("PwC") as the auditor for the period until the next AGM. PwC will appoint Sofia Götmar-Blomstedt as the Lead Audit Partner.
- 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.

2020 Annual General Meeting

The 2020 AGM will be held on Thursday, 2 April 2020, at 3pm at Stockholm Waterfront Congress Centre, Nils Ericsons Plan (level) 4, in Stockholm. The Notice of the Annual General Meeting was published in February 2020 and contained the Board's proposals. For more information, please refer to the section "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 Chairman of the Board, 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 Chairman of the Board 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 notification of the AGM and on 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.

Meetings of the nomination committee

The nomination committee held three meetings ahead of the 2020 AGM. No fees have been paid for work on the nomination committee.

4 Board of Directors

The 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 responsibility 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 4 April 2019 resolved that the Board shall have seven members appointed by the AGM. On 4 April 2019, the AGM elected the following Board members to serve for the period until the end of the next AGM, to be held on 2 April 2020: Lilian Fossum Biner (Chairman), Lottie Knutson, Patrick Bergander, 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 54 at year-end 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 86 and 87 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 should be aimed 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 Chairman of the Board, the President and CEO and the auditor, quorum, conflict of interest, the work of the committees, internal and external reporting, routines for notification of general meetings, Board meetings and minutes. In addition the Board issued and adopted a Code of Conduct (new and approved in November 2019) and policies for corporate Communications and IR,

Nomination committee ahead of the 2020 AGM

Members	Appointed by	Independent[1]	Share of votes at 31 Dec. 2019, %
Olof Svenfelt, Chairman	AB Malfors Promotor	Yes/No	37.8
Isabelle De Gavoty	Axa IM	Yes/Yes	1.5
Johan Törnqvist	Ulla Håkanson	Yes/Yes	1.5
Lilian Fossum Biner	The Board of Cloetta AB	Yes/Yes	0

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

Finance, HR, Insiders, Insurance, Internal Control, IT security, Mergers and Acquisitions, Fraud and Whistleblowing, Trade Sanctions, 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 sanction policy

Evaluation of Board performance

The performance of the Board is evaluated annually in order to continuously improve the Board's working methods and efficiency. The Chairman of the Board is responsible for carrying out the evaluation and presenting the results to the nomination committee. The intention of the evaluation is to gather the Board members' views on the Board's performance, 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 2019, 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.

Governance and organization for sustainability work

The overall strategies for Cloetta's sustainability 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 sustainability matters lies with Cloetta's President and CEO.

Cloetta's sustainability work is overseen by the Director Sustainability Affairs, who acts as a spokesperson for environmental and social issues and is responsible for identifying prioritized areas, acting as the stakeholders' link to the management team and supporting the implementation of Cloetta's sustainability agenda.

Environmental and occupational health and safety managers are in place at all of the factories.

Board meetings

In 2019 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

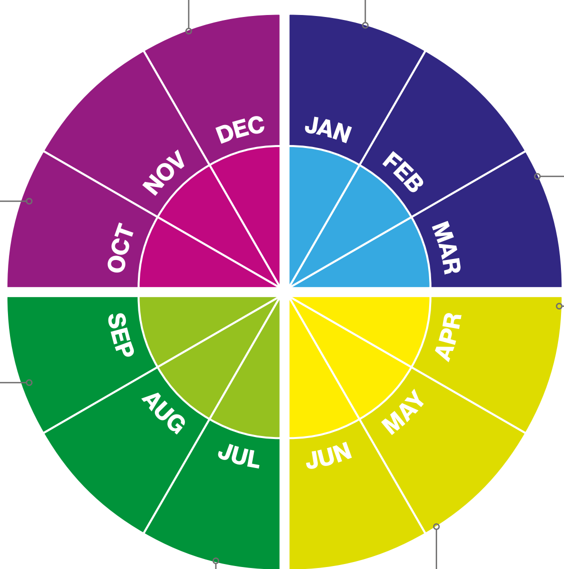
Audit committee

In 2019 the Board audit committee consisted of members Patrick Bergander (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

Board meetings in 2019

JANUARY
Scheduled meeting; Cloetta Q4 and full-year results, Independent Audit Report from Audit Partner, Sustainability Review, Annual Report timetable and Annual General Meeting preparation

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



MARCH
Scheduled meeting; Annual Report 2018 and report from the Remuneration Committee.

OCTOBER
Scheduled meeting; Cloetta Q3 report Talent and succession planning, Approval Code of Conduct, Feedback from the Remuneration Committee and Audit Committee

APRIL
Scheduled meeting; Statutory meeting, Composition of the Board, Resolution on signatory powers, Instructions and policies, Resolution regarding Remuneration Committee and Audit Committee, Information regarding remuneration of the Board of Directors, Appointment of Board representative to the Nomination Committee and Timetable for Board of Directors Meeting.

Scheduled meeting; Cloetta Q1, Pick & Mix review Value Improvement Program Plus presentation, M&A Strategy.

SEPTEMBER
Scheduled meeting; Business strategies, Marketing and innovation, Pick & Mix Strategy, Capex and restructuring plan.

JULY
Scheduled meeting; Cloetta Q2, Report from Audit Committee.

MAY
Scheduled meeting; Manufacturing review and factory tour in Ljungsbro.

committee, without affecting the other tasks and responsibilities of the Board, shall 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 must be documented. The audit committee shall inform the Board about the matters dealt with by the committee. In 2019 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 three 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 and other terms of employment for the Group Management Team, to monitor and evaluate programs for variable remuneration completed during the year and ongoing programs 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 2019 the committee held four meetings.

Board Chairman

The Board Chairman shall be elected by the general meeting of shareholders, and on 4 April 2019 the AGM re-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 to make decisions 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. Over and above the President and CEO, on 31 December 2019 the Group Management Team consisted of the five regional presidents, the President Operations (which includes purchasing and manufacturing), the Chief Pick & Mix Officer and the three Heads of the Group functions Finance/IT, Marketing and HR.

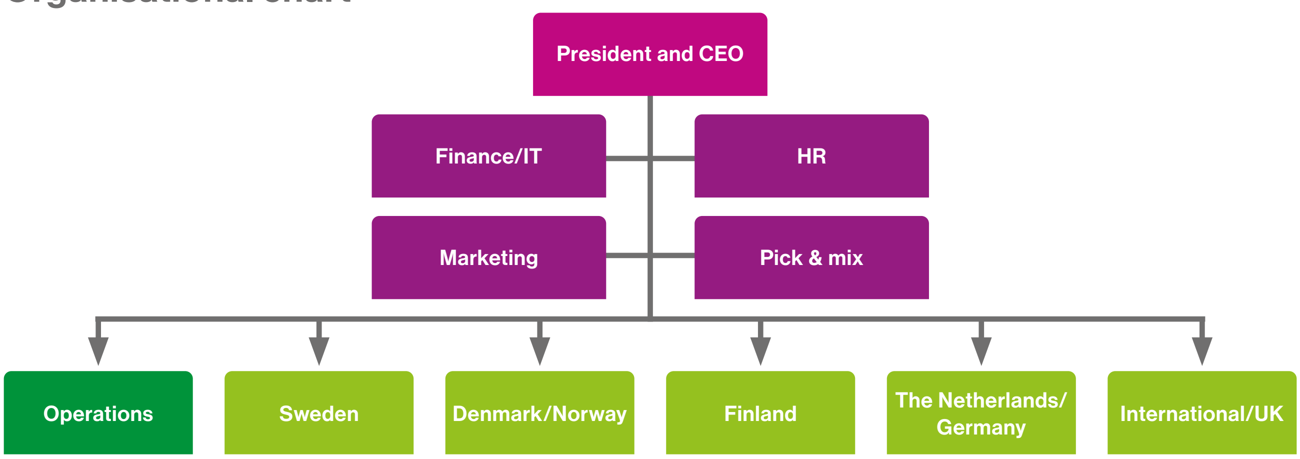
The Senior Vice-President of Communications and IR resigned on 1 September 2019, thereafter the position is no longer part of the Group Management Team and instead reports to the CFO. For information about the President and CEO and other members of the Group Management Team, see pages 88 and 89.

The Group Management Team holds regular management meetings and held twelve meetings in 2019. The meetings are focused on the Group's strategic and operational development and financial performance.

7 Auditor

The auditor is elected by the AGM to examine 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. At the AGM on 4 April 2019, the registered public accounting firm Öhrlings PricewaterhouseCoopers AB ("PwC") was appointed as the auditor for the company for the period until the next AGM. The authorised public accountant Sofia Götmar-Blomstedt was appointed as the new Lead Audit Partner.

Organisational chart



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, are prepared in accordance with the legal requirements, applicable 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 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. The audit committee also oversees the Group's financial reports and significant accounting matters, as well as matters related to internal control, compliance, material uncertainty in reported values, events after the balance sheet date, changes in estimates and judgements and other circumstances 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 financial year, a profit statement, balance sheet and investment budget are prepared 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

Cloetta ranked in 3rd place for Best Group website amongst Sweden's 116 largest listed companies in Comprend's Web ranking survey.

During autumn 2019, Cloetta was voted as "Best IR & website" (cloetta.com) in a competition organised by Kanton, aimed at promoting exemplary financial communication amongst listed companies. The competition consists of three sub-competitions in which annual reports, interim reports and the company IR websites are assessed for all companies with a primary listing on Nasdaq Stockholm.

Cloetta's Annual report 2018 is one of six companies globally that rank the highest according to e.com-ReportWatch.

Additional information

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

Press releases 2019

January
- Management changes at Cloetta
- Cloetta AB's Q4 interim report October – December 2018

February
- Proposal by the Nomination Committee regarding the Board of Directors of Cloetta AB
- Notification of Cloetta AB (publ) Annual General Meeting

March
- Management changes at Cloetta
- Cloetta's 2018 Annual report published on the website
- Cloetta Capital Markets day 2019

April
- Highlights: Cloetta AB (publ) Annual General Meeting 4 April 2019
- Cloetta AB's Q1 interim report January – March 2019

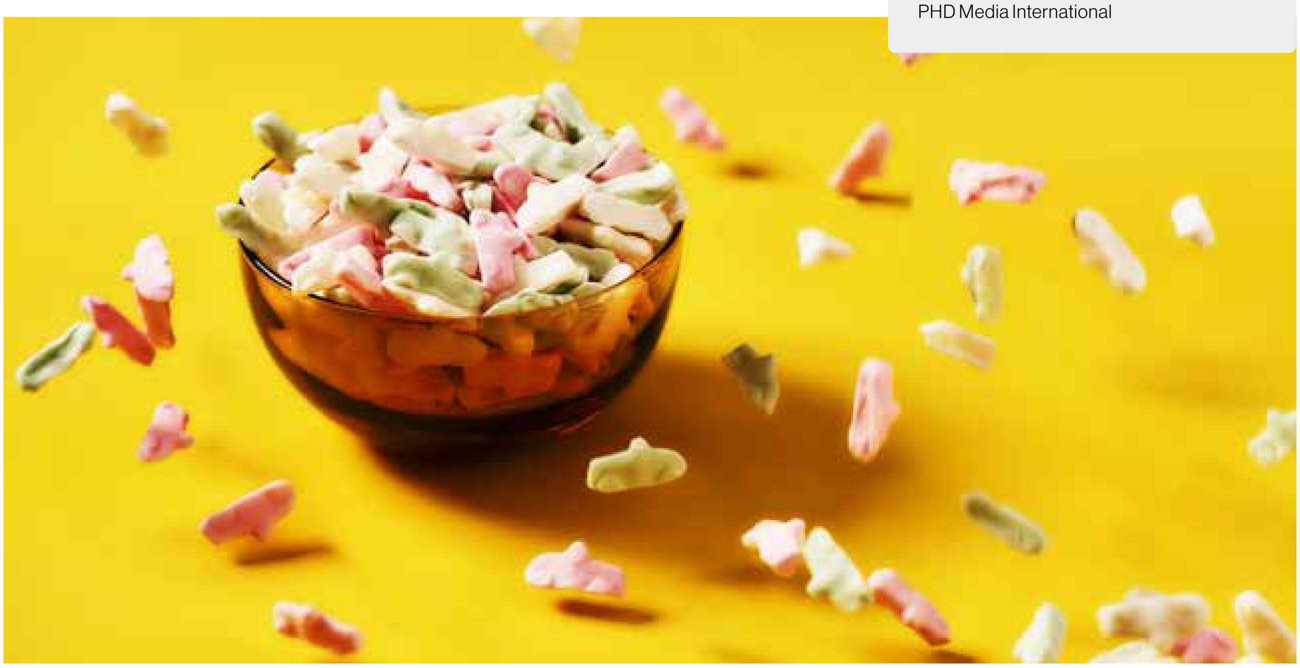
May
- Management changes at Cloetta

July
- Cloetta AB's Q2 interim report April – June 2019

September
- Election nomination committee appointed ahead of the Cloetta AB (publ) 2020 Annual General Meeting
- Cloetta increases its global marketing investments

October
- Cloetta AB's Q3 interim report July – September 2019
- Nathalie Redmo appointed as Head of Investor Relations and Communications for Cloetta

December
- A new global media agreement signed with PHD Media International



Remuneration of the Group Management Team

Guidelines for remuneration of Group Management Team

The current guidelines for remuneration of the Group Management Team were adopted by the AGM on 4 April 2019. 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, share-based long-term variable compensation, pension benefits, termination benefits and other benefits.*

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 program. Short-term variable compensation is based on personal targets linked to Cloetta's Strategy and two operating targets:

- Net sales growth
- Operating profit

The short-term variable compensation structure for 2018 and 2019 is as follows:

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

Share-based long-term variable compensation

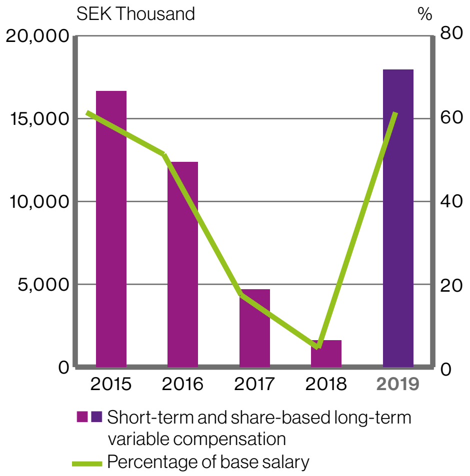
Share-based long-term variable compensation consists of the share-based long-term incentive plans, which are resolved on yearly by the AGM. It is aimed at increasing value for the Group's shareholders by promoting and upholding the senior management's commitment to the Group's development, and thereby aligning the interests of the group management team and other key employees with those of the shareholders 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 margin, adjusted.

Pension benefits

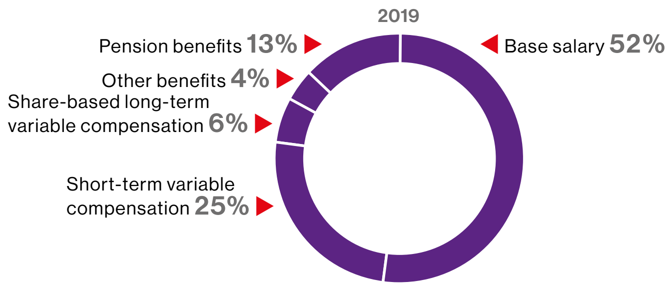
Pension benefits vary depending on the agreements and practices in the country where the individual is employed. Defined contribution plans are strived for, which means that pension benefits most often consist of defined contribution plans for which annual premiums are paid as a percentage of pension-qualifying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

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

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



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



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.

Other benefits

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

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 2019

In 2019, the total remuneration of the Group Management Team including the President and CEO amounted to SEK 56,808 thousand (50,399) including pension benefits, and SEK 49,670 thousand (42,527) excluding pension benefits.

Share-based long-term incentive plan for senior executives

On 4 April 2019, the Annual General Meeting approved the Board's proposal for a share-based long-term incentive plan. 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 62 and Notes 23, 27 and 28 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 2019 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 2019 AGM, the remuneration committee has met on five occasions. The full principles for remuneration of the group management team in 2020 will be presented ahead of the AGM on 2 April. The suggested principles for 2020 will not deviate in any material aspect from those applied in 2019.

Remuneration cost incurred for the Group Management

2019 SEK Thousand	Base salary	Short-term variable compensation incurred in the year, expected to be paid out in the next year	Provision for share-based long-term variable compensation	Other benefits	Subtotal	Pension costs	Total
Henri de Sauvage-Nolting, President and CEO	4,660	3,658	388	96	8,802	1,398	10,200
Other group management team[1]	24,703	10,687	3,214	2,264	40,868	5,740	46,608
Total	**29,363**	**14,345**	**3,602**	**2,360**	**49,670**	**7,138**	**56,808**
of which, Parent Company	***12,203***	***7,170***	***973***	***1,081***	***21,427***	***3,535***	***24,962***

2018 SEK Thousand	Base salary	Short-term variable compensation incurred in the year, expected to be paid out in the next year[3]	Provision for share-based long-term variable compensation[3]	Other benefits	Subtotal	Pension costs	Total
Henri de Sauvage-Nolting, President and CEO	4,541	263	1,182	102	6,089	1,362	7,451
Other group management team[2]	27,490	1,815	–1,648	7,012	34,669	6,510	41,179
Total	**32,031**	**2,079**	**–466**	**7,114**	**40,758**	**7,872**	**48,630**
of which, Parent Company	***11,210***	***478***	***–1,141***	***1,214***	***11,760***	***3,052***	***14,813***

1) Other Group Management Team comprised 12 persons for the period 1 January 2019 up to 31 March 2019, 13 persons for the period 1 April 2019 to 30 April 2019 and 12 persons for the period 30 April 2019 to 31 August 2019. As from 1 September 2019 the other Group Management Team consisted of 11 persons.
2) Other Group Management Team comprised 11 persons for the period 1 January 2018 up to 28 February 2018, 12 persons for the period 1 March 2018 up to 15 July 2018, 11 persons for the period 16 July 2018 up to 14 August 2018, 10 persons for the period 15 August 2018 up to 11 November 2018. From 12 November 2018 the other Group Management Team consisted of 11 persons.
3) 2018 numbers have been updated. This is in line with how the numbers are reflected in the balance sheet and profit and loss account.

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 behavior, amongst others, which are reflected in:

- Performing our business with integrity and ethical values. Cloetta's Code of Conduct, fraud and whistleblower 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 71–74. 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	Controls	Processing and consolidation	Reporting
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.	The Group's reporting system contains embedded controls. In addition, the central finance team carries out analytical controls as well as controls of completeness and reasonability.	Any corrections are implemented in dialogue with the affected parties. Reconciliation occurs.	Reporting of operational and financial information to the Board of Directors and the Group Management Team.

Quarterly

Audit committee	External reporting
The auditor attends every quarterly meeting. Possible actions are carried out in respect of the audit report.	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 centrally. 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 internal audit activities, external resources are used.

Board of Directors

Lilian Fossum Biner

Position: Chairman of the Board
Member of the Remuneration Committee
Elected: 2016
Year of birth: 1962
Nationality: Swedish
Education: M.Sc. Stockholm School of Economics, Sweden.
Other assignments: Board member of Carlsberg AS, Scania AB, 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: Member of the Board
Member of the Audit Committee
Elected: 2017
Year of birth: 1953
Nationality: Swedish
Education: B.Sc. Business Administration, Linköping University, Sweden.
Other assignments: Board Chairman of AB Axel Granlund. Board member of AB Stenströms Skjortfabrik, Dr Per Håkanssons Foundation and Gorthon Foundation.
Previous assignments: CEO of Procordia Food Sverige, as well as executive positions at Kraft Foods and Nestlé.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 3,855 class B shares
Related parties: –

Patrick Bergander

Position: Member of the Board
Chairman of the Audit Committee
Elected: 2019
Year of birth: 1971
Nationality: Swedish
Education: B.Sc. Business and Economics, Stockholm University.
Other assignments: –
Previous assignments: CEO and former CFO RSA Scandinavia (Codan/Trygg-Hansa). Several positions at Electrolux, as CFO Asia Pacific and Head of Group Business Control. CFO Business area private at If Skadeförsäkring and consultant and auditor at Arthur Andersen.
Independence:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 4,180 class B shares
Related parties: –

Lottie Knutson

Position: Member of the Board
Member of the Remuneration Committee
Elected: 2015
Year of birth: 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 and Swedavia.
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: Member of the Board
Elected: 2018
Year of birth: 1959
Nationality: British
Education: B.Sc. (Hons) Production Engineering and Production Management, University of Strathclyde, Scotland.
Other assignments: Trustee on the Board of the Chartered Institute of Procurement and Supply (CIPS), 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: 7,887
Related parties: –

Camilla Svenfelt

Position: Member of the Board
Member of the Audit Committee
Elected: 2016
Year of birth: 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. Accounting supervisor 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 471,485 class B shares
Related parties: 55,095 class B shares

Mikael Svenfelt

Position: Member of the Board
Chairman of the Remuneration Committee
Elected: 2008
Year of birth: 1966
Nationality: Swedish
Education: Marketing and Business Economics, Tibbleskolan and Law studies, Folkuniversitetet.
Other assignments: CEO and Board member of AB Malfors Promotor, board member of Bröderna Börjessons Bil AB.
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 72,822,973 class B shares.

Lena Grönedal

Position: Deputy employee board member, LIVS
Elected: 2008
Year of birth: 1962
Nationality: Swedish
Position at Cloetta: Factory Operative, Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Mikael Ström

Position: Employee board member, PTK Ledarna
Elected: 2016
Year of birth: 1961
Nationality: Swedish
Position at Cloetta: Factory Operative, Cloetta Sverige AB
Shareholding: Direct: 32,243 class B shares.
Related parties: –

Shahram Nikpour Badr

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

Christina Lönnborn

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

Composition of the Board

				Fees[2]			Attendance[4]		
Elected by the AGM[1]	Nationality	Year elected	Year of birth	Board fees	Committee fees	Independence[3]	Board meetings	Audit committee	Remuneration committee
Chairman									
Lilian Fossum Biner	Swedish	2016	1962	685,000	100,000	Yes/Yes	9/9		5/5
Members									
Camilla Svenfelt	Swedish	2016	1981	315,000	100,000	Yes/No	9/9	5/5	
Mikael Aru	Swedish	2017	1953	315,000	100,000	Yes/Yes	9/9	5/5	
Lottie Knutson	Swedish	2015	1964	315,000	100,000	Yes/Yes	9/9		5/5
Patrick Bergander	Swedish	2019	1971	315,000	150,000	Yes/Yes	9/9	5/5	
Alan McLean Raleigh	British	2018	1959	315,000	–	Yes/Yes	9/9		
Mikael Svenfelt	Swedish	2008	1966	315,000	150,000	Yes/No	9/9		5/5

1) Education and other assignments are shown on pages 86–87.
2) The fees refer to set amounts during the period from the AGM on 4 April 2019 until the AGM on 2 April 2020. Board fees shall be paid in an amount of SEK 685,000 (previously 620,000) to the Board Chairman and SEK 315,000 (previously 285,000) to each other member elected by the AGM. Fees for work on the Board committees were set at SEK 100,000 for each member of the audit committee (unchanged), SEK 150,000 for the Chairman of the audit committee (unchanged), SEK 100,000 for each member of the remuneration committee (unchanged) and SEK 150,000 for the Chairman of the remuneration committee (unchanged); For further details, see Note 6.
3) Independent in relation to the company and its Group Management Team/the largest shareholder.
4) Attendance refers to meetings during the period from the statutory meeting following the AGM on 4 April 2019 until the publication of this annual report on 12 March 2020.

Shareholding stated as at 31 December 2019

Group Management Team

Henri de Sauvage-Nolting

Position: President and CEO since 2017
Employed by Cloetta since 2017.

Year of birth: 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 manufacturing at Unilever in the Nordics, the Netherlands, UK and China. Last position at Unilever was as CEO of the Nordics.

Shareholding: Direct: 73,797 class B shares
Related parties: –

Frans Rydén

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

Year of birth: 1972

Nationality: Swedish

Education: BSc. Business Administration, Stockholm University, Master of Laws, Stockholm University.

Other assignments: –

Previous positions: Various 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. Vice President Finance at Arla Foods.

Shareholding: Direct: 78,288 class B shares
Related parties: –

Regina Ekström

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

Year of birth: 1963

Nationality: Swedish

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

Other assignments: –

Previous positions: SVP Human Resources and Communications 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: 40,495 class B shares
Related parties: –

Thomas Biesterfeldt

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

Year of birth: 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), previously Marketing and Group product manager at L´Oreal Paris in Germany and Sweden.

Shareholding: Direct: 12,542 class B shares
Related parties: –

Ewald Frenay

Position: President Cloetta Middle Region since 2012
Employed by LEAF since 2000.

Year of birth: 1963

Nationality: Dutch

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

Other assignments: –

Previous positions: Interim President Cloetta Italy and Export Markets 2016–2017. Various positions at Leaf 2000–2012 including President Middle at Leaf and Chief Marketing Officer. Member of Leaf Executive Committee, 2008–2012. 2005–2007 Vice President Segment Confectionery, 2004 –2005, Marketing Director of RBV Leaf the Netherlands 2000 –2004. Several marketing and sales positions at Mars Inc. 1989–1999.

Shareholding: Direct: 29,677 class B shares
Related parties: –

Michiel Havermans

Position: Senior Vice President Cloetta International since 2018.
Employed by Cloetta since 1 March 2018.

Year of birth: 1973

Nationality: Dutch

Education: MSc 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: 11,919 class B shares
Related parties: –

Marcel Mensink

Position: President Operations (COO) since 2017
Employed by Cloetta since 2017.
Year of birth: 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: 38,544 class B shares
Related parties: –

Christian Boas Linde

Position: President Cloetta Denmark and Norway since 2018
Employed by Cloetta since 2013.
Year of birth: 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 positions: Head of Mars Denmark A/S, 2008–2013, several commercial positions at PepsiCo, 2002–2008, HJ Heinz UK, 1999–2002, and Arla Foods, 1993–1996.
Shareholding: Direct: 7,138 class B shares
Related parties: –

Ville Perho

Position: President Cloetta Finland since 2015.
Employed by LEAF since 2004.
Year of birth: 1979
Nationality: Finnish
Education: M.Sc. Turku School of Economics, Finland.
Other assignments: Co-owner and Board member of Varastoaura Oy. Co-owner and Board member of PLH Invest Oy.
Previous positions: Sales Director Cloetta Finland 2010–2015, Category Development Manager LEAF 2004–2010, Global Account Manager Lidl at LEAF.
Shareholding: Direct: 31,902 class B shares
Related parties: –

Katarina Tell

Position: President Cloetta Sweden, since 2018.
Employed by Cloetta since 28 May 2018.
Year of birth: 1970
Nationality: Swedish
Education: Bachelor Marketing and Administration, Lund University, Masters in Food Nutrition, Umeå University.
Other assignments: Board member of DLF, Dagligvaruleverantörernas Förbund.
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: 20,816 class B shares
Related parties: –

Niklas Truedsson

Position: Chief Pick & mix Officer since 2019.
Employed by Cloetta since 30 April 2019.
Year of birth: 1972
Nationality: Swedish
Education: M.Sc. Business Administration and Economics, Lund University, Sweden.
Other assignments: –
Previous positions: Different roles at Unilever within Marketing, Sales and different managerial roles in the Nordics and Asia, for example General Manager Unilever Sweden and Sales and Customer Director. CEO Risenta, part of the Paulig Group.
Shareholding: Direct: 6,932 class B shares
Related parties: –

Shareholding stated as at 31 December 2019

Financial reports

Contents

Group financial statements and notes

Consolidated profit and loss account

SEKm	Note	2019	2018
Net sales	2, 7	6,493	6,218
Cost of goods sold	3, 4, 5, 7	–4,112	–3,934
Gross profit		**2,381**	**2,284**
Other income	2, 7	–	4
Selling expenses	3, 4, 5, 7	–1,011	–1,025
General and administrative expenses	3, 4, 5, 7	–643	–603
Operating profit		**727**	**660**
Exchange differences on cash and cash equivalents in foreign currencies	8	–19	–16
Other financial income	8	2	5
Other financial expenses	8	–62	–87
Net financial items		**–79**	**–98**
Profit before tax		648	562
Income tax	9	–150	–79
Profit for the year		**498**	**483**
Profit for the year attributable to:			
Owners of the Parent Company		498	483
Earnings per share, SEK			
Basic[1]	19	1.74	1.69
Diluted[1]	19	1.74	1.68
Number of shares at end of period	19	288,619,299	288,619,299
Average number of shares (basic)[1]	19	286,578,395	286,492,413
Average number of shares (diluted)[1]	19	286,724,049	286,650,070

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 21 presents the movements in the contracts after 1 January 2018. The outstanding contracts as at the reporting date consist of one contract for 2,080,883 shares at a share price of SEK 31.2385.

Consolidated statement of comprehensive income

SEKm	2019	2018
Profit for the year	**498**	**483**
Other comprehensive income		
Remeasurements of defined benefit pension plans	–80	–41
Income tax on remeasurement of defined benefit pension plans	17	9
Items that will never be reclassified to profit or loss for the period	**–63**	**–32**
Currency translation differences	103	176
Hedge of a net investment in a foreign operation	–24	–58
Income tax on hedge of a net investment in a foreign operation	5	12
Items that are or may be reclassified to profit or loss for the period	**84**	**130**
Total other comprehensive income	**21**	**98**
Total comprehensive income, net of tax	**519**	**581**
Total comprehensive income for the period attributable to:		
Owners of the Parent Company	519	581

Consolidated balance sheet

SEKm	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets	11	5,684	5,626
Property, plant and equipment[1]	12	1,559	1,354
Deferred tax asset	13	9	16
Other financial assets	14	7	11
Total non-current assets		**7,259**	**7,007**
Current assets			
Inventories	15	888	765
Trade and other receivables	16	928	838
Current income tax assets	13	6	6
Derivative financial instruments	21	–	1
Cash and cash equivalents	17	579	551
Total current assets		**2,401**	**2,161**
Total assets		**9,660**	**9,168**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	1,443	1,443
Other paid-in capital	18	4,124	4,124
Translation difference reserve	18	733	630
Retained earnings including profit for the year	18	–2,103	–2,229
Equity attributable to owners of the Parent Company		**4,197**	**3,968**
Non-current liabilities			
Long-term borrowings[1]	20	939	2,076
Deferred tax liability	13	803	754
Derivative financial instruments	21	3	3
Provisions for pensions and other long-term employee benefits	23	499	419
Provisions	24	5	9
Total non-current liabilities		**2,249**	**3,261**
Current liabilities			
Short-term borrowings[1]	20	1,870	500
Derivative financial instruments	21	68	61
Trade and other payables	22, 25	1,227	1,342
Provisions	24	5	23
Current income tax liabilities	13	44	13
Total current liabilities		**3,214**	**1,939**
Total equity and liabilities		**9,660**	**9,168**

1) As of 1 January 2019, the right-of-use assets and the corresponding lease liabilities are included in the property, plant and equipment and long-term and short-term borrowings respectively. Comparative figures have not been restated.

<< Back to contents

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 2018	**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**
Comprehensive income					
Profit for the year	–	–	–	498	498
Other comprehensive income	–	–	103	–82	21
Total comprehensive income for 2019	**–**	**–**	**103**	**416**	**519**
Transactions with owners					
Forward contracts to repurchase own shares	–	–	–	–6	–6
Share-based payments	–	–	–	3	3
Dividend[1]	–	–	–	–287	–287
Total transactions with owners	**–**	**–**	**–**	**–290**	**–290**
Balance at 31 December 2019	**1,443**	**4,124**	**733**	**–2,103**	**4,197**

1) The dividend paid in 2019 comprised an ordinary dividend of SEK 1.00 per share. The dividend paid in 2018 comprised an ordinary dividend of SEK 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	2019	2018
Operating profit		**727**	**660**
Adjustments for non-cash items			
Amortization/depreciation of assets	3	301	230
Impairment of assets	3	2	–
Provisions for pensions		–10	–8
Other provisions and contingent earn-out considerations		–23	2
Interest received		2	1
Interest paid		–34	–36
Proceeds on derivative financial instruments		–4	–4
Income tax paid		–53	–53
Cash flow from operating activities before changes in working capital		**908**	**792**
Cash flow from changes in working capital			
Change in inventories		–113	–1
Change in trade and other receivables		–88	50
Change in trade and other payables		17	–213
Cash flow from operating activities		**724**	**628**
Investing activities			
Acquisition of subsidiaries	22	–146	–
Investments in property, plant and equipment	12	–167	–161
Investments in intangible assets	11	–19	–23
Disposals of property, plant and equipment		2	0
Cash flow from investing activities		**–330**	**–184**
Cash flow from operating and investing activities		**394**	**444**
Financing activities			
Proceeds from loans	20	–	163
Proceeds from commercial papers	20	1,557	999
Transaction costs paid	20	–	–4
Repayment of loans	20	–	–879
Repayment of commercial papers	20	–1,558	–500
Payment of lease liabilities	20	–74	–
Dividends paid		–287	–433
Other cash flow from financing activities		0	–11
Cash flow from financing activities		**–362**	**–665**
Cash flow for the year		**32**	**–221**
Cash and cash equivalents at beginning of year	17	551	759
Cash flow for the year		32	–221
Exchange difference		–4	13
Cash and cash equivalents at end of year	17	**579**	**551**

<< Back to contents

Notes to the consolidated financial statements

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 2019 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 10 March 2020. The profit and loss accounts and balance sheets of the Group and the Parent Company will be put before the Annual General Meeting on 2 April 2020 for adoption.

Disclosures regarding changes in group structure

Mergers

- 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.
- On 23 December 2019 E Out Instrument AB was merged into Cloetta Sverige AB.

Incorporations

On 10 February 2020 Cloetta Middle East DMCC was incorporated. See Note P8 for more information.

Liquidations and dissolutions

- On 8 February 2017 FTF Sweets USA Inc. was dissolved. The three-year unwinding period ended on 8 February 2020.
- On 13 February 2020 Candyking Poland Sp. z o.o. was liquidated.

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 2019. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied.

Guidelines on Alternative Performance Measures

In accordance with the ESMA (European Securities and Markets Authority) guidelines on Alternative Performance Measures (APMs), 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 30 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 confectionery and nuts, 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 confectionery and nuts 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 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 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.

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 cash and cash equivalents are presented in the profit and loss account within exchange differences on cash and cash equivalents in foreign currencies.

The Group applies hedge accounting for foreign exchange gains and losses that relate to borrowings. These foreign exchange gains and losses are presented in the statement of comprehensive income, see Note 1. XVII.

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 31, 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	Research and development expenses
VIII	Net financial items
IX	Income tax
X	Dividend distribution
XI	Items affecting comparability
XII	Intangible assets
XIII	Property, plant and equipment
XIV	Deferred tax
XV	Financial assets
XVI	Impairment of non-current non-financial assets
XVII	Derivative financial instruments and hedging activities
XVIII	Inventories
XIX	Current income tax
XX	Cash and cash equivalents
XXI	Offsetting financial instruments
XXII	Equity
XXIII	Other non-current liabilities
XXIV	Provisions
XXV	Employee benefits
XXVI	Borrowings
XXVII	Borrowing costs
XXVIII	Trade payables
XXIX	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 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;
- Utilization of fixtures;
- Merchandising services.

For the performance obligations utilization of fixtures and merchan-

Note 1
Note 2
Note 3
Note 4
Note 5
Note 6
Note 7
Note 8
Note 9
Note 10
Note 11
Note 12
Note 13
Note 14
Note 15
Note 16
Note 17
Note 18
Note 19
Note 20
Note 21
Note 22
Note 23
Note 24
Note 25
Note 26
Note 27
Note 28
Note 29
Note 30
Note 31
Note 32

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

dising services – which are satisfied over time – Cloetta selected an appropriate method for measuring Cloetta's progress towards complete satisfaction of those performance obligations. For utilization of fixtures and 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.

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

Other income consists of gains on disposal of assets. 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 software. 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 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.

VIII 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 value.

IX 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.

X 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.

<< Back to contents

XI 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.

XII Intangible assets
The estimated economic useful lives of intangible assets are specified as follows:

Trademarks	Indefinite
Goodwill	Indefinite
Software	3–5 years
Other intangibles	5 years - indefinite

Note 1
Note 2
Note 3
Note 4
Note 5
Note 6
Note 7
Note 8
Note 9
Note 10
Note 11
Note 12
Note 13
Note 14
Note 15
Note 16
Note 17
Note 18
Note 19
Note 20
Note 21
Note 22
Note 23
Note 24
Note 25
Note 26
Note 27
Note 28
Note 29
Note 30
Note 31
Note 32

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.

Other intangible assets

Other intangible assets, except the right of free electricity, are capitalized at historical cost and amortized based on their useful lives, with the useful lives reviewed annually. Other intangible assets are subject to impairment testing at least annually, or whenever events or circumstances indicate a risk of impairment.

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.

For determining whether an impairment charge in respect of any intangible asset applies, see Note 11.

XIII 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 are 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 disposals are determined by comparing the proceeds from the 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 the 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.

XIV 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 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 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.

XV Financial assets

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized 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.

On initial recognition, a financial asset is classified as measured at either:

- Amortized 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 amortized 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 recognized financial assets, that are not derivatives, consist mainly of trade receivables and cash and 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 recognized at amortized cost.

The Group does not presently own any financial assets recognized at FVOCI – neither debt nor equity investments. All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets, see Note 21.

Subsequent measurement and gains and losses

– 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 21 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

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 and cash equivalents. These amounts are invested in banks with high credit ratings and ECLs are deemed to be negligible.

XVI 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. See Note 1.XII for impairment testing on goodwill.

XVII 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.

The fair values of various derivative financial instruments are disclosed in Note 21. 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.

Net investment hedge

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.

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 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 disposals 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.

XVIII 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.

XIX 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.

XX 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.

XXI 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.

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.

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

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 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 Leases

Policy applicable from 1 January 2019

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases". It results 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. Lease payments for short-term and low-value leases are recognized in the cost of goods sold, selling expenses and in the general and administrative expenses, depending on the nature of the lease, on a straight-line basis over the lease term.

The standard is mandatory for financial years commencing on or after 1 January 2019. The standard affects the accounting for the Group's operating leases. Cloetta decided to opt for the modified retrospective transition approach in which the right-of-use asset equals the lease liability per the transition date. For the calculation of the lease liability at 1 January 2019 the discount rates as at 1 January 2019 were used.

The Group recognizes a right-of-use asset and a lease liability at the commencement date of a lease contract. The right-of-use asset is initially measured at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs, and is subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines the incremental borrowing rate using a build-up approach that starts with a risk-free interest rate, adjusted for inflation, country risk premium, security and lease specific adjustments for different asset categories and lease terms. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Policy applicable before 1 January 2019

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.

See Notes 29 and 31 for further information on the transition from IAS 17 to IFRS 16 as per 1 January 2019.

Note 2 Breakdown of income

See Notes 1 (I) and (III) for the accounting policy.

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	2019	2018
Net sales		
Packaged business	4,709	4,499
Pick & mix	1,784	1,719
Total	**6,493**	**6,218**

The breakdown of net sales by category is as follows:

	Total income		Of which pick & mix	
SEKm	**2019**	**2018**	**2019**	**2018**
Net sales				
Sales of goods				
Candy	3,839	3,623	1,339	1,277
Chocolate	1,123	1,098	370	361
Pastilles	780	748	–	–
Chewing gum	410	403	–	–
Nuts	224	231	75	81
Other	117	115	–	–
Total	**6,493**	**6,218**	**1,784**	**1,719**
Other income				
Other	–	4	–	–
Total	**6,493**	**6,222**	**1,784**	**1,719**

Note 1
Note 2
Note 3
Note 4
Note 5
Note 6
Note 7
Note 8
Note 9
Note 10
Note 11
Note 12
Note 13
Note 14
Note 15
Note 16
Note 17
Note 18
Note 19
Note 20
Note 21
Note 22
Note 23
Note 24
Note 25
Note 26
Note 27
Note 28
Note 29
Note 30
Note 31
Note 32

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

The breakdown of net sales by country is as follows:

%	2019	2018
Sweden	31	31
Finland	21	21
The Netherlands	14	14
Denmark	10	9
UK	7	7
Germany	6	5
Norway	5	6
Other countries	6	7
Total	**100**	**100**

No individual customer accounts for more than 10 per cent of Cloetta's total net sales.

Note 3 Amortization of intangible assets, depreciation of property, plant and equipment and impairments of non-current assets

See Notes 1 (II), (IV), (V), (XII), (XIII) and (XVI) for the accounting policy.

SEKm	2019	2018
Software	32	34
Other intangibles	11	12
Land and buildings	17	16
Machinery and equipment	165	168
Right-of-use assets	76	–
Total amortization/depreciation	**301**	**230**
Amortization/depreciation has been allocated by function as follows:		
Cost of goods sold	187	136
Selling expenses	11	12
General and administrative expenses	103	82
Total amortization/depreciation	**301**	**230**
Impairment		
Intangible assets	2	–
Total impairment	**2**	**–**
Depreciation charge right-of-use assets by asset category:		
Land and buildings	34	–
Transport	31	–
Other equipment	11	–
Total depreciation charge right-of-use asset	**76**	**–**

The impairment losses on intangible assets have been charged to cost of goods sold.

Note 4 Expenses by type

See Notes 1 (II), (IV), (V), (VI) and (VII) for the accounting policy.

SEKm	2019	2018
Raw materials and consumables used including change in inventory of finished goods and work in progress	2,539	2,680
Personnel expenses (See Note 5)	1,440	1,331
Depreciation, amortization and impairment charges (See Note 3)	303	230
Transportation expenses	236	200
Lease payments	22	88
Advertising, promotion, selling and marketing expenses	407	397
Energy expenses	127	110
Maintenance expenses	133	113
Other operating expenses	559	413
Total operating expenses	**5,766**	**5,562**

The costs recognized relating to research and development amount to SEK 35m (22).

Note 5 Personnel expenses and number of employees

See Note 1 (VI) for the accounting policy.

Personnel expenses are specified as follows:

SEKm	2019	2018
Salaries and remuneration Group Management Team		
– Sweden	28	22
– Other	22	21
Of which, short-term variable compensation		
– Sweden	9	1
– Other	5	1
Pension costs Group Management Team		
– Defined contribution plans	7	8
Total salaries, remuneration and pension costs Group Management Team	**57**	**51**
Salaries and remuneration, other employees		
– Sweden	305	277
– Other	683	611
Pension costs, other employees		
– Defined contribution plans	65	67
– Defined benefit plans	7	8
Total salaries, remuneration and pension costs, other employees	**1,060**	**963**
Total salaries, remuneration and pension costs, all employees	1,117	1,014
Social security expenses, all employees	255	230
Other personnel costs, all employees	68	87
Total personnel expenses	**1,440**	**1,331**

The average number of employees is as follows:

Average number of employees	2019	2018
– Group Management Team	12	12
– Other employees	2,617	2,446
Of whom, women		
– Group Management Team	2	2
– Other employees	1,431	1,317

The average number of employees by country is as follows:

Average number of employees	2019	2018
Sweden	715	614
Slovakia	757	736
The Netherlands	474	423
Finland	220	193
UK	121	127
Belgium	111	119
Denmark	99	92
Ireland	74	76
Norway	40	59
Germany	10	9
Italy	4	7
Other	4	3
Total	**2,629**	**2,458**
Of whom, women:		
Sweden	388	323
Slovakia	495	489
The Netherlands	158	133
Finland	181	154
UK	83	85
Belgium	20	23
Denmark	51	45
Ireland	27	28
Norway	21	28
Germany	5	4
Italy	2	4
Other	2	3
Total	**1,433**	**1,319**

The specification of the gender distribution is as follows:

%	2019	2018
Percentage of women		
Board of Directors	43	43
Group Management Team	17	13
Other employees	55	54

See pages 82–83 for further details on remuneration of the Group Management Team.

Note 1
Note 2
Note 3
Note 4
Note 5
Note 6
Note 7
Note 8
Note 9
Note 10
Note 11
Note 12
Note 13
Note 14
Note 15
Note 16
Note 17
Note 18
Note 19
Note 20
Note 21
Note 22
Note 23
Note 24
Note 25
Note 26
Note 27
Note 28
Note 29
Note 30
Note 31
Note 32

Note 6 Remuneration of the Board

Paid fees 2019 SEK 000s	Board fees	Commit-tee fees	Total
Board Chairman			
Lilian Fossum Biner	663	100	763
Board members			
Mikael Aru	305	100	405
Patrick Bergander[1]	210	100	310
Lottie Knutson	305	100	405
Alan McLean Raleigh	305	–	305
Mikael Norman[2]	95	50	145
Camilla Svenfelt	305	100	405
Mikael Svenfelt	305	150	455
Total	**2,493**	**700**	**3,193**

Paid fees 2018 SEK 000s	Board fees	Commit-tee 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[3]	190	–	190
Mikael Norman	285	133	418
Adriaan Nühn[4]	95	–	95
Camilla Svenfelt	285	100	385
Mikael Svenfelt	285	133	418
Total	**2,330**	**633**	**2,963**

1) Elected as per 4 April 2019.
2) Resigned on 4 April 2019.
3) Elected as per 16 April 2018.
4) Resigned on 16 April 2018.

Note 7 Items affecting comparability

See Note 1 (XI) for the accounting policy.

SEKm	2019	2018
Acquisitions, integration and restructurings	–13	–38
Remeasurements of contingent considerations	–	21
Other items affecting comparability	–3	0
Total	**–16**	**–17**
Corresponding line in the consolidated profit and loss account:		
Net sales	–	0
Cost of goods sold	2	3
Other income	–	4
Selling expenses	–6	–1
General and administrative expenses	–12	–23
Total	**–16**	**–17**

See pages 148–149 for alternative performance measures.

Note 8 Net financial items

See Note 1 (VIII) and (XVII) for the accounting policy.

SEKm	2019	2018
Exchange differences in cash and cash equivalents in foreign currencies	**–19**	**–16**
Other financial income, third parties	2	5
Other financial income at amortized cost	**2**	**5**
Unrealized gains on single currency interest rate swaps	0	–
Other financial income at fair value	**0**	**–**
Total other financial income	**2**	**5**
Interest expenses, third-party borrowings	–24	–27
Interest expenses, third-party pensions	–11	–10
Interest expenses, contingent earn-out liabilities	–4	–25
Amortization of capitalised transaction costs	–1	–8
Other financial expenses, third parties	–16	–11
Other financial expenses at amortized cost	**–56**	**–81**
Unrealized losses on single currency interest rate swaps	–1	–2
Realized losses on single currency interest rate swaps	–5	–4
Other financial expenses at fair value	**–6**	**–6**
Total other financial expenses	**–62**	**–87**
Net financial items	**–79**	**–98**

Note 9 Income taxes

See Note 1 (IX) for the accounting policy.

SEKm	2019	2018
Current income tax	85	33
Deferred income tax	65	46
Total	**150**	**79**
The year's income tax expense corresponds to an effective tax rate of, %	23.1	14.1

The difference between the effective tax rate and the applicable tax rate in Sweden is attributable to the following items:

SEKm	2019	2018
Profit before tax	648	562
Tax calculated at applicable tax rate for the Parent Company	–139	–124
International rate differences	–4	–1
State and local taxes	0	–
Expenses not deductible for tax purposes	–10	–14
Adjustments recognized in the period for tax of prior periods	5	9
Effect of (substantially) enacted tax rate changes	–3	57
Tax losses for which no deferred income tax asset is recognized in the current year	–	–
Tax losses for which no deferred income tax asset was recognized in previous years	3	–12
Other	–2	6
Income tax	**–150**	**–79**
Reported effective tax rate, %	23.1	14.1
Tax rate of Parent Company, %	21.4	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 Audit fees[1]

SEKm	2019 PwC	2018 KPMG
Fee for auditing services	**6**	**5**
Fee for other services		
– Tax advice	0	0
– Audit-related advice	0	0
– Other	0	1
Total other services	**0**	**1**
Total audit fees	**6**	**6**

1) Until 2018 KPMG was elected as group auditor. As of 2019 PwC has been elected as group auditor.

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.

Note 11 Intangible assets

See Notes 1 (XII) and (XVI) for the accounting policy.

SEKm	Trademarks	Goodwill	Software	Other intangibles	Total
1 January 2018					
Acquisition or production costs	3,098	2,484	276	184	6,042
Accumulated amortization and impairments	–53	–223	–206	–70	–552
Book value at 1 January 2018	**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**
Movements in 2019					
Additions	–	–	19	–	19
Amortization	–	–	–32	–11	–43
Impairments	–	–	–	–2	–2
Transfers from property, plant and equipment	–	–	1	–	1
Exchange differences	33	47	2	1	83
Total	**33**	**47**	**–10**	**–12**	**58**
31 December 2019					
Acquisition or production costs	3,198	2,638	315	136	6,287
Accumulated amortization and impairments	–58	–238	–262	–45	–603
Book value at 31 December 2019	**3,140**	**2,400**	**53**	**91**	**5,684**
Estimated economic useful life	*Indefinite*	*Indefinite*	*3–5 years*	*5 years – indefinite*	

The carrying amount of software includes an amount of SEK 10m (10) 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 than 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.

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

For impairment testing, the following assumptions have been used

	Terminal growth rate		Pre-tax discount rate	
%	2019	2018	2019	2018
Scandinavia/ Sweden	2.5	2.0	6.0	6.7
Finland	2.5	2.0	8.0	6.9
Middle/ The Netherlands	2.5	2.0	7.6	6.9
Group	2.5	2.0	5.5	6.8

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 following summary specifies the allocation of goodwill to the different groups of cash-generating units

SEKm	Scandinavia	Finland	Middle	Total
1 January 2018	**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**
Exchange rate differences	6	24	17	47
31 December 2019	**985**	**1,071**	**344**	**2,400**

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 following summary specifies the allocation of trademarks to the different cash-generating units

SEKm	Sweden	Finland	The Netherlands	Other (corporate assets)	Total
1 January 2018	**1,545**	**509**	**930**	**61**	**3,045**
Exchange rate differences	–	21	39	2	62
31 December 2018	**1,545**	**530**	**969**	**63**	**3,107**
Exchange rate differences	–	11	21	1	33
31 December 2019	**1,545**	**541**	**990**	**64**	**3,140**

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

An impairment analysis has been performed in which the carrying amount of a CGU or group of CGUs is compared with the total recoverable amount. No impairments have been recorded in the financial years 2018 and 2019.

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 12 Property, plant and equipment

See Notes 1 (XIII) and (XVI) for the accounting policy.

SEKm	Land and buildings	Machinery and equipment	Assets under construction	Right-of-use assets	Total
1 January 2018					
Acquisition or production costs	754	3,426	27	–	4,207
Accumulated depreciation and impairments	–337	–2,532	–	–	–2,869
Book value at 1 January 2018	**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**
Movements in 2019					
Initial application of IFRS 16 on 1 January 2019	–	–	–	229	229
Additions	–	26	141	49	216
Disposals	–	–1	–1	–1	–3
Early terminations right-of-use assets	–	–	–	–1	–1
Transfers	8	95	–103	–	–
Depreciation	–	–1	–	–	–1
Impairments	–17	–165	–	–76	–258
Exchange differences	8	12	0	3	23
Total	**–1**	**–34**	**37**	**203**	**205**
31 December 2019					
Acquisition or production costs	813	3,751	80	266	4,910
Accumulated depreciation and impairments	–390	–2,898	–	–63	–3,351
Book value at 31 December 2019	**423**	**853**	**80**	**203**	**1,559**
Estimated economic useful life	*Buildings: 20–50 years Land: Indefinite*	*3–55 years*	*N/A*	*1–12 years*	

At 31 December 2019, the Group had contractual commitments for purchases of machinery and equipment for an amount of SEK 37m (30).

Right-of-use assets are broken down as follows:

SEKm	31 Dec 2019
Land and buildings	113
Transport	56
Other equipment	34
Total	**203**

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 2019	31 Dec 2018
Sweden	2,998	2,757
Finland	1,642	1,603
The Netherlands	1,658	1,567
Other countries	945	1,053
Total	**7,243**	**6,980**

Note 13 Tax assets and liabilities

See Notes 1 (IX) and (XIV) 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	Property plant & equipment	Intangible assets	Provisions (incl. pensions)	Other assets and liabilities	Total
1 January 2018	**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**
Initial adoption of IFRS 16	–	–50	–	–	50	–
1 January 2019	**44**	**–153**	**–601**	**41**	**–69**	**–738**
Profit and loss account (charge)/credit for the year	–17	11	–13	–3	–20	–42
Adjustments recognized in the period for tax of prior periods	–5	–1	0	0	0	–6
Effect of rate changes	–2	–1	–10	0	0	–13
Exchange differences/ Other	1	–2	–8	17	–3	5
31 December 2019	**21**	**–146**	**–632**	**55**	**–92**	**–794**

Deferred tax assets and liabilities are broken down as follows:

SEKm	31 Dec 2019	31 Dec 2018
Deferred tax assets	9	16
Deferred tax liabilities	–803	–754
Total	**–794**	**–738**

Deferred tax assets are expected to be realized as follows:

SEKm	31 Dec 2019	31 Dec 2018
Deferred tax asset to be realized after more than 12 months	8	14
Deferred tax asset to be realized within 12 months	1	2
Total	**9**	**16**

The composition of deferred tax assets for deductible temporary differences and tax losses carried forward is as follows:

	31 Dec 2019		31 Dec 2018	
SEKm	Recognized	Not recognized	Recognized	Not recognized
Deductible temporary differences	115	–	107	–
Tax losses carried forward	21	28	45	51
Total	**136**	**28**	**152**	**51**

In the countries where Cloetta has tax losses carried forward these may be carried forward indefinitely.

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 2019	31 Dec 2018
Deferred tax liability to be recovered after more than 12 months	793	760
Deferred tax liability to be recovered within 12 months	10	–6
Total	**803**	**754**

Current income tax

SEKm	31 Dec 2019	31 Dec 2018
Current income tax assets	6	6
Current income tax liabilities	–44	–13
Total	**–38**	**–7**

See also Note 30 for further details regarding accounting estimates and judgments in respect of the ongoing tax audits.

Note 14 Non-current financial assets

See Notes 1 (XV) and (XVI) for the accounting policy.

SEKm	31 Dec 2019	31 Dec 2018
Deposits	2	1
Funded pension schemes in a net asset position	–	2
Other financial assets	5	8
Total	**7**	**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 23 for further details on the funded pension schemes in a net asset position.

Note 15 Inventories

See Note 1 (XVIII) for the accounting policy.

Inventories for own use and resale

SEKm	31 Dec 2019	31 Dec 2018
Raw materials and consumables	282	250
Work in progress	69	58
Finished goods and goods for resale	537	457
Total	**888**	**765**

Movements in the provision for obsolete inventory are as follows:

SEKm	2019	2018
At 1 January	20	12
Provision for impairment of inventories	–1	6
Inventories written off during the year as obsolete	–	–2
Unused amounts reversed	–1	–3
Acquisitions through business combinations	–	6
Exchange differences	1	1
At 31 December	**19**	**20**

Note 16 Trade and other receivables

See Notes 1 (XV) for the accounting policy.

SEKm	31 Dec 2019	31 Dec 2018
Trade debtors	826	746
Loss allowances for trade receivables	–3	–1
Trade receivables – net	**823**	**745**
Other receivables	47	47
Prepaid expenses and accrued income	58	46
Total	**928**	**838**

Movements in the loss allowance for trade receivables are as follows:

SEKm	2019	2018
At 1 January	1	2
Provision for impairment of trade receivables	3	1
Trade receivables written off during the year as uncollectible	0	–1
Unused amounts reversed	–	0
Exchange differences	–1	–1
At 31 December	**3**	**1**

Cloetta Denmark ApS entered into a receivable purchase agreement with Skandinaviska Enskilda Banken for one Danish customer. As a result per year-end, Cloetta Denmark ApS received an amount of DKK 0m (5), equivalent to SEK 0m (6) in advance before the due date. Cloetta Denmark ApS 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.

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

The age analysis of the trade receivables including loss allowances is as follows:

	31 Dec 2019			31 Dec 2018		
SEKm	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	Gross carrying amount	Loss allowance	Net carrying amount
Current (not past due)	694	–	694	614	–	614
Up to 60 days past due	105	–	105	117	0	117
60 to 90 days past due	6	–	6	6	0	6
Over 90 days past due	21	–3	18	9	–1	8
Total	**826**	**–3**	**823**	**746**	**–1**	**745**

The other receivables and prepaid expenses and accrued income do not contain impaired assets.

As of 31 December 2019, trade receivables of SEK 132m (132) 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 2019**	31 Dec 2018
Euro	287	275
Swedish krona	266	251
Danish krone	132	121
Great Britain pound	91	68
Norwegian krone	30	18
US dollar	5	3
Other currencies	12	9
Total	**823**	**745**

The breakdown of prepaid expenses and accrued income is as follows:

SEKm	**31 Dec 2019**	31 Dec 2018
Prepaid IT expenses	10	9
Prepaid rent, insurance and lease charges	8	9
Prepaid personnel-related expenses	3	2
Prepaid marketing expenses	1	1
Prepayments on inventory	5	7
Prepaid deposits	5	3
Other prepaid expenses	20	8
Other accrued income	6	7
Total	**58**	**46**

Note 17 Cash and cash equivalents

See Notes 1 (XX) and (XXI) 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 2019**	31 Dec 2018
Cash and cash equivalents	579	551
Total	**579**	**551**

All cash and cash equivalents are available on demand.

The multicurrency functionality with credit facility for global cash pool (Global Cash Pool agreement) with Nordea Bank AB (publ) was applicable to the Group as of the date of the acquisition of Candyking Holding AB and its subsidiaries. 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). In conjunction with the inclusion of nearly all group companies in the MZBCP in 2019, the Global Cash Pool agreement with Nordea Bank AB (publ) was terminated on 13 November 2019.

The Global Cash Pool agreement, the NGA and the MZBCP (together "Cash Pools") 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 Cash Pools 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 Cash Pools, and any amounts available for this purpose pursuant to any credit facility and/or intraday revolving facility agreed upon separately. The Cash Pools 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:

2019 SEKm	Gross amounts of financial instruments	Negative cash balances in cash pools offset by positive cash balances	Net amount presented in the balance sheet	Related financial instruments that are not offset: Cash balances outside cash pools	Related financial instruments that are not offset: Other loans from credit institutions	Net amount
Cash and cash equivalents	3,229	–2,693	536	43	–	579
Total assets	**3,229**	**–2,693**	**536**	**43**	**–**	**579**
Loans from credit institutions	2,693	–2,693	–	–	2,106	2,106
Total liabilities	**2,693**	**–2,693**	**–**	**–**	**2,106**	**2,106**

2018 SEKm	Gross amounts of financial instruments	Negative cash balances in cash pools offset by positive cash balances	Net amount presented in the balance sheet	Related financial instruments that are not offset: Cash balances outside cash pools	Related financial instruments that are not offset: Other loans from credit institutions	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**

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

Note 18 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 2019 and 2018, 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 net debt/EBITDA ratio (leverage). This ratio is calculated as net debt divided by EBITDA, adjusted for items affecting comparability. The Group has defined a long-term leverage target of 2.5x. The net debt/EBITDA ratio at 31 December 2019 was 2.2x (2.3).

Dividend per share

The Annual General Meeting (AGM) approved the following dividend on 4 April 2019 and 16 April 2018

	2019	2018
Ordinary dividend per share, SEK	1.00	0.75
Special dividend per share, SEK	–	0.75
Total dividend, SEKm	289	433
Ordinary dividend as a percentage of profit for the previous year, excluding the impact of impairment loss	60	53
Payment date	April 2019	April 2018

After the reporting date, the following dividend was proposed by the Board of Directors. The dividend has not been recognized as a liability in the balance sheet

SEKm	2019	2018
Dividend per share, SEK	1.00	1.00
Total dividend, SEKm	289	289

The Board of Directors proposes that the total earnings in the Parent Company at the disposal of the AGM amounting to SEK 1,764m (2,015) are to be distributed to the shareholders in the amount of SEK 289m (289) and to be carried forward to new account in the amount of SEK 1,475m (1,726).

Group equity

Share capital

The number of shares authorized, issued and fully paid up at 31 December 2019 was 288,619,299 (288,619,299). 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 only class B shares, 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 60 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.

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 94.

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 23 for further details about share-based payments.

Note 19 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:

	2019	2018
Profit for the year, attributable to ordinary shareholders (in SEKm) (basic and diluted)	498	483
Number of issued ordinary shares at 1 January	288,619,299	288,619,299
Effect of forward contract to repurchase own shares	–2,040,904	–2,126,886
Weighted average number of ordinary shares during the year before dilution	286,578,395	286,492,413
Effect of share-based payments	145,654	157,657
Weighted average number of ordinary shares during the year after dilution	286,724,049	286,650,070
Basic earnings per share, SEK	1.74	1.69
Diluted earnings per share, SEK	1.74	1.68

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 the long-term share-based incentive plan. See Note 21 for a table that presents movements in the contracts as of 1 January 2018.

Note 20 Borrowings

See Notes 1 (XXVI) and (XXVII) for accounting policies.

31 Dec 2019 SEKm	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	Total
Loans from credit institutions	1,306	800	–	–	2,106
Capitalized transaction costs	0	–1	–	–	–1
Commercial papers	499	–	–	–	499
Accrued interest	1	–	–	–	1
Lease liabilities	64	52	83	5	204
Total	**1,870**	**851**	**83**	**5**	**2,809**

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**

Cloetta has an extension option for the short-term loans from credit institutions of SEK 1,306m for another two years.

See Note 26 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
Balance at 1 January 2018	**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**
Balance at 31 December 2018	**2,076**	**500**	**2,576**
Changes from financing cash flows			
Repayment of lease liabilities	–67	–7	–74
Proceeds from commercial papers	–	1,557	1,557
Repayment of commercial papers	–	–1,558	–1,558
Total changes from financing cash flows	**–67**	**–8**	**–75**
Other changes			
Initial application of IFRS 16	158	71	229
Additions to lease liabilities	49	–	49
Amortization of capitalized transaction costs	1	1	2
Interest expenses, third-party borrowings	7	20	27
Interest paid	–7	–20	–27
Reclassification between long-term and short-term borrowings	–1,278	1,278	–
Exchange differences on borrowings	0	28	28
Total other changes	**–1,070**	**1,378**	**308**
Balance at 31 December 2019	**939**	**1,870**	**2,809**

Note 1
Note 2
Note 3
Note 4
Note 5
Note 6
Note 7
Note 8
Note 9
Note 10
Note 11
Note 12
Note 13
Note 14
Note 15
Note 16
Note 17
Note 18
Note 19
Note 20
Note 21
Note 22
Note 23
Note 24
Note 25
Note 26
Note 27
Note 28
Note 29
Note 30
Note 31
Note 32

The carrying amounts and fair value of short-term and long-term borrowings are as follows:

	Fair value		Carrying amount	
SEKm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Loans from credit institutions	2,106	2,078	2,106	2,078
Commercial papers	499	500	499	500
Lease liabilities	204	–	204	–
Total	**2,809**	**2,578**	**2,809**	**2,578**

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 loans from credit institutions are exposed to interest rate changes and changes in the applicable margin on a quarterly basis. The commercial papers are issued at fixed interest rates, based on the applicable market prices at issue date.

Lease liabilities are effectively secured as the rights to the leased assets recognized in the financial statements revert to the lessor in the event of default.

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 program. 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 tenure 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 tenure from one to five years for the single-currency term loan, and an extension of the tenure under the multicurrency credit revolving loan from five to six years. The amendment and restatement of the term and revolving facilities agreement in combination with the launch of commercial papers led to lower interest margins, which has a favourable impact on the net financial items of the Group.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

The Group credit facility at reporting date relates to:

	Outstanding amount		Interest percentage		Applicable margin	
SEKm	**31 Dec 2019**	31 Dec 2018	**31 Dec 2019**	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
Multicurrency term loan of nominal EUR 125m (125)	1,306	1,278	Variable EURIBOR + fixed applicable margin, with zero-floor	Variable EURIBOR + fixed applicable margin, with zero-floor	0.80%	0.80%
Single-currency term loan of nominal SEK 800m (800)	800	800	Variable STIBOR + fixed applicable margin, with zero-floor	Variable STIBOR + fixed applicable margin, with zero-floor	0.90%	0.90%
Commercial papers of nominal SEK 1,000m (1,000)	499	500	Fixed margin per issued paper	Fixed margin per issued paper	0.43%	0.22%
Multicurrency credit revolving loan of EUR 110m (105)	–	–	Variable IBOR + fixed applicable margin, with zero-floor	Variable IBOR + fixed applicable margin, with zero-floor	1.00%	1.00%
Credit revolving loan of EUR 10m (15)	–	–	Variable EURIBOR + fixed applicable margin, with a floor of 0.20%	Variable EURIBOR + fixed applicable margin, with zero-floor	0.70%	1.00%
Total Group credit facility	**2,605**	**2,578**				
Capitalized transaction costs	–1	–3				
Lease liabilities	204	–				
Accrued interest	1	1				
Total Borrowings	**2,809**	**2,576**				

At 31 December 2019, the Group had an unutilized credit facility of SEK 1,254m (1,227). 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 (800), the commercial papers of SEK 499m (500) and part of the lease liabilities for an amount corresponding to SEK 108m (0).

The effective interest rate for the loans from credit institutions and the senior secured notes was 0.74 per cent (0.86).

Note 21 Derivative financial instruments

See Note 1 (XVII) for the accounting policy.

	31 Dec 2019		31 Dec 2018	
SEKm	**Assets**	**Liabilities**	Assets	Liabilities
Non-current				
Interest rate swaps	–	3	–	3
Total non-current	**–**	**3**	**–**	**3**
Current				
Forward contract to repurchase own shares	–	65	–	59
Interest rate swaps	–	3	–	2
Forward foreign currency contracts	–	–	1	–
Total current	**–**	**68**	**1**	**61**
Total	**–**	**71**	**1**	**64**

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.

The following table shows the movements in contracts since 1 January 2018

	Date	Contract 1	Contract 2	Contract 3	Contract 4
		Number of shares			
Balance at	**1 Jan 2018**	**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**	**–**
Shares granted to participants LTI'16 (settlement of forward contract to repurchase own shares)	26 April 2019	–	–	–109,369	–
Roll-forward to new forward contract to repurchase own shares	11 June 2019	–	–	–1,882,537	1,882,537
New forward contract to repurchase own shares	11 June 2019	–	–	–	198,346
Balance at	**31 Dec 2019**	**–**	**–**	**–**	**2,080,883**
	Price, SEK	26.4000	30.9732	29.3886	31.2385

See Note 23 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 the 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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
STIBOR Interest rate swaps	SEKm	800	800	0.4630%	0.4630%	Q1 2020 – Q4 2021	Q1 2019 – Q4 2021
EURIBOR Interest rate swaps	EURm	50	50	0.1560%	0.1560%	Q1 2020 – Q2 2020	Q1 2019 – Q2 2020
EURIBOR Interest rate swaps	EURm	–	25	–	0.1560%	–	Q1 2019 – Q4 2019
EURIBOR Interest rate swaps	EURm	35	35	0.3375%	0.3375%	Q3 2020 – Q3 2022	Q3 2020 – Q3 2022

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 dollar (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	
	2019	2018	**2019**	2018	**2019**	2018
SEK – USD	–	USD 4.0m	–	8.7103	–	2019

All interest rate swaps include zero-floors on the floating leg.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Note 22 Contingent considerations

See Note 1 (XXIV) for the accounting policy.

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. The remeasurement movements recognized in the profit and loss account in 2018 were 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. The final earn-out consideration amounted to SEK 146m and was settled in 2019. On 31 December 2018 the contingent earn-out consideration was presented as part of the current liabilities. See Note 25.

Movements in contingent considerations are specified as follows:

SEKm	2019	2018
At 1 January	142	138
Remeasurements recognized in profit and loss		
– (Un)realized remeasurement on contingent considerations recognized in general and administrative expenses	–	–21
– Unrealized interest on contingent considerations recognized in other financial expenses	4	25
Settlements		
– Settlements via balance sheet	–146	–
At 31 December	–	142
of which remaining term < 1 year	–	142
of which remaining term 1–5 years	–	–
Fair value	–	142

Note 23 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 upon 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 complies with UFR 10 for reporting plans with multiple 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 37m (35). These are split into employer contributions of SEK 25m (23) and employee contributions of SEK 12m (12). At year-end 2019, the coverage of the pension fund was 106.6 per cent (112.5).

At 31 December 2019, 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.

The total pensions and other long-term employee benefits are determined as follows:

SEKm	31 Dec 2019	31 Dec 2018
Funded pension schemes in a net asset position	–	2
Obligations for:		
Pension benefits	–499	–419
Other long-term employee benefits (for jubilee payments) ('OLEB')	0	0
Total	**–499**	**–417**

The amounts recognized in the balance sheet are determined as follows:

SEKm	31 Dec 2019	31 Dec 2018
Funded pension schemes in a net asset position	–	2
Asset in the balance sheet	**–**	**2**
Present value of funded obligations	87	77
Fair value of plan assets	–69	–67
Deficit of funded plans	**18**	**10**
Present value of unfunded obligations	481	407
Liability in the balance sheet	**499**	**417**

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 2018	**437**	**–66**	**371**
Current Service cost	7	–	7
Interest expense/(income)	11	–1	10
Total amount recognized in profit or loss	**18**	**–1**	**17**
Remeasurements:			
– Losses from change in demographic assumptions	1	–	1
– Losses from change in financial assumptions	38	–	38
– Experience (gains)/losses	2	–	2
Total remeasurements recognized in other comprehensive income	**41**	**–**	**41**
Exchange differences	4	–1	3
Contributions:			
– Employers	–	–15	–15
Payments from plans:			
– Benefit payments	–16	16	–
31 December 2018	**484**	**–67**	**417**
Current Service cost	7	–	7
Interest expense/(income)	12	–1	11
Total amount recognized in profit or loss	**19**	**–1**	**18**
Remeasurements:			
– Return on plan assets, excluding amounts included in interest expense/(income)	–	–2	–2
– Losses from change in financial assumptions	79	–	79
– Experience (gains)/losses	3	–	3
Total remeasurements recognized in other comprehensive income	**82**	**–2**	**80**
Exchange differences	1	–1	0
Contributions:			
– Employers	–	–16	–16
– Plan participants	0	0	–
Payments from plans:			
– Benefit payments	–18	18	–
31 December 2019	**568**	**–69**	**499**

The Group expects to pay SEK 16m (16) in contributions to its defined benefit plans in 2020.

The defined benefit obligation and plan assets are composed by country as follows:

	Present value of obligation		Fair value of plan assets		Defined benefit obligation	
SEKm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Sweden	477	402	–14	–15	463	387
Norway	16	11	–15	–13	1	–2
Finland	34	34	–28	–27	6	7
Other countries	41	37	–12	–12	29	25
Total	**568**	**484**	**–69**	**–67**	**499**	**417**

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

The significant actuarial assumptions are as follows:

Weighted average percentage	31 Dec 2019	31 Dec 2018
Discount rate	1.45	2.34
Expected rate of future salary increases	1.75	1.93
Expected rate of future increase for benefits in payment	2.15	2.29
Expected long-term inflation rate	1.64	1.85

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

	2019		2018	
Years	Sweden	Others	Sweden	Others
Retiring at the end of the reporting period:				
– Male	22	21	22	21
– Female	25	24	25	24
Retiring 20 years after the end of the reporting period				
– Male	43	36	43	36
– Female	45	41	45	41

At 31 December 2019 the weighted average duration of the defined benefit obligation was 19.06 years (20.11 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			
		2019		2018	
%	Change in assumptions	Increase in assumptions	Decrease in assumptions	Increase in assumptions	Decrease in assumptions
Discount rate	1%-point	–18%	24%	–18%	23%
Salary growth rate	1%-point	6%	–5%	5%	–5%
Pension growth rate	1%-point	1%	–1%	16%	–15%

%	Increase by 1 year in assumption (2019)	Decrease by 1 year in assumption (2019)	Increase by 1 year in assumption (2018)	Decrease by 1 year in assumption (2018)
Life expectancy	4.37%	–4.98%	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 2018 and 2019 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	31 Dec 2019	31 Dec 2018
Less than 3 years	0	0
Between 3–7 years	–	3
Between 7–15 years	107	95
Over 15 years	461	386
Total	**568**	**484**

Total pension costs amounting to SEK 18m (17) are included in costs of goods sold, selling expenses, general and administrative expenses and financial income and expenses, in the profit and loss account.

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.

To be eligible for so-called matching share rights entitling 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. For the long-term incentive plan for 2019, the matching shares are replaced by series A performance shares, that are conditional on Cloetta's average EBIT over the vesting period.

In addition, allocation of class B shares on the basis of performance share rights (series B) 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 the respective vesting periods. The share-based long-term incentive plans of 2015 and 2016 were vested in 2018 and 2019, respectively.

With respect to the share-based long-term incentive plan of 2017, the target levels set by the Board for the two performance targets

<< Back to contents

were not met. The performance targets were related to growth in Cloetta's compounded sales value during the period 2017 to 2019 and EBITA level during 2019. As a result, Cloetta will transfer, free of charge, no more than 97,325 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 47m (49) during the total vesting period. The total costs for the share-based long-term incentive plans recognized in 2019 are SEK 4m (2).

See page 62 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 65m (59). See Note 21 for further details on the forward contracts to repurchase own shares.

Movements in the number of shares for the share-based long-term incentive plans are as follows:

Number of shares in thousands	2019	2018
At 1 January	1,404	1,617
Granted for new plans	1,010	1,024
Vested plans	–109	–338
Released	–890	–899
At 31 December	1,415	1,404

Note 24 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	Re-organization	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

SEKm	Re-organization	Other	Total
1 January 2019	26	6	32
Additions	4	–	4
Utilizations	–21	–	–21
Unused amounts reversed	–4	–1	–5
Exchange differences	0	0	0
31 December 2019	5	5	10
Analysis of total provisions			
Non-current			5
Current			5
Total			10

See Note 23 for details about pension benefits and other long-term employee benefits.

Note 25 Trade and other payables

See Note 1 (XXVIII) for the accounting policy.

SEKm	31 Dec 2019	31 Dec 2018
Trade payables	492	544
Other taxes and social security expenses	175	160
Pension liabilities	8	8
Contingent considerations	–	142
Other liabilities	33	19
Accruals and deferred income	519	469
Total	1,227	1,342

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Accruals and deferred income are specified as follows:

SEKm	31 Dec 2019	31 Dec 2018
Accrued personnel-related expenses	200	156
Accrued customer bonuses and discounts	178	157
Other accrued expenses and deferred income	141	156
Total	519	469

The Group's defined objective is to cover between 50 and 80 per cent of the expected net exposure on purchases in US dollar and British Pounds if the exposure is bigger than the equivalent of EUR 10m.

Note 26 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 program 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.

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

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

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 160m (155)) which mitigates the foreign currency translation risk on these trademarks. The fair value of the loan was EUR 160m (155). The loan is designated as a net investment hedge. The effectiveness of the hedge is tested and documented on a quarterly basis. The hedge effectiveness at 31 December 2019 was 104 per cent (101). No ineffectiveness has been recognized from the net investment hedge. The effect of the net investment hedge in a foreign operation is recognized in other comprehensive income. At 31 December 2019, the cumulative effect of the net investment hedge in a foreign operation amounted to SEK –229m (–205), net of tax, and was reported as part of the retained earnings within equity.

The Group's defined objective is to cover between 50 and 80 per cent of the expected net exposure on purchases and sales in USD and GBP if the exposure exceeds the equivalent of EUR 10m. 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 21 for the details of the forward foreign currency contracts. The Group is in compliance with the defined objectives for currency risks.

In the 2019 financial year, 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 (50) 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 the multicurrency term loan of EUR 125m and the single-currency term loan of SEK 800m. In relation to fixed interest liabilities, it is exposed to market values, which is not a significant risk for the Group. The Group's objective when managing the interest rate risk is to have a fixed percentage between 50 and 80 per cent with an average maturity of 2 to 3.5 years on borrowings that are long-term in nature. The Group is in compliance with the defined objectives for interest rate risk.

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 6m (5) 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 2m (1) 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. Diversity exists a.o. in the size of customers, country of origin, size of outstanding receivables and types of customers. 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 (long-term) and A-1+ and A-2 (short-term)) and has a revolving facility available

SEKm	Rating (S&P)		Cash balances 31 Dec 2019	Cash balances 31 Dec 2018	Credit revolving loan 31 Dec 2019	Credit revolving loan 31 Dec 2018	Other loans 31 Dec 2019	Other loans 31 Dec 2018
Danske Bank A/S	Long-term	A	519	44	–	–	–526	–520
Nordea	Short-term	A-1+	3	49	–	–	–	–
Svenska Handelsbanken AB (publ)	Long-term	AA-	41	423	–	–	–526	–520
Tatra Banka	Short-term	A-2	8	9	–	–	–	–
Ulster Bank Ltd.	Short-term	A-1	5	20	–	–	–	–
KBC	Short-term	A-1	1	0	–	–	–	–
Skandinaviska Enskilda Banken AB (publ)	Long-term	A+	0	0	–	–	–526	–520
DNB Sweden AB	Long-term	AA-	–	–	–	–	–526	–520
Other banks			1	7	–	–	–	–
Total			**579**	**551**	**–**	**–**	**–2,106**	**–2,078**

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 20) 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) and Multi-currency Zero Balancing Cash Pool (MZBCP) include both the Parent Company and several operating entities. Surplus cash held by operating entities included in the NGA and the MZBCP 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 and MZBCP is transferred to the Group's Treasury department and is also used for the Group's internal and external financing activities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

SEKm 31 Dec 2019	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	1,320	806	–	–	–	–	2,126
Commercial papers	500	–	–	–	–	–	500
Lease liabilities	64	52	44	25	14	5	204
Derivative financial liabilities	70	5	1	–	–	–	76
Trade and other payables, excluding other taxes and social security payables	1,052	–	–	–	–	–	1,052
Total	**3,006**	**863**	**45**	**25**	**14**	**5**	**3,958**

SEKm 31 Dec 2018	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
Lease 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**

Capital risk management

In addition to the capital management disclosure in Note 18, 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 quarterly 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 2018 and 2019, the Group was in compliance with the covenant requirements.

Note 27 Financial instruments – measurement categories and fair values

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 23 for more information.

Fair value measurement

The only items recognized at fair value are:

- The interest rate swaps and forward foreign currency contracts categorized at level 2 of the fair value hierarchy in all periods presented, as well as;
- The contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries initially categorized at level 3.

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 0m (liability) while the carrying amount is SEK 65m (liability).

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

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:

SEKm 31 Dec 2019	Carrying amount Mandatorily at FVTPL	Financial assets at amortized cost	Other financial liabilities at amortized cost	Total	Fair value Level 1	Level 2	Level 3	Total
Financial assets								
• Trade and other receivables, excluding other taxes and social security receivables and prepaid expenses and accrued income	–	832	–	832				
• Cash and cash equivalents	–	579	–	579				
Total assets	–	1,411	–	1,411	–	–	–	–
Financial liabilities								
• Loans from credit institutions	–	–	2,106	2,106				
• Commercial papers	–	–	499	499				
• Forward contract to repurchase own shares	–	–	65	65	–	0	–	0
• Interest rate swaps	6	–	–	6	–	6	–	6
• Lease liabilities	–	–	204	204				
• Trade and other payables, excluding other taxes and social security payables and excluding contingent consideration	–	–	1,052	1,052				
Total liabilities	6	–	3,926	3,932	–	6	–	6

SEKm 31 Dec 2018	Carrying amount Mandatorily at FVTPL	Financial assets at amortized cost	Other financial liabilities at amortized cost	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 payables, excluding other taxes and social security payables and excluding contingent consideration	–	–	1,040	1,040				
• Contingent consideration	142	–	–	142	–	–	142	142
Total liabilities	147	–	3,677	3,824	–	16	142	158

The assets and liabilities measured at fair value at 31 December 2019 and 31 December 2018 respectively are reflected in 'derivative financial instruments' 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 22 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. The final earn-out consideration amounted to SEK 146m and was settled in 2019. 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;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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, are specified as follows:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent considerations			
– *Contingent earn-out considerations*	The fair value of the contingent earn-out consideration is calculated based on the pick & mix sold volume for 2018 of the Cloetta Group 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 the maturity date of the contract.	Not applicable	Not applicable

See Note 22 for the effect of the measurements regarding contingent consideration liabilities in the profit and loss account or other comprehensive income and for movements in contingent consideration liabilities.

Note 28 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 2018 and 2019 no transactions, other than dividend payments, occurred between Cloetta AB (publ) including its subsidiaries and AB Malfors Promotor including its subsidiaries.

Transactions with 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 82–83 and Note 6. The Group has no receivables on the Board of Directors, Group Management Team and key employees. In 2018 and 2019 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 3m (2), of which SEK 4m (0) is related to the Group Management Team. The higher costs for the Group Management team compared to the total costs are mainly related to key employees leaving Cloetta before the vesting date of the plans.

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.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Note 29 Leases

See Note 1 (XXIX) for the accounting policy.

Recognized expenses for leases amount to:

SEKm	31 Dec 2018
Recognized expenses for operating leases under IAS 17 amounted to:	
Lease payments	106
Future annual payment obligations for leased assets in the Group are broken down as follows:	
Within one year	80
Between one and five years	114
More than 5 years	8
Total	**202**

SEKm	2019	2018	Recognized in:
Recognized expenses for leases under IFRS 16 amount to:			
Interest expense	–3	–	net financial items, in the profit and loss account
Expense relating to short-term leases, where no right-of-use asset has been recognized	–9	–	cost of goods sold, selling expenses and general and administrative expenses, in the profit and loss account
Expense relating to leases of low-value assets that are not short-term leases	0	–	cost of goods sold, selling expenses and general and administrative expenses, in the profit and loss account
Expense relating to variable lease payments not included in lease liabilities	–13	–	cost of goods sold, selling expenses and general and administrative expenses, in the profit and loss account
Total cash outflow for leases	–75	–	cash flow from operating activities and financing activities, in the cash flow statement

The reconciliation of the operating lease commitments at 31 December 2018 to the opening lease liability on 1 January 2019 is as follows, using a weighted average incremental borrowing rate at initial application date of 1.49%:

SEKm	
Operating lease commitments disclosed at 31 December 2018	**202**
Discounting impact using the IBR at the date of initial application	–7
Discounted operating lease commitments at 31 December 2018	**195**
Short-term, low-value and variable leases not recognized as a liability	–34
Contracts reassessed as lease contracts	45
Adjustments as a result of different treatment of extension and termination options	19
Other adjustments	4
Lease liability recognized as at 1 January 2019	**229**

The leases that have been recorded on Cloetta's balance sheet as a result of IFRS 16 are categorized in land and buildings (offices and warehouses), transport (cars, forklifts and trucks) and other equipment (e.g. IT, machinery, equipment, printers and coffee machines).

Cloetta makes use of the exemptions under IFRS 16 for short-term leases and leases of low-value assets, except for any leases of vehicles with a remaining lease term at implementation date of less than 12 months.

For a number of lease arrangements Cloetta cannot reliably separate the lease and non-lease elements. For these lease arrangements the non-lease elements have been included in the calculation of the right-of-use asset.

Several lease arrangements contain extension or termination options. Insofar as Cloetta is reasonably certain of exercising the extension option or not exercising the termination option, these options have been reflected in the measurement of the lease liabilities.

Some of Cloetta's key figures have been impacted as a consequence of the application of IFRS 16 'Leases' as per 1 January 2019.

The key figures which are affected are indicatively adjusted for the IFRS 16 impact in the overview below.

SEKm	31 Dec 2019
Net debt	
Net debt	2,302
Adjustment for: IFRS 16 Lease liabilities	–204
Net debt excluding IFRS 16 impact	**2,098**
Capital employed	
Capital employed	7,576
Adjustment for: Right-of-use assets	–203
Capital employed excluding IFRS 16 impact	**7,373**

SEKm	2019
Depreciation	
Depreciation	–290
Adjustment for: Depreciation right-of-use assets	76
Depreciation excluding IFRS 16 impact	**–214**
Operating profit, adjusted	
Operating profit, adjusted	743
Adjustment for: Interest on lease liabilities	–3
Operating profit, adjusted excluding IFRS 16 impact	**740**
Operating profit margin, adjusted, %	
Operating profit margin, adjusted,%	11.4
Adjustment for: Interest on lease liabilities, %	–0.0
Operating profit margin, adjusted excluding IFRS 16 impact, %	**11.4**
Operating profit (EBIT)	
Operating profit (EBIT)	727
Adjustment for: Interest on lease liabilities	–3
Operating profit (EBIT) excluding IFRS 16 impact	**724**
Operating profit margin (EBIT margin), %	
Operating profit margin (EBIT margin),%	11.2
Adjustment for: Interest on lease liabilities, %	0.0
Operating profit margin (EBIT margin) excluding IFRS 16 impact, %	**11.2**
EBITDA, adjusted	
EBITDA, adjusted	1,046
Adjustment for: Depreciation right-of-use assets and interest on lease liabilities	–79
EBITDA, adjusted excluding IFRS 16 impact	**967**
EBITDA	
EBITDA	1,030
Adjustment for: Depreciation right-of-use assets and interest on lease liabilities	–79
EBITDA excluding IFRS 16 impact	**951**
Net debt/EBITDA	
Net debt excluding IFRS 16 impact	2,098
EBITDA, adjusted excluding IFRS 16 impact[1] (Rolling 12 months)	967
Net debt/EBITDA excluding IFRS 16 impact[1], x (Rolling 12 months)	**2.2**

SEKm	2019
Return on capital employed	
Return on capital employed (Rolling 12 months), %	10.0
Adjustment for: Right-of-use assets, %	0.1
Return on capital employed (Rolling 12 months) excluding IFRS 16 impact[1], %	**10.1**
Capital expenditure	
Capital expenditure	235
Adjustment for: additions right-of-use assets	–49
Capital expenditure excluding IFRS 16 impact	**186**
Equity/assets ratio	
Equity/assets ratio, %	43.4
Adjustment for: Right-of-use assets, %	1.0
Equity/asset ratio excluding IFRS 16 impact, %	**44.4**
Net debt/equity ratio	
Net debt/equity ratio, %	54.8
Adjustment for: IFRS 16 Lease liabilities, %	–4.8
Net debt/equity ratio excluding IFRS 16 impact, %	**50.0**
Cash flow from operating activities	
Cash flow from operating activities	724
Adjustment for: Repayments of lease liabilities	–75
Cash flow from operating activities excluding IFRS 16 impact	**649**
Cash flow from financing activities	
Cash flow from financing activities	–362
Adjustment for: Repayments of lease liabilities	75
Cash flow from financing activities excluding IFRS 16 impact	**–287**
Free cash flow	
Free cash flow	538
Adjustment for: Repayments of lease liabilities	–75
Free cash flow excluding IFRS 16 impact	**463**
Free cash flow yield	
Free cash flow yield (Rolling 12 months), %	5.9
Adjustment for: Repayments of lease liabilities (Rolling 12 months), %[1]	–0.9
Free cash flow yield (Rolling 12 months) excluding IFRS 16 impact, %	**5.0**
Cash flow from operating activities per share	
Cash flow from operating activities per share	2.5
Adjustment for: Repayments of lease liabilities	–0.3
Cash flow from operating activities per share excluding IFRS 16 impact	**2.2**

1) Pro-forma annualized.

See Note 12 for further details on right-of-use assets and Note 26 for further details on lease liabilities.

Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32

Note 30 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 the reporting period was SEK 5,684m (5,626).

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.

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 23. The carrying amount at the end of the reporting period was SEK 499m (419).

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.

Leases

The Group applies judgment to determine the lease term for some lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the Group is reasonably certain of exercising such options impacts the lease term, which significantly affects the amounts of lease liabilities and right-of-use assets recognized.

Note 31 Changes in accounting policies

New and amended standards and interpretations adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019. None of these have a material impact on the consolidated financial statements of the Group, with the exception of IFRS 16 as set out below.

IFRS 16, 'Leases', was issued in January 2016 and supersedes IAS 17 Leases. It results 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 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 affects the accounting for the Group's operating leases. Cloetta decided to opt for the modified retrospective transition approach in which the right-of-use asset equals the lease liability per the transition date. For the calculation of the lease liability per 1 January 2019 the discount rates as at 1 January 2019 were used. The leases that have been recorded on Cloetta's balance sheet as a result of IFRS 16 are categorized in 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 has on its consolidated financial statement, as described below. 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. On 1 January 2019 the Group recognized an additional lease liability of SEK 229m, and a right-of-use asset of SEK 229m.

The impact for 2019 is an improvement in EBITDA of SEK 79m, an increase in depreciation costs of SEK 76m and increased financial expenses of SEK 3m. There is no significant impact for leases in which Cloetta is a lessor.

The new accounting policies for leases are disclosed in Note 1.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Relying on previous assessments of whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as at 1 January 2019.
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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 2019, which have not been applied in preparing these consolidated financial statements. None of these are expected to have a material impact on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Group.

Note 32 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 financial statements and notes

Parent Company profit and loss account

SEKm	Note	2019	2018
Net sales	P2	83	84
Gross profit		**83**	**84**
General and administrative expenses	P3, P4	–105	–93
Operating loss		**–22**	**–9**
Exchange differences on borrowings and cash	P5	7	4
Other financial income	P5	75	24
Other financial expenses	P5	–23	–17
Net financial items		**59**	**11**
Profit before tax		**37**	**2**
Income tax	P6	–5	–2
Profit for the year		**32**	**0**

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 2019	31 Dec 2018
ASSETS			
Non-current financial assets			
Deferred tax asset	P7	6	6
Shareholdings in group companies	P8	4,884	4,884
Receivables from group companies	P15	471	476
Total non-current financial assets		**5,361**	**5,366**
Current assets			
Receivables from group companies	P15	97	38
Prepaid expenses and accrued income		2	–
Cash and bank	P9	0	0
Total current assets		**99**	**38**
Total assets		**5,460**	**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		–952	–698
Equity attributable to owners of the Parent Company	P10	**3,204**	**3,458**
Non-current liabilities			
Borrowings	P11	799	798
Payables to group companies	P15	136	135
Derivative financial instruments	P12	2	3
Provisions		1	1
Total non-current liabilities		**938**	**937**
Current liabilities			
Payables to group companies	P15	775	487
Borrowings	P11	499	500
Trade payables		2	1
Other current liabilities		12	11
Derivative financial instruments	P12	2	1
Accrued expenses and deferred income	P13	21	9
Current income tax liabilities	P7	7	–
Total current liabilities		**1,318**	**1,009**
Total equity and liabilities		**5,460**	**5,404**

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Parent Company statement of changes in equity

SEKm	Share capital	Share premium reserve	Retained earnings	Total equity
Balance at 1 January 2018	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
Comprehensive income				
Profit for the year	–	–	32	32
Total comprehensive income for 2019	–	–	32	32
Transactions with owners				
Share-based payments	–	–	3	3
Dividend	–	–	–289	–289
Total transactions with owners	–	–	–286	–286
Balance at 31 December 2019	1,443	2,713	–952	3,204

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

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

<< Back to contents

Parent Company cash flow statement

SEKm	Note	2019	2018
Operating loss		–22	–9
Unrealized foreign exchange gains and losses		–	–1
Interest paid		–15	–10
Income tax paid		–1	–1
Cash flow from operating activities before changes in working capital		–38	–21
Cash flow from changes in working capital			
Change in operating receivables		–7	27
Change in operating liabilities		342	130
Cash flow from operating activities		297	136
Cash flow from operating and investing activities		297	136
Financing activities			
Repayment of interest-bearing borrowings		–1,558	–700
Proceeds from borrowings (net of transaction cost)		1,557	1,000
Other		–	1
Dividends to shareholders		–289	–433
Cash flow from financing activities		–290	–132
Cash flow for the year		7	4
Cash and cash equivalents at beginning of year	P9	0	0
Cash flow for the year		7	4
Exchange difference		–7	–4
Cash and cash equivalents at end of year	P9	0	0

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

Notes to the Parent Company financial statements

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 2019.

Changed accounting standards

Neither revised IFRSs, nor revised RFR 2 (January 2018) effective from 1 January 2019 have entailed any practical change in the 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 83m (84) refer to intra-group services.

The breakdown of net sales by market is as follows:

SEKm	2019	2018
Sweden	36	44
The Netherlands	13	11
Finland	5	7
Other	29	22
Total	**83**	**84**

Note P3 Personnel expenses and number of employees

SEKm	2019	2018
Salaries and remuneration Group Management Team		
– Sweden	21	17
Of which, short-term variable compensation		
– Sweden	8	2
Total salaries and remuneration	21	17
Pension costs Salaries and remuneration		
– Defined contribution plans	4	3
– Defined benefit plans	0	0
Total pension costs	4	3
Social security expenses, all employees	9	6
Total pension costs and social security expenses	13	9
Total personnel expenses	34	26

See pages 82–83 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 (4), of which zero (0) 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:

%	2019	2018
Percentage of women		
Board of Directors	43	43
Group Management Team	17	13

Note P4 Audit fees

SEKm	2019 PwC	2018 KPMG
Fee for auditing services	2	3
Fee for other services		
– Tax advice	–	–
– Audit-related advice	–	–
– Other	0	0
Total other services	0	0
Total audit fees	2	3

For the financial year 2019 PwC was elected as auditor of the Group and for the financial year 2018 KPMG was elected as the auditor of the Group.

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.

Note P5 Net financial items

SEKm	2019	2018
Exchange differences on borrowings and cash	7	4
Group contributions	68	14
Interest income, group companies	7	10
Unrealized gains on single currency interest rate swaps	–	–
Interest income on financial liabilities measured at amortized cost	–	–
Other financial income	75	24
Interest expenses, third-party borrowings	–10	–9
Interest expenses, group companies	–7	–1
Unrealized losses on single currency interest rate swaps	–4	–3
Realized losses on single currency interest rate swaps	–3	–3
Other interest expenses	1	–1
Other financial expenses	–23	–17
Net financial items	59	11

Note P6 Income taxes

SEKm	2019	2018
Current income tax	–5	–2
Deferred income tax	0	0
Total	–5	–2
The year's income tax expense corresponds to an effective tax rate of, %	17.9	84.8

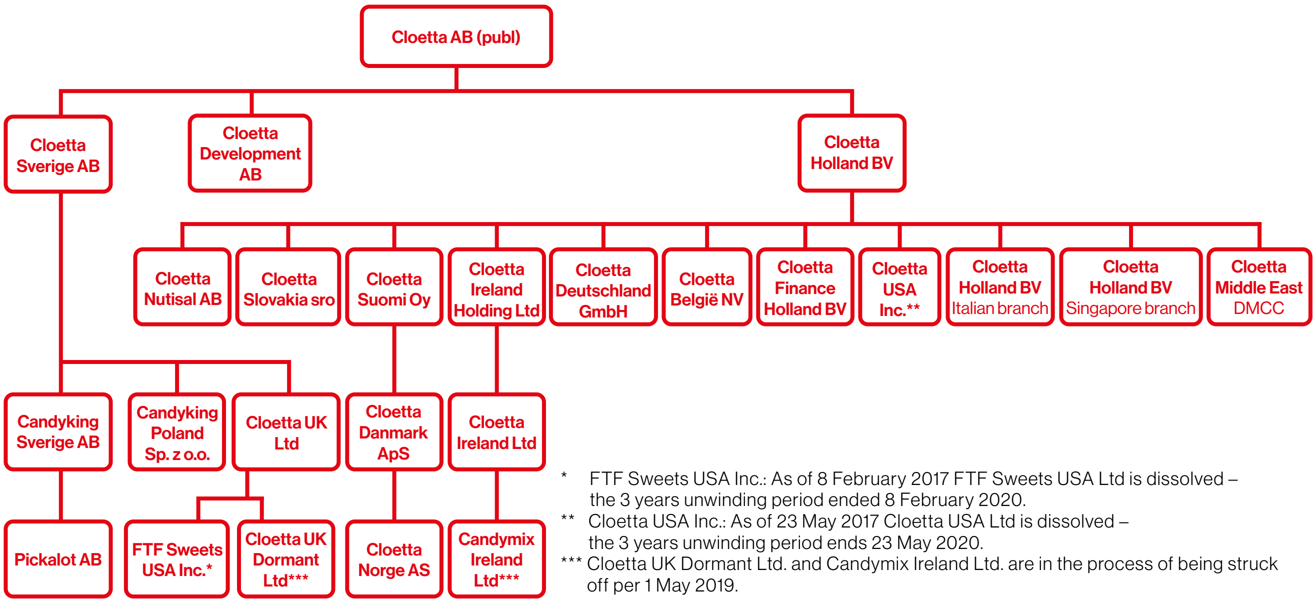
SEKm	2019	2018
The difference between the effective tax rate and the statutory tax rate in Sweden is attributable to the following items:		
Taxable profit from ordinary activities	37	2
Tax calculated at applicable tax rate for the Parent Company	–8	0
Expenses not deductible for tax purposes	1	–1
Adjustments recognized in the period for tax for prior periods	1	–
Other	1	–1
Income tax	–5	–2
Reported effective tax rate, %	17.9	84.8
Tax rate in Sweden, %	21.4	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 (6) and is considered to be realized after more than 12 months. The recognized deferred taxes comprise deductible temporary differences of SEK 6m (6) and unutilized tax losses carried forward of SEK 0m (0). There are no unrecognized deferred taxes.

Note P1
Note P2
Note P3
Note P4
Note P5
Note P6
Note P7
Note P8
Note P9
Note P10
Note P11
Note P12
Note P13
Note P14
Note P15

Note P8 Shareholdings in group companies



* FTF Sweets USA Inc.: As of 8 February 2017 FTF Sweets USA Ltd is dissolved – the 3 years unwinding period ended 8 February 2020.
** Cloetta USA Inc.: As of 23 May 2017 Cloetta USA Ltd is dissolved – the 3 years unwinding period ends 23 May 2020.
*** Cloetta UK Dormant Ltd. and Candymix Ireland Ltd. are in the process of being struck off per 1 May 2019.

			% of capital		Carrying amount	
SEKm	Corp. ID no.	Domicile	2019	2018	2019	2018
Cloetta Holland B.V.	34221053	Amsterdam, the Netherlands	100	100	4,087	4,087
Cloetta België N.V.	0404183756	Turnhout, Belgium	100	100	–	–
Cloetta Suomi Oy[4]	1933121-3	Turku, Finland	100	100	–	–
Candyking Finland Oy[4]	0732591-6	Helsinki, Finland	–	–	–	–
Karikkikatu Oy[4]	0723577-7	Turku, Finland	–	–	–	–
Cloetta Danmark ApS[4]	28106866	Brøndby, Denmark	100	100	–	–
Candyking Danmark A/S[4]	27720390	Randers, Denmark	–	–	–	–
Cloetta Norge AS[4]	987943033	Høvik, Norway	100	100	–	–
Candyking Norge AS[4]	979 514 743	Oslo, Norway	–	–	–	–
Cloetta Deutschland GmbH	HRB 9561	Bocholt, Germany	100	100	–	–
Cloetta USA Inc.[2]	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.	285910	Dublin, Ireland	100	100	–	–
Candymix Ireland Ltd.	494493	Dublin, Ireland	100	100	–	–
Cloetta Middle East DMCC[5]	DMCC156985	Dubai, United Arab Emirates	100	–	–	–
Cloetta Sverige AB[8]	556674-9155	Malmö, Sweden	100	100	795	795
E out instrument AB[8]	559094-9748	Linköping, Sweden	100	100	–	–
Candyking Sverige AB[3]	556319-6780	Stockholm, Sweden	100	100	–	–
Pickalot AB	556730-1857	Stockholm, Sweden	100	100	–	–
Lilla Fiket AB[3]	559016-4181	Stockholm, Sweden	–	–	–	–
Cloetta UK Ltd.[6]	01726257	Hampshire, United Kingdom	100	100	–	–
Cloetta UK Dormant Ltd.[6]	06775890	Heysham, United Kingdom	100	100	–	–
FTF Sweets USA Inc.[1]	211476123	Newark, United States	–	–	–	–
Candyking Poland Sp. z o.o.[7]	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 ended on 8 February 2020.
2) On 23 May 2017 Cloetta USA Inc. was dissolved. The three-year unwinding period ends on 23 May 2020.
3) On 1 March 2018 Lilla Fiket AB was merged into Candyking Sverige AB.
4) 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.
5) On 10 February 2019 Cloetta Middle East DMCC was incorporated.
6) On 1 May 2019 Cloetta UK Ltd was renamed to Cloetta UK Dormant Ltd and Candyking UK Ltd was renamed to Cloetta UK Ltd.
7) On 13 February 2020 Cloetta Poland Sp. z o.o. was liquidated.
8) On 23 December 2019 E Out Instrument AB was merged into Cloetta Sverige AB.

See Note 1 for disclosures on changes in Group structure.

Note P9 Cash and cash equivalents

A Multicurrency Zero Balancing Cash Pool (MZBCP) is in place, which is held by Cloetta Holland B.V. As a result, only the cash at bank accounts outside the MZBCP is presented for Cloetta AB (publ).

See Note 17 for further details.

Note P10 Equity

Share capital

See Note 19 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 Meeting (AGM) on 4 April 2019 and 16 April 2018 approved the following dividend:

	2019	2018
Ordinary dividend per share, SEK	1.0	0.75
Special dividend per share, SEK	–	0.75
Total dividend, SEKm	289	433
Ordinary dividend as a percentage of profit for the previous year, excluding the impact of impairment loss	60	54
Payment date	April 2019	April 2018

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

SEKm	2019	2018
Dividend per share, SEK	1.00	1.00
Total dividend, SEKm	289	289

The Board of Directors proposes that the total earnings in the Parent Company at the disposal of the AGM of SEK 1,764m (2,015) are to be distributed as follows: SEK 289m (289) to be distributed to the shareholders and SEK 1,475m (1,726) to be carried forward to new account.

Note P11 Borrowings

The Parent Company's borrowings consist of loans from credit institutions for a net amount of SEK 799m (798) and commercial papers of SEK 499m (500).

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
Balance at 1 January 2018	–	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
Balance at 31 December 2018	798	500	1,298
Changes from financing cash flows			
Proceeds from commercial papers	–	1,557	1,557
Repayment of commercial papers	–	–1,558	–1,558
Repayment of loans	–	–	–
Other changes from financing cash flows	–	–	–
Total changes from financing cash flows	–	–1	–1
Other changes			
Amortization of capitalized transaction costs	1	–	1
Interest expenses, third-party borrowings	8	2	10
Interest paid	–8	–2	–10
Total other changes	1	0	1
Balance at 31 December 2019	799	499	1,298

See Note 20 for the disclosure of the borrowings.

Note P1
Note P2
Note P3
Note P4
Note P5
Note P6
Note P7
Note P8
Note P9
Note P10
Note P11
Note P12
Note P13
Note P14
Note P15

Note P12 Derivative financial instruments

The derivative financial instruments comprise single currency interest rate swap liabilities amounting to SEK 4m (4) of which SEK 2m (3) is non-current in nature.

Note P13 Accrued expenses and deferred income

Accrued expenses and deferred income amount to SEK 21m (9), of which SEK 13m (3) is related to accrued personnel-related expenses and SEK 8m (6) to other accrued expenses and deferred income.

Note P14 Pledged assets and contingent liabilities

SEKm	31 Dec 2019	31 Dec 2018
Contingent liabilities		
Guarantees on behalf of group companies	834	801
Guarantee for loans from credit institutions for group companies	1,306	1,278
Total	2,140	2,079

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 the 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 2019	31 Dec 2018
Non-current interest-bearing receivables	471	476
Current interest-free receivables	97	38
Non-current interest-bearing payables	–136	–135
Current interest-bearing payables	–758	–476
Current interest-free payables	–17	–11
Total	–343	–108

For the Parent Company, SEK 83m (84), equal to 100 per cent (100) of the year's net sales, and SEK 57m (48), equal to 54 per cent (52) 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 2019 the Parent Company's receivables from group companies amounted to SEK 568m (514) and liabilities to subsidiaries amounted to SEK 911m (622). 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 1m (2), of which SEK 1m (0) 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.

Proposed appropriation of earnings

Earnings in the Parent Company at the diposal of the Annual General Meeting		2019
Share premium reserve	SEK	2,711,620,366
Retained earnings	SEK	–979,881,112
Profit for the year	SEK	32,486,912
Total	**SEK**	**1,764,226,166**

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:		2019
To be distributed to the shareholders	SEK	288,619,299
To be carried forward to new account	SEK	1,475,606,867
Total	**SEK**	**1,764,226,166**

The number of shares at 31 December 2019 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 the inside of the front cover, has been approved for publication by the Board of Directors.

Stockholm, 10 March 2020

Lilian Fossum Biner
Chairman

Lottie Knutson
Member of the Board

Patrick Bergander
Member of the Board

Alan McLean Raleigh
Member of the Board

Mikael Svenfelt
Member of the Board

Camilla Svenfelt
Member of the Board

Mikael Aru
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 10 March 2020.

Öhrlings PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt
Authorized Public Accountant
Partner in charge

Erik Bergh
Authorized 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 2 April 2020. 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 12 March 2020, at 08:00 CET.

Auditor's report

Unofficial translation

To the general meeting of the shareholders of Cloetta AB (publ), corporate identity number 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 2019 except for the corporate governance statement on pages 76–89. The annual accounts and consolidated accounts of the company are included on pages 1–4 and 64–140 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 parent company and the group as of 31 December 2019 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 2019 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. Our opinions do not cover the corporate governance statement on pages 76–89. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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 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.

Other matter

The audit of the annual accounts and consolidated accounts for year 2018 was performed by another auditor who submitted an auditor's report dated 12 March 2019, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

Our audit approach

Overview

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<< Back to contents

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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment test for intangible assets Goodwill and other intangible assets with an indefinite useful life represent a significant part of the Balance Sheet of Cloetta and amount to SEK 5,540m (5,460) as of 31 December 2019. The group annually performs an impairment assessment of the assets based on a calculation of the discounted cash flow for the cash generating unit in which goodwill and other intangible assets are reported, as required by IFRS. Impairment tests are, by their nature, based on a high level of judgments and assumptions regarding future cash flows. Information is provided in Notes 11 and 30 as to how the group's management has undertaken its assessments, and also provides information on important assumptions. Key variables in the test are growth rate and discount factor (cost of capital). It is also presented that no impairment requirement has been identified based on the assumptions undertaken.	In our audit, we have evaluated the calculation model applied by management and tested the mathematical accuracy. This implies that we have reconciled and critically tested essential variables against budget and the long-term plan for the group and in some cases towards external data. Furthermore we have performed a retrospective review of the prior period estimate by comparing it to actual current period results. We have tested the sensitivity in the group's analysis for key variables in order to assess the risk for impairment. We have also assessed the disclosures included in the financial statements.

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 5–63 and 141–161. The Board of Directors and the Managing Director 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.

If we, based on the work performed concerning this information, 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 Managing Director

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 Managing Director 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.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

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 Director's and the Managing Director of Cloetta AB (publ) for the year 2019 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 Managing Director 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 Managing Director

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' 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 Managing Director 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 Managing Director 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.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for ensuring that the corporate governance statement on pages 76–89 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement 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. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Cloetta AB (publ) by the general meeting of the shareholders on the 4 April 2019 and has been the company's auditor since the 4 April 2019.

Stockholm 10 March 2020

Öhrlings PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt	Erik Bergh
Authorized Public Accountant	*Authorized Public Accountant*
Partner in charge	

Ten-year overview

SEKm	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Profit and loss account in summary										
Net sales	6,493	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019
Cost of goods sold	–4,112	–3,934	–3,678	–3,084	–3,463	–3,325	–3,081	–3,157	–2,911	–3,058
Gross profit	**2,381**	**2,284**	**2,106**	**2,023**	**2,211**	**1,988**	**1,812**	**1,702**	**1,747**	**1,961**
Other operating income	–	4	6	–	0	5	12	13	1	16
Selling expenses	–1,011	–1,025	–972	–806	–949	–892	–850	–888	–915	–992
General and administrative expenses	–643	–603	–613	–582	–591	–524	–556	–702	–473	–471
Operating profit/loss	**727**	**660**	**527**	**635**	**671**	**577**	**418**	**125**	**360**	**514**
Exchange differences cash and cash equivalents in foreign currencies	–19	–16	–17	–8	–1	–11	–12	20	–12	–13
Other financial income	2	5	7	17	6	4	24	5	11	5
Other financial expenses	–62	–87	–74	–175	–183	–232	–220	–290	–599	–634
Net financial items	**–79**	**–98**	**–84**	**–166**	**–178**	**–239**	**–208**	**–265**	**–600**	**–642**
Profit/loss before tax	**648**	**562**	**443**	**469**	**493**	**338**	**210**	**–140**	**–240**	**–128**
Income tax expense	–150	–79	–206	–122	–107	–96	54	67	172	–211
Profit/loss for the period for continuing operations	**498**	**483**	**237**	**347**	**386**	**242**	**264**	**–73**	**–68**	**–339**
Result after tax from discontinued operations	–	–	–334	–538	–	–	–	–	–	–
Net profit/loss for the period	**498**	**483**	**–97**	**–191**	**386**	**242**	**264**	**–73**	**–68**	**–339**
Profit for the period attributable to:										
Owners of the Parent Company										
Continuing operations	498	483	237	347	386	242	264	–73	–68	–339
Discontinued operation	–	–	–334	–538	–	–	–	–	–	–
Total	**498**	**483**	**–97**	**–191**	**386**	**242**	**264**	**–73**	**–68**	**–339**

SEKm	31 Dec 2019	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
Balance sheet in summary										
Intangible assets	5,684	5,626	5,490	5,354	5,948	5,882	5,252	5,099	4,811	4,822
Property, plant and equipment	1,559	1,354	1,338	1,700	1,698	1,667	1,660	1,611	1,318	1,333
Deferred tax asset	9	16	20	54	64	84	73	473	447	207
Other financial assets	7	11	11	13	27	105	91	88	261	147
Total non-current assets	**7,259**	**7,007**	**6,859**	**7,121**	**7,737**	**7,738**	**7,076**	**7,271**	**6,837**	**6,509**
Inventories	888	765	745	780	786	853	798	773	640	566
Trade and other receivables	928	838	881	988	975	1,121	933	951	1,051	1,198
Current income tax assets	6	6	8	36	3	3	0	4	2	1
Derivative financial instruments	–	1	0	4	1	2	–	–	–	–
Cash and cash equivalents	579	551	759	298	246	229	167	306	97	220
Total current assets	**2,401**	**2,161**	**2,393**	**2,106**	**2,011**	**2,208**	**1,898**	**2,034**	**1,790**	**1,985**
Assets held for sale	–	–	–	9	11	16	15	35	15	–
TOTAL ASSETS	**9,660**	**9,168**	**9,252**	**9,236**	**9,759**	**9,962**	**8,989**	**9,340**	**8,642**	**8,494**
Equity	**4,197**	**3,968**	**3,818**	**4,199**	**4,344**	**4,048**	**3,747**	**3,326**	**–385**	**–1,117**
Long-term borrowings	939	2,076	1,715	2,666	2,612	2,993	3,096	2,516	6,077	6,826
Deferred tax liability	803	754	703	586	621	483	397	824	728	714
Derivative financial instruments	3	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	499	419	374	396	378	505	360	452	250	222
Provisions	5	9	5	22	10	16	7	11	24	29
Total non-current liabilities	**2,249**	**3,261**	**2,937**	**3,682**	**3,708**	**4,200**	**3,883**	**3,806**	**7,079**	**7,791**
Short-term borrowings	1,870	500	999	2	344	423	212	747	747	642
Derivative financial instruments	68	61	71	54	35	16	2	21	0	0
Trade and other payables	1,227	1,342	1,394	1,196	1,216	1,152	967	1,264	1,038	975
Provisions	5	23	3	64	57	65	79	79	60	78
Current income tax liabilities	44	13	30	39	55	58	99	97	103	125
Total current liabilities	**3,214**	**1,939**	**2,497**	**1,355**	**1,707**	**1,714**	**1,359**	**2,208**	**1,948**	**1,820**
Total equity and liabilities	**9,660**	**9,168**	**9,252**	**9,236**	**9,759**	**9,962**	**8,989**	**9,340**	**8,642**	**8,494**

Key ratios

SEKm	2019	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010[1]
Profit										
Net sales	6,493	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019
Net sales, change %	4.4	7.5	13.3	n/a	6.8	8.6	0.7	4.3	n/a	n/a
Organic net sales, change, %	2.3	–2.8	–1.2	n/a	1.5	1.0	–1.0	–4.1	n/a	n/a
Gross margin, %	36.7	36.7	36.4	39.6	39.0	37.4	37.0	35.0	37.5	39.1
Depreciation	–290	–218	–218	–206	–227	–198	–175	–167	–115	–125
Amortization	–11	–12	–11	–5	–4	–3	–2	–1	–8	–18
Impairment loss other non-current assets	–2	–	–9	–2	–	–	–	–	–	–
Operating profit (EBIT), adjusted	743	677	604	695	690	632	585	432	565	686
Operating profit margin (EBIT margin), adjusted %	11.4	10.9	10.4	13.6	12.2	11.9	12.0	8.9	12.1	13.7
Operating profit/loss (EBIT)	727	660	527	635	671	577	418	125	360	514
Operating profit/loss margin (EBIT margin), %	11.2	10.6	9.1	12.4	11.8	10.9	8.5	2.6	7.8	10.3
EBITDA, adjusted	1,046	907	833	906	921	833	762	600	688	829
EBITDA	1,030	890	765	848	902	778	595	293	483	657
Profit margin, %	10.0	9.0	7.7	9.2	8.7	6.4	4.3	–2.9	–5.1	–3.3
Financial position										
Working capital	589	402	232	572	628	819	763	458	586	649
Capital expenditure	235	184	157	170	161	186	211	269	224	97
Net debt	2,302	2,091	2,035	2,443	2,818	3,308	3,230	3,056	2,827	3,070
Capital employed	7,576	7,027	6,979	7,329	7,756	8,041	7,438	7,066	6,682	6,575
Return on capital employed, %[2]	10.0	9.5	8.2	11.1	8.6	7.5	6.1	1.9	5.7	n/a
Equity/assets ratio, %	43.4	43.3	41.3	45.5	44.5	40.6	41.7	35.6	–4.5	–13.2
Net debt/equity ratio, %	54.8	52.7	53.3	58.2	64.9	81.7	86.2	91.9	–734.3	–274.8
Return on equity, %	11.9	12.2	6.2	–4.5	8.9	6.0	7.0	–2.2	n/a	n/a
Equity per share, SEK	14.5	13.7	13.2	14.5	15.1	14.0	13.0	11.5	n/a	n/a
Net debt/EBITDA, x	2.2	2.3	2.4	2.4	3.0	4.0	4.2	4.9	n/a	n/a
Cash flow										
Cash flow from operating activities	724	628	712	889	927	500	131	330	492	379
Cash flow from investing activities	–330	–184	–22	–322	–367	–369	–202	–1,506	–335	–83
Cash flow after investments	394	444	690	567	560	131	–71	–1,176	157	296
Free cash flow	538	444	555	719	766	318	–80	61	268	n/a
Free cash flow yield, %	5.9	6.3	6.5	8.7	9.5	4.9	–1.4	1.6	7.0	n/a
Cash flow from operating activities per share, SEK	2.5	2.2	2.5	3.1	3.2	1.7	0.5	1.1	n/a	n/a

1) The key figures per share for the years 2010–2011 are not representative for the current group due to to a completely different equity structure before the merger between Cloetta and Leaf.
2) Return on capital employed for 2016 was calculated pro-forma for continuing operations.
3) Average number of employees is presented for continuing operations in 2017. Employee numbers in 2019 have been updated following the implementation of a new company-wide HR system. Comparative figures have not been restated.
4) 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.

	2019	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010[1]
Employees										
Average number of employees[3]	2,629	2,458	2,467	2,115	2,583	2,533	2,472	2,579	2,192	2,275
Share data[1]										
Earnings per share, SEK										
Basic[4]	1.74	1.69	–0.34	–0.67	1.35	0.84	0.92	–0.26	n/a	n/a
Diluted[4]	1.74	1.68	–0.34	–0.67	1.35	0.84	0.92	–0.26	n/a	n/a
Earnings per share from continuing operations, SEK										
Basic[4]	1.74	1.69	0.83	1.21	1.35	0.84	0.92	–0.26	n/a	n/a
Diluted[4]	1.74	1.68	0.83	1.21	1.35	0.84	0.92	–0.26	n/a	n/a
Earnings per share from discontinued operation, SEK										
Basic[4]	–	–	–1.17	–1.88	–	–	–	–	–	–
Diluted[4]	–	–	–1.17	–1.88	–	–	–	–	–	–
Ordinary dividend per share, proposed, SEK	1.00	1.00	0.75	0.75	0.50	–	–	–	–	–
Special dividend per share, 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	288,619,299	262,137,526	n/a
Average number of shares (basic)[4]	286,578,395	286,492,413	286,320,464	286,193,024	286,290,840	286,987,990	288,010,947	276,132,021	262,137,526	n/a
Average number of shares (diluted)[4]	286,724,049	286,650,070	286,492,178	286,447,465	286,561,607	287,092,780	288,026,408	276,132,021	262,137,526	n/a
Share-price at year-end, SEK	31.7	24.3	29.7	28.7	28.0	22.6	19.4	13.5	14.5	16.6
Exchange Rates										
EUR, average	10.5815	10.2543	9.6362	9.4700	9.3445	9.1051	8.6513	8.6958	9.0228	9.5261
EUR, end of period	10.4468	10.2274	9.8210	9.5804	9.1679	9.3829	8.8630	8.5750	8.9100	8.9700
NOK, average	1.0748	1.0672	1.0324	1.0200	1.0432	1.0882	1.1071	1.1643	1.1577	1.1905
NOK, end of period	1.0591	1.0294	0.9997	1.0548	0.9563	1.0439	1.0592	1.1667	1.1467	1.1493
GBP, average	12.0732	11.5917	10.9909	11.5480	12.8736	11.3118	10.1987	10.7429	10.4057	11.1030
GBP, end of period	12.2788	11.3992	11.0684	11.1673	12.4835	12.0340	10.6501	10.5215	10.6668	10.4109
DKK, average	1.4173	1.3760	1.2956	1.2721	1.2529	1.2215	1.1601	1.1682	1.2112	1.2794
DKK, end of period	1.3982	1.3698	1.3192	1.2888	1.2287	1.2604	1.1882	1.1495	1.1987	1.2035

1) The key figures per share for the years 2010 - 2011 are not representative for the current group due to to a completely different equity structure before the merger between Cloetta and Leaf.
2) Return on capital employed for 2016 was calculated pro-forma for continuing operations.
3) Average number of employees is presented for continuing operations in 2017. Employee numbers in 2019 have been updated following the implementation of a new company-wide HR system. Comparative figures have not been restated.
4) 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	2019	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010
Items affecting comparability										
Acquisitions, integration and restructurings	–13	–38	–62	–43	–47	–85	–167	n/a	n/a	n/a
of which: impairment loss other non-current assets	–	–	–9	–2	–	–	–	n/a	n/a	n/a
Remeasurements of contingent considerations	–	21	5	–17	33	27	–	n/a	n/a	n/a
Remeasurements of assets held for sale	–	–	–	–	–5	–	–	n/a	n/a	n/a
Other items affecting comparability	–3	0	–20	–	–	3	–	n/a	n/a	n/a
Items affecting comparability*	**–16**	**–17**	**–77**	**–60**	**–19**	**–55**	**–167**	**–307**	**–205**	**–172**
* Corresponding line in the condensed consolidated profit and loss account:										
Net Sales	–	0	–	–	–4	–	–	n/a	n/a	n/a
Cost of goods sold	2	3	–39	–15	–22	–51	–121	n/a	n/a	n/a
Other operating income	–	4	4	–	–	3	12	n/a	n/a	n/a
Selling expenses	–6	–1	–6	–	–12	–7	–4	n/a	n/a	n/a
General and administrative expenses	–12	–23	–36	–45	19	–	–54	–	–	–
Total	–16	–17	–77	–60	–19	–55	–167	–307	–205	–172
Operating profit, adjusted[1]										
Operating profit	727	660	527	635	671	577	418	125	360	514
Minus: Items affecting comparability	–16	–17	–77	–60	–19	–55	–167	–307	–205	–172
Operating profit, adjusted	**743**	**677**	**604**	**695**	**690**	**632**	**585**	**432**	**565**	**686**
Net sales	6,493	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019
Operating profit margin, adjusted, %	**11.4**	**10.9**	**10.4**	**13.6**	**12.2**	**11.9**	**12.0**	**8.9**	**12.1**	**13.7**
EBITDA, adjusted[1]										
Operating profit	727	660	527	635	671	577	418	125	360	514
Minus: Depreciation	–290	–218	–218	–206	–227	–198	–175	–167	–115	–125
Minus: Amortization	–11	–12	–11	–5	–4	–3	–2	–1	–8	–18
Minus: Impairment loss other non-current assets	–2	–	–9	–2	–	–	–	–	–	–
EBITDA	**1,030**	**890**	**765**	**848**	**902**	**778**	**595**	**293**	**483**	**657**
Minus: Items affecting comparability (excl. impairment loss goodwill and trademarks and other non-current assets)	–16	–17	–68	–58	–19	–55	–167	–307	–205	–172
EBITDA, adjusted	**1,046**	**907**	**833**	**906**	**921**	**833**	**762**	**600**	**688**	**829**
Capital employed[1,2]										
Total assets	9,660	9,168	9,252	9,236	9,759	9,962	8,989	9,340	8,642	8,494
Minus: Deferred tax liability	803	754	703	586	621	483	397	824	728	714
Minus: Other non-current liabilities	–	–	138	–	43	147	2	–	–	–
Minus: Non-current provisions	5	9	5	22	10	16	7	11	24	29
Minus: Current provisions	5	23	3	64	57	65	79	79	60	78
Minus: Trade and other payables	1,227	1,342	1,394	1,196	1,216	1,152	967	1,264	1,038	975
Minus: Current income tax liabilities	44	13	30	39	55	58	99	97	103	125
Plus: Interest-bearing other current liabilities	–	–	–	–	–1	–	–	1	–7	2
Capital employed	**7,576**	**7,027**	**6,979**	**7,329**	**7,756**	**8,041**	**7,438**	**7,066**	**6,682**	**6,575**
Capital employed comparative period previous year	7,027	6,979	5,966	7,756	8,041	7,438	7,066	6,682	6,575	7,543
Average capital employed	**7,302**	**7,003**	**6,473**	**7,543**	**7,899**	**7,740**	**7,252**	**6,874**	**6,629**	**7,059**

1) The key figure has been affected by IFRS 16 'Leases' as of 1 January 2019. Comparative figures are not restated.
2) Return on capital employed for 2017 has been calculated pro-forma for continuing operations.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

SEKm	2019	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010
Return on capital employed[1,2]										
Operating profit (rolling 12 months)	727	660	527	635	671	577	418	125	360	514
Financial income (rolling 12 months)	2	5	7	17	6	4	24	5	11	5
Operating profit plus financial income (rolling 12 months)	**729**	**665**	**534**	**652**	**677**	**581**	**442**	**130**	**371**	**519**
Average capital employed	7,302	7,003	6,473	5,879	7,899	7,740	7,252	6,874	6,629	7,059
Return on capital employed, %	**10.0**	**9.5**	**8.2**	**11.1**	**8.6**	**7.5**	**6.1**	**1.9**	**5.6**	**7.4**
Free cash flow yield[1]										
Cash flow from operating activities (Rolling 12 months)	724	628	712	889	927	500	131	330	492	n/a
Cash flows from investments in property, plant and equipment and intangible assets (Rolling 12 months)	–186	–184	–157	–170	–161	–182	–211	–269	–224	n/a
Free cash flow (Rolling 12 months)	**538**	**444**	**555**	**719**	**766**	**318**	**–80**	**61**	**268**	**n/a**
Number of shares	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	262,137,526	n/a
Free cash flow per share (Rolling 12 months), SEK	1.86	1.54	1.92	2.49	2.65	1.10	–0.28	0.21	1.02	n/a
Market price per share, SEK	31.70	24.30	29.70	28.70	28.00	22.60	19.40	13.45	14.50	n/a
Free cash flow yield (Rolling 12 months), %	**5.9**	**6.3**	**6.5**	**8.7**	**9.5**	**4.9**	**–1.4**	**1.6**	**7.0**	**n/a**
Changes in net sales										
Net sales	6,493	6,218	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019
Net sales comparative period previous year	6,218	5,784	5,107	n/a	5,313	4,893	4,859	4,658	5,019	5,486
Net sales, change	**275**	**434**	**677**	**n/a**	**361**	**420**	**34**	**201**	**–361**	**–467**
Minus: Structural changes	0	375	708	n/a	208	213	n/a	n/a	n/a	n/a
Minus: Changes in exchange rates	129	217	30	n/a	77	158	n/a	n/a	n/a	n/a
Organic growth	**146**	**–158**	**–61**	**n/a**	**76**	**49**	**n/a**	**n/a**	**n/a**	**n/a**
Structural changes, %	–	6.5	13.9	n/a	3.9	4.4	n/a	n/a	n/a	n/a
Organic growth, %	2.3	–2.8	–1.2	n/a	1.4	1.0	–1.0	–4.1	n/a	n/a

1) The key figure has been affected by IFRS 16 'Leases' as of 1 January 2019. Comparative figures are not restated.
2) Return on capital employed for 2017 has been calculated pro-forma for continuing operations.

<< Back to contents

Sustainability governance

Cloetta's overall sustainability goal is to help create the conditions for long-term value creation. For Cloetta, this means managing risks and making the most of opportunities, taking responsibility for the company's impact on people and the environment, fulfilling external expectations and growing as a company.

Code of Conduct and basis

Cloetta's business activities and sustainability work are based on its Code of Conduct. The Code of Conduct includes principles and guidelines on how Cloetta's employees should uphold the company values and behave towards each other and external stakeholders. Further, the Code of Conduct contains commitments regarding human rights, business ethics and anti-corruption, the company's assets, data security and environmental responsibility.

Cloetta's Code of Conduct is primarily based on the UN's Global Compact. The Code of Conduct was updated in 2019 and the new version will be launched in 2020.

Anti-corruption policy

Cloetta uses a number of policies that are based on the Code of Conduct, one of which is the anti-corruption and anti-bribery policy. The policy applies to all parties that represent Cloetta (including temporary staff, sub-contractors' staff and sales agents) and covers all business activities and relationships of the company in all markets. The anti-corruption policy describes the Group's control principles and provides information about deviation reporting and penalties for non-compliance.
The risk of corruption is not deemed to be significant, but is being monitored (see page 152), primarily due to Cloetta's extensive supply chain and rapid societal changes in Cloetta's markets.

Organization

The Board of Directors and President and CEO are ultimately responsible for Cloetta's sustainability-related efforts and results. A Sustainability board has been in place since 2018 consisting of the President and CEO, six other business function leaders and the Director of Sustainability. The Sustainability board is responsible for Cloetta's sustainability strategy, as well as reporting and controlling non-financial risks. Three cross-functional work groups report to the Sustainability board and are responsible for defining implementation plans, proposing targets and providing feedback on particular matters, as well as identifying risks. In addition, the company's different business function leaders are responsible for the implementation of the sustainability agenda. Environmental and occupational health and safety managers are in place at all Cloetta's factories.

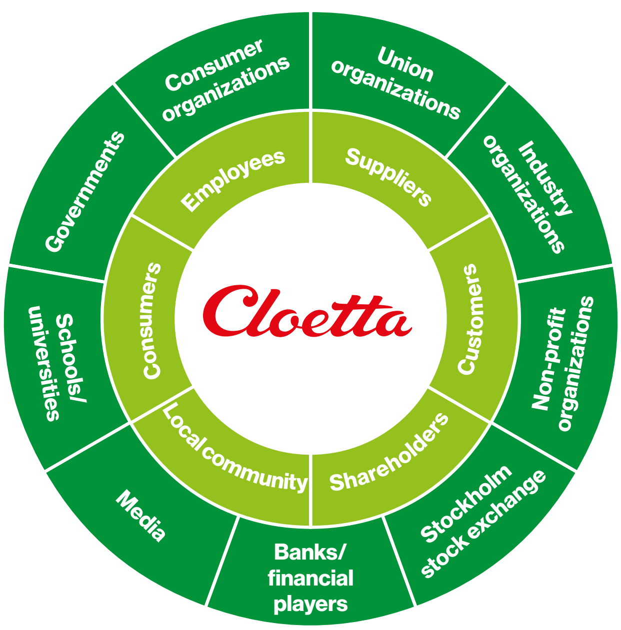
Whistleblower service

Cloetta's whistleblower service gives all Cloetta employees the opportunity to anonymously report serious misconduct and

Cloetta's stakeholders

Cloetta's primary stakeholders are customers, consumers, employees, shareholders, suppliers and society. These groups are a necessary prerequisite for Cloetta's long-term profitability.

Cloetta has an open and ongoing dialogue, in particular with primary stakeholders, based on each group's expectations and requirements. Representatives of the primary stakeholders regularly contribute to Cloetta's materiality analysis. Read more on pages 14–16.



deviations from Cloetta's Code of Conduct and business ethics principles. All reports are treated confidentially. Personal data concerning breaches of law are handled only by key persons or individuals in management positions.

During the year, one case was received that was not deemed to be relevant. The matter was responded to locally. No cases of corrupt behavior were reported or discovered.

Sustainability and business strategy

By further integrating sustainability into the company's business strategy and processes, Cloetta is preparing for long-term relevance and profitability.

Cloetta's sustainability work supports and is well embedded in the company's business strategy.

Driving growth Implementing and communicating sustainability programs for prioritized raw material groups helps to further strengthen our brands among customers and consumers. UTZ certified cocoa is one such example.

Financing growth Efforts to reduce Cloetta's environmental impact often go hand in hand with lower costs. As an example, when the factories reduce energy consumption and waste volumes this contributes to greater cost-efficiency.

Enabling growth Cloetta enables growth by creating an attractive workplace and a high-performing organization. Employees are offered attractive opportunities to grow as well as competitive remuneration. Cloetta's inspiring corporate culture and clear corporate identity also enable growth.

Sustainability agenda

Responsibility and limitations

To increase Cloetta's positive footprint and reduce the negative impact, an understanding is needed of where impact occurs and where a difference can be made in the value chain. Cloetta's responsibility extends beyond its own operations and the company's ability to influence partners and others in the different parts of the value chain varies. By taking a value chain perspective, Cloetta can identify opportunities and risks, and define investments and reporting as well as how Cloetta can create value.

Commitments

From raw materials to cherished brands

Cloetta's sustainability work covers the entire value chain, from raw material to finished product. The company places high demands on its own business operations and those of suppliers. In order to become an approved supplier, the supplier must undergo an approval process and accept Cloetta's general supplier requirements.

Product content Cloetta is subject to a number of laws and regulations concerning food safety and quality. However, the company takes its responsibility further and aims to be a forerunner in developing the content of its products. For example, the NAFNAC program (No Artificial Flavorings, No Artificial Colors) is aimed at offering a portfolio of products that contain no artificial flavorings or colorants.

Environmental impact Cloetta works systematically to minimize the environmental impact of its operations. Efforts are aimed at complying with applicable laws and rules and continuous improvement. Cloetta's foremost direct environmental impact arises through energy and water consumption, and waste and wastewater.

About Cloetta's sustainability report

Cloetta's sustainability report is issued by the Board of Directors and created in accordance with the Global Reporting Initiative (GRI) standards, core level. The sustainability report covers the entire business operations of the company, unless otherwise stated. The content has been established based on Cloetta's materiality analysis, which is described on pages 14–16. The GRI Index on pages 153–154 provides references to where different information is available. The sustainability report also constitutes Cloetta's Communication on Progress to the UN Global Compact.

The sustainability report has been assured by PwC; see Auditor's report on page 155. The latest sustainability report was issued on 13 March 2019. If you have questions about Cloetta's sustainability report, contact us via sustainability@cloetta.com.

Gathering data

Data concerning energy consumption, quantity of waste, wastewater and COD (chemical oxygen demand) is gathered through direct measurements as well as through specifications from suppliers that provide heat and electricity and also handle waste management. Data is reported monthly from the factories and consolidated at a Group level. Cloetta uses the global Greenhouse Gas Protocol for calculating the majority of the company's carbon dioxide emissions. 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 by each unit within the Group. Information is aggregated at a Group level.

Strategic components

Policy and prioritized areas	• Overall strategy • Operational policy • Code of conduct • Sustainability commitment • Responsible marketing
Goals and KPIs	• Overall financial targets • Goals and KPIs for each part of Cloetta's sustainability commitment
Data	• See entire annual and sustainability report
Management systems, programs and certifications	• Perfect Factory for efficient manufacturing • IFRS for financial reporting • Cloetta's leadership platform • BRC for food safety • ISO 14001 for the environment • UTZ for cocoa and chocolate • RSPO for palm oil
External statutes or initiatives	• UN Global Compact • Relevant ILO conventions • EWC (European Works Council)

Materiality analysis

Importance for Cloetta's stakeholders (Important → Very important)

Cloetta's impact on the external environment (High → Very high)

	High	Very high
Very important	**Fulfil** • Monitor health-related issues surrounding artificial ingredients • Legal and regulatory compliance	**Prioritize** • Responsible sourcing and social, environmental and economic challenges in places where prioritized raw materials are grown and produced • Environmental impact from Cloetta's operations • Employee health and safety and well-being • Sugar-free alternatives
Important	**Administrate** • Charity • Local community engagement • Responsible tax management	**Monitor and supervise** • Anti-corruption • Social, environmental and economic challenges in places where other raw materials are grown and produced • Responsible marketing • Diversity

Stakeholders' key sustainability issues

Stakeholder	Key issues – sustainability	Communication and cooperation
Customers and consumers	• Clear declaration of contents • Eco-friendly packages • Responsibility for the environment and workplace conditions • Business ethics • Efficient transportation to the retail trade	• With consumers via annual surveys and via websites and social media • With customers through in-person customer and sales meetings three times per year, and via customer surveys and collaborative initiatives for eco-friendly transportation
Employees	• Good workplace conditions with opportunity for growth • Safe workplace environment • Preventive healthcare • Business ethics • Cloetta's financial position and progress	• Daily meetings to discuss occupational health and safety in the factories • Annual performance reviews with all employees • Systematic skills development • Up-to-date information provided monthly, e.g. via managers, union representatives and Cloetta's intranet • Employee survey "Great Place to Work" every other year
Shareholders and investors	• Long-term, sustainable value growth • Business ethics	• Analyst and investor meetings • Interim reports • Annual general meeting • Annual report • Cloetta's website
Suppliers	• Ethics and business practices in procurement • Product safety • Long-term, sustainable growth • Human rights	• Annual evaluation of suppliers and sponsorship agreements • Development projects • Collaborative projects for sustainability
Communities and the public	• Responsibility for the environment and workplace conditions • Legal and regulatory compliance • Positive contribution to societal development	• Continuous contact with the local communities/municipalities close to Cloetta's factories with regard to the local environment • Continuous contact with public authorities in areas related to workplace health and safety, environmental and product responsibility • Annual audits by certification bodies for ISO and BRC • Continuous contact with key opinion leaders

GRI index

	Organizational Profile (2016)	Scope and deviations	Page
102-1	Name of the organization		Inside back cover
102-2	Primary brands, products and/or services		6–7, 19–33
102-3	Location organization's headquarters		96
102-4	Location of operations		34-40, 46, 57
102-5	Ownership and legal form		76
102-6	Markets served		34-40
102-7	Scale of the organization		Inside front cover, 57, 46–47, 89–91, 93
102-8	Information on employees	No significant variations in employee numbers during the year.	54–57, 151
102-9	Supply chain		12, 73
102-10	Significant changes during the reporting period regarding the organization's size, structure, ownership or supply chain	Candyking UK was incorporated into Cloetta UK and Candyking Ireland was incorporated into Cloetta Ireland	
102-11	Precautionary principle or approach		48
102-12	External sustainability principles and initiatives that the organization supports		14–16, 150–151, 160
102-13	Memberships of associations and national or international advocacy organizations		160
	Strategy and Analysis (2016)		
102-14	Statement from senior decision-maker		2–3
	Ethics and Integrity (2016)		
102-16	Values, principles, standards and norms		54, 70, 150–152
	Governance (2016)		
102-18	The governance structure		76–81, 150–152
	Stakeholder Engagement (2016)		
102-40	List of stakeholder groups engaged by the organization		150, 152
102-41	The percentage of total employees covered by collective bargaining agreements		56
102-42	Identification and selection of stakeholders		150
102-43	Approach to stakeholder engagement		150, 152
102-44	Key topics and concerns that have been raised through stakeholder engagement		152
	Reporting profile (2016)		
102-45	Entities included in the organization's consolidated financial statements	Data regarding accidents and CO_2 emissions refers to Cloetta's eight factories.	137
102-46	Defining the report content and the topic boundaries		14–16, 150–152
102-47	List of material topics		14–16, 152
102-48	Restatements of information	Values concerning scope 1 and scope 2 for 2018, as well as CO_2e per produced kg for 2016–2017 have been corrected.	
102-49	Changes in reporting		151
102-50	Reporting period	1 January–31 December 2019	
102-51	Date of most recent previous report	13 March 2019	
102-52	Reporting cycle	Calendar year	
102-53	Contact point for questions regarding the report		151
102-54	Claims of reporting in accordance with the GRI Standards		151
102-55	GRI content index		153–154
102-56	External assurance		155

Performance indicators

		EMPLOYEE DEVELOPMENT AND HEALTH Working conditions (2016)	Scope and deviations	Page
GRI 103 *Management approach*	**103-1**	Explanation of the material topic and its boundary		14–16, 54–57
	103-2	The management approach and its components		54–57, 79, 150–152
	103-3	Evaluation of the management approach		79
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.	57, 86–89
	Own	Occupational injuries, lost days, and absenteeism	Defined as LTIR: number of injuries causing at least 24 hours of absenteeism per million hours worked per year. Data refers to incidents and accidents at Cloetta's eight factories.	5, 37–38, 53, 55
		CONSUMER COMES FIRST **Product responsibility (2016)**		
GRI 103 *Management approach*	**103-1**	Explanation of the material topic and its boundary		14–16, 19–22, 34–40, 73, 150–152
	103-2	The management approach and its components		79, 150–152
	103-3	Evaluation of the management approach		79
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.	15, 42
	Own	Consumer complaints/returns	Refers to Cloetta's customers.	44
		INCREASED RESOURCE EFFICIENCY **Environment (2016)**		
GRI 103 *Management approach*	**103-1**	Explanation of the material topic and its boundary		14–16, 48–49, 70, 73
	103-2	The management approach and its components		48–49, 79, 150–152
	103-3	Evaluation of the management approach		79
GRI 302 *Energy*	**302-1**	Energy consumption inside the organization	Refers to Cloetta's eight factories. Information not available about proportion of renewable/non-renewable energy. Cloetta plans to review how reporting can be enhanced.	48–49, 151
GRI 305 *Emissions*	**305-1** **305-2**	Direct and indirect greenhouse gas emissions, by weight (Scope 1, Scope 2)	Energy consumption and CO_2 emissions (scope 1 and 2) reported include Cloetta's eight factories. For electricity consumption in the factories in Sweden, Ireland, Belgium and Slovenia, the emissions factor has been set at zero (market-based), as purchased electricity (as certified) comes from renewable sources.	48–49, 151
GRI 306 *Effluents and Waste*	**306-1**	Total water discharge by quality and destination.	Includes Cloetta's eight factories. No detailed information available on treatment method.	48–49, 151
	306-2	Total weight of waste, by type and disposal method	Includes Cloetta's eight factories. No detailed information available on treatment method. Data not divided into waste and hazardous waste. Cloetta plans to review how reporting can be enhanced.	48–49
	Own	Recycling of materials	Refers to Cloetta's eight factories.	48–49
	Own	Transportation	CO_2 emissions from transportation (scope 3) includes finished products from Cloetta's eight factories. Reported in CO_2 per transported tonne.	48–49
		RESPONSIBLE SOURCING OF RAW MATERIALS **Human rights (2016)**		
GRI 103 *Management approach*	**103-1**	Explanation of the material topic and its boundary		14–16, 50–53, 73, 150–152
	103-2	The management approach and its components		14–16, 19–22, 34–40, 52, 73, 150–152
	103-3	Evaluation of the management approach		79
GRI 414 *Supplier social assessment*	**414-1**	Percentage of new suppliers that were screened using human rights criteria	Refers to Cloetta's suppliers	52
	Own	Results of sustainability programs for prioritized raw materials	Refers to Cloetta's suppliers	5, 50–53
		ECONOMIC IMPACT (2016)		
GRI 103 *Management approach*	**103-1**	Explanation of the material topic and its boundary		4, 14–16, 150–152
	103-2	The management approach and its components		77–80, 84–85, 150–152
	103-3	Evaluation of the management approach		79
GRI 201 *Economic performance*	**201-1**	Direct economic value generated and distributed	Includes Cloetta and external stakeholders.	13, 150
		ANTI-CORRUPTION (2016)		
GRI 103 *Management approach*	**103-1**	Explanation of the material topic and its boundary		78–79, 150–152
	103-2	The management approach and its components		78–79, 84–85 150–152
	103-3	Evaluation of the management approach		79
GRI 205 *Anti-corruption*	**205-3**	Confirmed incidents of corruption	Includes Cloetta's employees and third parties who act on behalf of Cloetta. Measured as cases reported to the whistleblower service.	151

Auditor's Limited Assurance Report on Cloetta's Sustainability Report and Opinion on the Statutory Sustainability Report

This is a translation of the original report in Swedish
To the annual general meeting of Cloetta AB (publ), corporate identity number 556308-8144

Introduction

We have been engaged by the Board of Directors of Cloetta AB (publ) ("Cloetta") to undertake a limited assurance of Cloetta's Sustainability Report for the year 2019. The company has defined the scope of the sustainability report on the inside cover of the annual and sustainability report. The statutory sustainability report is defined on page 70.

Responsibilities of the Board and Management for the Sustainability Report

The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the Statutory Sustainability Report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 153 of the Sustainability Report, and consist of the parts of the framework for sustainability reports published by GRI (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 which is deemed necessary to establish a sustainability report that does not contain material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the sustainability report based on the limited assurance procedures we have performed and to provide an opinion on the statutory sustainability report. Our assignment is limited to the historical information that is presented and thus does not include future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements Other than Audits or Reviews of Historical 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. We have conducted our review regarding the statutory sustainability report in accordance with FAR's recommendation RevR 12, the Auditor's Opinion on the Statutory Sustainability Report. A limited assurance engagement and a review according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards.

The audit 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 in relation to Cloetta according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed.

The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the security that a stated conclusion based on an audit has. Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as suitable for the preparation of the Sustainability Report.

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

Conclusion

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

A Statutory Sustainability Report has been prepared.

Stockholm 10 March 2020

Öhrlings PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt
Authorised Public Accountant

Fredrik Ljungdahl
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 same period of 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**
Free cash flow	Sum of the cash flow from operating activities and cash flow from investments in property, plant and equipment and intangible assets.	The free cash flow is the cash flow available to all investors consisting of shareholders and lenders.
Free cash flow yield	Free cash flow over the last 12 months divided by the number of shares at the end of the period and subsequently divided by the market price per share at the end of the period.	This metric is an indicator of the return on investment of investors in the company.
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 from continuing operations 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 the company.
Gross debt	Gross current and non-current borrowings, credit overdraft facilities, lease liabilities, 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 annualization 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 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.

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 increases the comparability of the Group's financial performance.
Net financial items	The total of exchange differences on 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 realised 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.	EBIT, adjusted increases the comparability of EBIT.
Organic growth	Net sales, change exluding 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 program. 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.
FVTPL	Fair Value Through Profit and Loss
GRI Global Reporting Initiative	A network-based organization whose founders include the UN. GRI has pioneered the development of a standard for the structure and content of sustainability reporting.
ICC	International Chamber of Commerce.
ILO	International Labour Organization, United Nations agency dealing with labor issues.
ISO 9001 and ISO 14001	International Organization for Standardization. ISO 9001 addresses quality management and ISO 140001 addresses environmental management.
Line extension	New packaging, sizes and flavors for an established brand.
Own brands (EMV)	Brands that retail trade customers sell under their own brands.
The Perfect Factory	The Perfect Factory is Cloetta's development program aimed at improving engagement, reliability and resource-efficiency within manufacturing.
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.

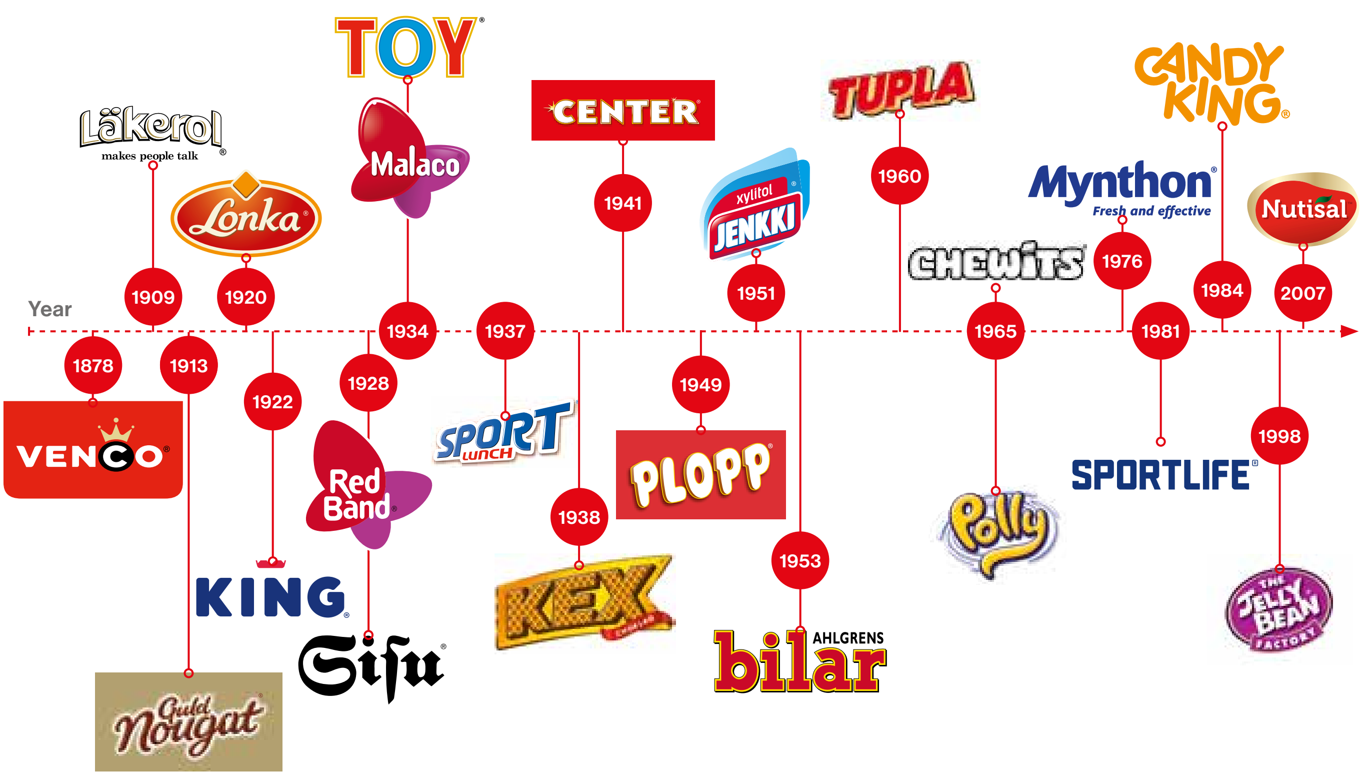
1950–1960

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.

WORDS FROM THE PRESIDENT
GOALS AND STRATEGIES
THE CONFECTIONERY MARKET
BRAND, CATEGORY & PRODUCT DEVELOPMENT
CLOETTA'S MAIN MARKETS
SUPPLY CHAIN
EMPLOYEES
SHARE AND SHAREHOLDERS
FINANCIAL PERFORMANCE
RISKS
CORPORATE GOVERNANCE STATEMENT
FINANCIAL REPORTS
SUSTAINABILITY

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 many organizations to help contribute to better conditions for farmers and more sustainable raw material supply:

- Caobisco (Chocolate, Biscuit & Confectionery Industries of the EU) develops control and certification systems for cocoa production.
- GSA (Global Shea Alliance) works for a sustainable and competitive shea industry.
- RSPO (Round Table on Sustainable Palm Oil) works to increase the quantity of sustainably produced and consumed palm oil in the world.
- UTZ certification for sustainable farming and better opportunities for farmers, including through education.
- Bonsucro works towards ongoing improvements and sustainability in the sugar industry. Cloetta terminated its membership in 2019.
- World Cocoa Foundation runs programs to increase the incomes of cocoa farmers and promote sustainable cocoa cultivation. Cloetta terminated its membership in 2019.

Cloetta is a member of a number of sector organizations:

- Bord Bia (Irish food, drink and horticulture industries)
- Chokofa (Swedish cocoa, confectionery and biscuits industries)
- Choprabisco (Belgian chocolate, praline and confectionery industries)
- DI (Danish chocolate and confectionery industries)
- ETL (Finnsh food industries)
- FNLI (Food industries of the Netherlands)
- HSH (Norwegian retail and service companies)
- VBZ (Bakery and confectionery industries of the Netherlands)

- Finally, Cloetta is a member of the UN's Global Compact.

Shareholder information

Shareholder contact

Nathalie Redmo Head of IR and Communication, +46 76-696 59 40 nathalie.redmo@cloetta.com or ir@cloetta.com

Annual General Meeting

The Annual General Meeting of Cloetta AB (publ) will be held on Thursday, 2 April 2020, at 3:00 p.m., at Stockholm Waterfront Congress Centre in Stockholm.

The Notice of the Annual General Meeting will be published on 27 February 2020 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, 27 March 2020.

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 2020

Annual General Meeting in Stockholm
2 April 2020

JAN 2020 | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN 2021 | FEB

Interim report Q1
24 April 2020

Interim report Q2
14 July 2020

Interim report Q3
23 October 2020

Interim report Q4
28 January 2021

Production: Cloetta in collaboration with Addira
Photos: Joakim Folke, ARA Creative Agency
Printing: åtta45
Translation: Lisa Cockette, Anything English

MILJÖMÄRKT 3041 0001 TRYCKSAK
FSC MIX Paper from responsible sources FSC® C023277

WORDS FROM THE PRESIDENT | GOALS AND STRATEGIES | THE CONFECTIONERY MARKET | BRAND, CATEGORY & PRODUCT DEVELOPMENT | CLOETTA'S MAIN MARKETS | SUPPLY CHAIN | EMPLOYEES | SHARE AND SHAREHOLDERS | FINANCIAL PERFORMANCE | RISKS | CORPORATE GOVERNANCE STATEMENT | FINANCIAL REPORTS | SUSTAINABILITY

Cloetta, founded in 1862, is a leading confectionery company in Northern Europe. 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, Candyking, Jenkki, Kexchoklad, Malaco, Sportlife and Red Band. Cloetta has eight production units in five countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

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