

## **PROPOSAL BY THE BOARD OF DIRECTORS OF CLOETTA AB (PUBL) REGARDING A LONG TERM SHARE BASED INCENTIVE PLAN (LTI 2017)**

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The Board of Directors proposes that the Annual General Meeting resolves on a long term share based incentive plan (LTI 2017) for Cloetta AB (publ) ("Cloetta") as follows.

### **1.1 LTI 2017 in brief**

The Annual General Meetings 2013, 2014, 2015 and 2016 in Cloetta resolved to introduce long term share based incentive plans. The Board of Directors now proposes a long term share based incentive plan with a similar structure as the incentive plans that were adopted the preceding years. The main reason for LTI 2017 is to align the interests of the shareholders on the one hand and group management and other key employees on the other hand in order to ensure maximum long term value creation. In line with previous Long Term Incentive Programs, also LTI 2017 will create a long term group-wide focus on increased profit and growth among the participants. It is also considered that incentive plans facilitate Cloetta's recruitment and retention of group management and other key employees.

LTI 2017 comprises of 70 employees as a maximum, consisting of the group management and other key employees. To participate in LTI 2017, a personal shareholding in Cloetta is required. Following a defined vesting period, the participants will be allocated B-shares in Cloetta free of charge provided that certain conditions are fulfilled. In order for so-called matching share rights to entitle the participant to receive B-shares in Cloetta, continued employment with Cloetta is required and the personal shareholding in Cloetta must have been continuously maintained during the same time. Allocation of B-shares on the basis of performance share rights requires, in addition, that two performance targets have been met, one of which is related to Cloetta's EBIT and the other to Cloetta's net sales value. The maximum number of B-shares in Cloetta which may be allocated under LTI 2017 shall be limited to 1,221,698 representing approximately 0.4 per cent of the outstanding shares and 0.4 per cent of the outstanding votes.

### **1.2 Participants in LTI 2017**

LTI 2017 comprises up to 70 employees as a maximum, consisting of group management and certain key employees within the Cloetta Group, divided into three categories. The first category comprises of the President and CEO and the other nine members of the group management, the second category is comprised of up to 33 employees, who have been considered to have a significant direct impact on the results of Cloetta. The third category is comprised of up to 27 employees, consisting of individuals who have been considered to have an indirect impact on the results of Cloetta.

### **1.3 Personal shareholding, grant of share rights and vesting period**

To participate in LTI 2017, the participant must have a personal shareholding in Cloetta ("Investment Shares"), which shall be allocated to LTI 2017. The Investment Shares may be acquired specifically for purposes of LTI 2017, or be shares already held by the participant, provided that these have not been

allocated to the previous incentive plan. The participant may as a maximum invest 10 per cent of the participant's annual salary for 2017 before tax, in LTI 2017.

For the first category of participants, each Investment Share gives entitlement to one (1) matching share right ("Matching Share Right") and six (6) performance share rights ("Performance Share Right") (together referred to as "Share Rights"). For the second category, each Investment Share gives entitlement to one (1) Matching Share Right and four (4) Performance Share Rights. For the third category, each Investment Share gives entitlement to one (1) Matching Share Right and two (2) Performance Share Rights. The Share Rights will be granted to the participant following the Annual General Meeting 2017 in connection with, or shortly after, an agreement is made between the participant and Cloetta concerning participation in LTI 2017. Allocation of B-shares, if any, on the basis of Share Rights will, except for in exceptional circumstances, occur after the announcement of Cloetta's interim report for the first quarter 2020 (the "Vesting Period").

#### **1.4 Terms for all Share Rights**

For all Share Rights the following conditions apply:

- The Share Rights are granted free of charge.
- Each Matching Share Right entitles the participant to receive, free of charge, one (1) Cloetta B-share on condition that the participant remains employed within the Cloetta Group and that the participant continues to hold all the Investment Shares during the entire Vesting Period. Allocation of B-shares on the basis of Performance Share Rights requires, in addition, fulfilment of two performance targets.
- The participants are not entitled to transfer, pledge or dispose of the Share Rights or perform any shareholders' rights regarding the Share Rights during the Vesting Period.
- Cloetta will not compensate the participants in the plan for dividends made in respect of the shares that the respective Share Right qualifies for.

#### **1.5 Performance Share Rights**

The number of Cloetta B-shares that will be allocated to the participant based on the participant's holding of Performance Share Rights will depend on the level of fulfilment of two performance targets, one of which relates to Cloetta's EBIT level during 2019 and the other relates to growth in Cloetta's compounded net sales value during 2017-2019. A minimum level and a maximum level for each of the performance targets have been established by the Board of Directors. In order for every Performance Share Right to give entitlement to one (1) B-share in Cloetta, the maximum level for both performance targets must have been fulfilled. Where the level of fulfilment is between the minimum and maximum levels, allotment will occur on a linear basis in stages, whereby each of the two performance targets is given equal importance in terms of entitling the participant to B-shares.<sup>1</sup> Cloetta intends to present the level of fulfilment of the performance targets in the 2019 annual report.

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<sup>1</sup> For the purpose of determining the level of fulfilment of the performance targets, Cloetta's EBIT and net sales value will be adjusted so to be unaffected by structural changes such as acquisitions and divestures as well as extra ordinary items.

## **1.6 Formulation and administration**

The Board of Directors, or a specific committee appointed by the Board of Directors, shall be responsible for the formulation and administration of LTI 2017, and the terms that will apply between Cloetta and the participant in the plan, within the scope of the terms and directions set out herein. In connection therewith, the Board of Directors shall be authorised to establish divergent terms for the plan regarding inter alia the Vesting Period and allocation of Cloetta shares in the event of termination of employment during the Vesting Period as a result of e.g. early retirement. The Board of Directors shall be authorised to make the necessary adjustments to fulfil specific rules or market prerequisites in other jurisdictions. In the event that the delivery of shares to persons outside of Sweden cannot be achieved at reasonable cost and with reasonable administrative efforts, the Board of Directors may decide that the participating person may instead be offered cash based settlement. The Board of Directors shall, in certain circumstances, be entitled to reduce the final allocation of Cloetta shares or, in whole or in part, terminate the plan prematurely without compensation to the participants if significant changes occur in the company or on the market.

## **1.7 Scope**

As a maximum, 1,221,698 B-shares in Cloetta can be allocated to the participants under LTI 2017, which represents approximately 0.4 per cent of all shares and 0.4 per cent of all votes in the company. The number of B-shares included in LTI 2017 shall, under conditions that the Board of Directors stipulates, be subject to recalculation where Cloetta implements a bonus issue, a share split or a reverse share split, a rights issue or similar measures, taking into account customary practice for similar incentive plans.

## **1.8 Hedging**

Cloetta will enter into a share swap agreement with a bank, whereby the bank shall be able to in its own name acquire and transfer shares to the participants in order to fulfil Cloetta's obligation to deliver shares under the plan. Such a share swap agreement with a bank may also be used for the purpose to cover social security fees that accrue under LTI 2017.

## **1.9 Estimated costs, and value, of LTI 2017**

The Share Rights cannot be pledged or transferred to others, but an estimated value for each right can be calculated. The Board of Directors has estimated that the value of each Share Right is SEK 33.90. This estimate is based on the closing price for the Cloetta share on 23 February 2017. Based on the assumption that all persons who have been offered participation in the plan participate, that they make the maximum investment, that there is a 100 per cent fulfilment of the two performance targets and that they continue as employees of Cloetta, the aggregate estimated value of the Share Rights is approximately MSEK 41. This value is equivalent to approximately 0.4 per cent of the market capitalisation for Cloetta as of 23 February 2017.

The costs are treated as staff costs in the profit and loss accounts during the Vesting Period, in accordance with IFRS 2 on share-based payments. In the profit and loss accounts, social security costs will accrue in accordance with UFR 7 over the Vesting Period. The size of these costs will be calculated based on the Cloetta share price development during the Vesting Period and allocation of the Share Rights. Based on the assumptions stated above and a constant share price during the plan, and a Vesting Period of three (3) years, the total cost of LTI 2017 including social security costs is estimated to amount to approximately

MSEK 47, which on an annual basis is approximately 1.2 per cent of Cloetta's total staff costs during the financial year 2016. LTI 2017 has no limitation on maximum profits per Share Right for the participants and therefore no maximum social security costs can be calculated.

The interest cost for the equity swap is estimated to amount to approximately MSEK 2 based on market conditions as of 23 February 2017 and a three-year term. In addition, the equity swap may lead to both positive and negative cash flows, which, while not affecting the income statement, will be booked directly against equity and may be recorded as debt in the balance sheet.

#### **1.10 Effects on key ratios**

In the event of full participation in LTI 2017, Cloetta's staff costs are expected to increase with approximately MSEK 16 annually (including social security costs). On a pro-forma basis for 2016, these costs are equal to a negative effect on Cloetta's operating margin of approximately 0.3 per cent units and a decrease of earnings per share of approximately SEK 0.06. Nevertheless, the Board of Directors considers that the positive effects on Cloetta's financial performance which are expected from an increased shareholding by the participants, and the possibility to be allocated further shares in Cloetta under LTI 2017, outweigh the costs related to LTI 2017.

#### **1.11 The preparation of the proposal**

LTI 2017 has been initiated by the Board of Directors in Cloetta and prepared together with external advisors. The plan has been reviewed by the Remuneration Committee and dealt with at meetings of the Board of Directors during the beginning of 2017.

#### **1.12 Other incentive plans in Cloetta**

Please refer to Cloetta's annual report 2016, note 22 or the company's website [www.cloetta.com](http://www.cloetta.com) for a description of other share based incentive plans in Cloetta.

#### **1.13 The proposal by the Board of Directors**

Referring to the description above, the Board of Directors proposes that the Annual General Meeting resolves on LTI 2017.

#### **1.14 Majority requirement**

A resolution on LTI 2017 in accordance with the Board of Directors' proposal is valid where supported by shareholders holding more than half of the votes cast at the Annual General Meeting.

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Cloetta AB (publ)  
Board of Directors  
February 2017