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

FOUNDED IN 1862
SALES IN >50 COUNTRIES

EMPLOYEES

ANNUAL SALES SEK 6.2 BILLION

LEADING BRANDS

Pastilles
Pastilles
Pastilles
Pastilles
Pastilles
Pastilles

Candy
Candy
Candy
Candy
Candy
Candy

Chewing gum
Chewing gum
Chewing gum
Chewing gum
Chewing gum
Chewing gum

PICK & MIX

PASTILLES
CHEWING GUM

VISION
To be the most admired satisfier of Munchy Moments

MISSION
To bring a smile to your Munchy Moments

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

Categories in which Cloetta is a market leader

**Sweden**
Pastilles
Chocolate bars
Chocolate bags
Pick & mix

**Finland**
Pastilles
Candy
Chewing gum
Pick & mix

**The Netherlands**
Pastilles
Candy
Chewing gum

**Denmark**
Pastilles
Candy
Pick & mix

**UK**
Pick & mix

**Norway**
Pastilles
Candy
Pick & mix
Cloetta’s strengths

• Strong leading local brands.
• Core markets in stable Northwestern Europe.
• Strong European leader in pick & mix.

• Scale benefits in Northwestern Europe versus local competition.
• Route to market scale in core markets.
• Locally tailored innovation.
The year in brief

- Katarina Tell appointed President Cloetta Sweden.
- Michiel Havermans appointed Senior Vice President International Markets and UK.
- Thomas Biesterfeldt appointed Chief Marketing Officer.
- Oskari Vidman appointed Chief Pick & Mix Officer.
- Ordinary dividend of SEK 0.75 and special dividend of SEK 0.75 is paid.
- Amended and extended loan programme and launched commercial-paper programme.
- Frans Rydén appointed CFO.
- New production line installed in the factory in Turnhout, Belgium.
- Candyking units in the Nordic countries implemented Cloetta’s business enterprise system.

Examples of new launches

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

Key ratios

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

For definitions, see page 156.
Long-term financial targets

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

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

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

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

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

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

**Dividend policy**
Cloetta’s goal is to have a dividend payout ratio of 40 to 60 per cent of profit after tax.

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

**Employees and customers**

Cloetta has zero tolerance for occupational injuries.

**Lost Time Injury Rate (LTIR)**

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

- **Energy consumption**
  - Energy consumption per produced tonne to be reduced by five per cent by 2020, compared with 2014 levels.
  - The figures for 2016 and 2017 have been adjusted.

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

**Carbon dioxide emissions**

CO₂ emissions from production to be reduced by 5 per cent per produced kg by 2020, compared with 2014 levels.

**Responsible sourcing**

Cloetta’s ambition

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

**Comments on the year’s outcome**

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

* Read more on pages 49–50.
Cloetta’s strategy is built on three pillars:

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

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

3. **Fund growth**
   - Drive cost saving activities throughout the entire organisation
   - Embed “Perfect Factory” and Lean programme in the supply chain
   - Insource production
   - Improve profitability in pick & mix
   - Improve marketing efficiency and internal systems and processes
Cloetta’s value chain

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

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

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

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

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

- **Environment**
  - Continuous endeavours to use energy more efficiently in production and to reduce CO₂ emissions.
  - Improved resource efficiency through recycling of materials and energy.
  - Systematic environmental management is a natural part of processes in all factories.

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

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

Sustainability programmes for cocoa, palm oil and shea butter

- For several years Cloetta has conducted a long-term programme, NAFNAC aimed at offering a portfolio of products that contains only natural flavours and colours.
- Cloetta systematically develops alternative products for its major brands that have lower sugar or are sugar-free. Under the brands Red Band and Malaco Gott & Blandat products that are low sugar, sugar-free or vegetarian have been launched.
- Suppliers to Cloetta’s production are subject to an approval process in which both product safety, social- and environmental requirements are evaluated.
- Cloetta promotes sustainable production of the prioritized raw materials cocoa, palm oil and shea butter. Read more on pages 48 - 50.
Tax information
Cloetta paid SEK 1,326m (1,177) in various taxes in 2018. These were mainly value-added tax, sugar tax and employment-related taxes. Considering the profit reported before tax, the amount of corporate income tax paid is relatively low due to the availability of tax losses carried forward. The majority of the remaining tax losses carried forward are expected to be utilized in the near future.

Tax paid per country

- Sweden 16.7%
- Finland 13.7%
- Denmark 34.5%
- Norway 17.9%
- Germany 4.5%
- Ireland 0.2%
- Belgium 0.7%
- Slovakia 1.0%
- The Netherlands 9.8%
- UK 4.5%
- Other 2%

Cloetta paid SEK 1,326m in various taxes in 2018.

Economic impact
Production and sales of Cloetta’s products generate economic value that benefits its stakeholders.

- Shareholders 7%
- Employees 23%
- Suppliers of raw materials and consumables 45%
- Other suppliers 22%
- Creditors, financial partners 2%
- Corporate income tax 1%

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

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

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

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

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

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

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