

PROPOSAL BY THE BOARD OF DIRECTORS OF CLOETTA AB (PUBL) REGARDING A LONG-TERM SHARE-BASED INCENTIVE PLAN (LTI 2019)

The Board of Directors proposes that the Annual General Meeting resolves on a long-term share-based incentive plan (LTI 2019) for Cloetta AB (publ) ("Cloetta") as follows.

1.1 LTI 2019 in brief

The Board of Directors proposes a long term share based incentive plan with a new structure compared to the long-term share-based incentive plans resolved by the Annual General Meeting's 2013 to 2018.

The main changes compared to previous programs are that fewer employees will be invited to join the incentive plan and that the matching share right will be removed and replaced by a performance share right.

The proposed plan is considered to be aligned with market developments regarding LTI programs while it at the same time aligns the interests of the shareholders on the one hand and the group management team and other senior managers on the other hand in order to ensure maximum long-term value creation. LTI 2019 will incentivise a long-term group-wide focus for the participants on increased profit and growth. The long-term incentive plan is also important for Cloetta to be able to recruit and retain senior employees.

LTI 2019 comprises 45 employees as a maximum, consisting of the group management team and other senior managers.

To participate in LTI 2019, 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 the participant to receive B-shares in Cloetta, continued employment with Cloetta is required and that the personal shareholding in Cloetta for LTI 2019 has been unchanged during the same time. Allocation of B-shares requires, in addition, that certain performance targets related to Cloetta's EBIT and net sales value (organic growth) have been met. The maximum number of B-shares in Cloetta which may be allocated under LTI 2019 shall be limited to 1,656,101 representing approximately 0.6 per cent of the outstanding shares and 0.5 per cent of the outstanding votes.

1.2 Participants in LTI 2019

LTI 2019 comprises up to 45 employees as a maximum, consisting of the group management team and senior managers within the Cloetta Group, divided into three categories. These employees are considered to have a large impact on the results of Cloetta. The first category comprises the President and CEO and the other eleven members of the group management team, the second category is comprised of up to 10 senior managers, who belongs to a certain management level. The third category is comprised of up to 23 senior managers, consisting of individuals who have a certain other employment level.

1.3 Personal shareholding, grant of performance share rights and vesting period

To participate in LTI 2019, the participant must have a personal shareholding in Cloetta ("Investment Shares"), which shall be allocated to LTI 2019. The Investment Shares may be acquired specifically for purposes of LTI 2019, or be shares already held by the participant, provided that these have not been allocated to the previous incentive plans. The President and CEO and the group management team may as a maximum invest 12 per cent of the participant's fixed annual salary for 2019 before tax, the participants in the second category may as a maximum invest 10 per cent of the participant's fixed annual salary for 2019 before tax, and the participants in the third category may as a maximum invest 8 per cent of the participant's fixed annual salary for 2019 before tax in LTI 2019.

For the first category of participants, each Investment Share gives entitlement to six and a half (6.5) performance share rights. For the second category, each Investment Share gives entitlement to five (5) performance share rights. For the third category, each Investment Share gives entitlement to three and a half (3.5) performance share rights. The performance share rights will be granted to the participant following the Annual General Meeting 2019 in connection with, or shortly after, an agreement is made between the participant and Cloetta concerning participation in LTI 2019.

1.4 Terms for the performance share rights

For the performance share rights the following conditions apply:

- The performance share rights are granted free of charge.
- The participants are not entitled to transfer, pledge or dispose of the performance share rights or perform any shareholders' rights regarding the performance share rights during the vesting period.
- Allocation of B-shares shall normally take place within two weeks after announcement of Cloetta's interim report for the first quarter of 2022.
- Allocation of B-shares based on performance share right is conditional upon that the participant remains employed within the Cloetta Group until the announcement of Cloetta's interim report for the first quarter of 2022, and also not before that terminated her or his employment, been made redundant or dismissed and that the participant continues to hold all the Investment Shares. Allocation of B-shares on the basis of performance share rights requires, in addition, fulfilment of performance targets.
- Cloetta will not compensate the participants in the plan for dividends made in respect of the shares that the respective performance share right qualifies for.

1.5 Performance targets

The performance share rights are divided into Series A and Series B according to the different performance targets that LTI 2019 includes and that drive long-term value for Cloetta. Of each participant's allocation of performance share rights shall one (1) be of Series A and the rest of the performance share rights shall be of Series B. Allocation of B-shares will depend on the level of fulfilment of the performance targets.

Series A Allocation is conditional upon that Cloetta's average annual EBIT level for 2019-2021 is higher than the EBIT level for 2018.

Series B The Board of Directors has established a minimum level and a maximum level for the performance target. The maximum level, which entitles to full allocation, is that Cloetta's compounded net sales value is at least 2 per cent annually for 2019-2021 and that Cloetta's EBIT margin for 2021 is at least 14 per cent. The minimum level is a compounded net sales value that is above 0 per cent annually for 2019-2021 and an EBIT margin that is above 11.1 per cent for 2021. Where the level of fulfilment is between the minimum and maximum levels, allocation will occur on a linear basis, whereby each of the two performance targets is given equal importance in terms of entitling the participant to B-shares.¹

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 2019, 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, 1,656,101 B-shares in Cloetta can be allocated to the participants under LTI 2019, which represents approximately 0.6 per cent of all shares and 0.5 per cent of all votes in the company. The number of B-shares included in LTI 2019 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 2019.

1.9 Estimated costs, and value, of LTI 2019

The performance 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 performance share right is SEK 23.38. This estimate is based on the closing price for the Cloetta share on 5 February 2019. 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 performance targets and

¹ 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.

that they continue as employees of Cloetta, the aggregate estimated value of the performance share rights is approximately SEK 39m. This value is equivalent to approximately 0.6 per cent of the market capitalisation for Cloetta as of 5 February 2019. Historic performance for earlier Cloetta long-term programs shows an average pay out of 28 per cent of the maximum number of shares.

The costs are treated as personnel expenses 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 performance 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 2019 including social security costs is estimated to amount to approximately SEK 44m which on an annual basis is approximately 1.2 per cent of Cloetta's total personnel expenses during the financial year 2018. LTI 2019 has no limitation on maximum profits per performance share right for the participants and therefore no maximum social security costs can be calculated because it depends on the share price.

The interest cost for the equity swap is estimated to amount to approximately SEK 2m based on market conditions as of 5 February 2019 and a three-year term. In addition, the equity swap may lead to both positive and negative cash flows, which, while not affecting the profit and loss account, 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 2019, Cloetta's personnel expenses are expected to increase with approximately SEK 17m annually (including social security costs). On a pro-forma basis for 2018, 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 2019, outweigh the costs related to LTI 2019.

1.11 The preparation of the proposal

LTI 2019 has been initiated by the Board of Directors in Cloetta. The plan has been prepared and reviewed by the Remuneration Committee and dealt with at meetings of the Board of Directors during the beginning of 2019.

1.12 Other incentive plans in Cloetta

Please refer to Cloetta's annual report 2018, note 25 or the company's website 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 2019.

1.14 Majority requirement

A resolution on LTI 2019 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.

Cloetta AB (publ)
Board of Directors
February 2019