

Remuneration report 2020



Cloetta

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This remuneration report provides an outline of how Cloetta's guidelines for executive remuneration (the "remuneration guidelines"), adopted by the Annual General Meeting 2020, have been implemented in 2020. The report also provides details on the remuneration of Cloetta's President and CEO (the "President"). In addition, the report contains a summary of Cloetta's outstanding share and long-term incentive plans. The report has been prepared in compliance with Chapter 8, Sections 53 a and 53 b of the Swedish Companies Act (2005:551), the Swedish Corporate Governance Code and the Rules on Remuneration of the Board and Executive Management and on Incentive Programmes issued by the Swedish Corporate Governance Board.

Information required by Chapter 5, Sections 40–44 of the Annual Accounts Act (1995:1554) is available in Notes 5 and 6 on pages 112–113 and the disclosures in the section on the Remuneration of the Group Management Team on pages 88–89 in Cloetta's Annual and Sustainability Report 2020 (the "Annual Report 2020").

Information on the work of the remuneration committee in 2020 is set out in the corporate governance statement, which is available on page 86 of the Annual Report 2020.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the annual general meeting and disclosed in Note 6 on page 113.

Key Developments 2020 Overall company performance in 2020

2020 has been a year marked by the Covid-19 pandemic, with many related challenges. Net sales for the year decreased by 12.3 per cent, including a negative effect of 1.1 per cent due to exchange rate fluctuations. Sales of branded packaged products decreased organically by 2.7 per cent, as an increased demand from grocery stores was more than offset by a decline in other sales channels that have either closed or seen a reduction in the number of shoppers. Sales of pick & mix declined organically by 33.7 per cent, negatively impacted by temporary measures taken by grocery stores, a lower demand from consumers and lower in-store activation. Operating profit margin, adjusted for items affecting comparability, decreased to 9.0 per cent (11.4), driven by lower gross profit and increased marketing investments, partly mitigated by continued strong cost control. Despite the Covid-19 situation, Cloetta managed to keep the Net debt/EBITDA ratio around the target of 2.5x. For more information about the overall performance in 2020, please see pages 69–75 of the Annual Report 2020.

Overview of the application of the remuneration guidelines in 2020

The Remuneration Committee monitors and evaluates programs for variable remuneration for the President, both those that are outstanding and those that have been completed during the year. The actual and expected outcome of such programs have been reported to the Board and discussed at Board meetings during the year.

Based on the Remuneration Committee's evaluation of the President's remuneration, the Board has determined that the current remuneration structure and remuneration level is appropriate, reflects market practice and is competitive and suitable for achieving Cloetta's objectives. After evaluation, both the Remuneration Committee and the auditor have concluded that Cloetta has complied with current remuneration guidelines and that there has not been any deviation or derogation from the procedure for the implementation of the remuneration guidelines, nor any derogations from the remuneration guidelines themselves during the 2020 financial year.

Under Cloetta's remuneration guidelines, remuneration of the Group Management Team shall be on market terms and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The remuneration guidelines, adopted by the Annual General Meeting 2020, can be found on page 88–89 of the Annual Report 2020. The auditor's report regarding whether Cloetta has complied with the guidelines is available on Cloetta's website <https://www.cloetta.com>.

In addition to remuneration covered by the remuneration guidelines, the Annual General Meetings of Cloetta have resolved to implement long-term incentive plans and on remuneration to the Board of Directors.

The Board has not reduced or reclaimed remuneration that has been paid.

The table below sets out total remuneration paid to Cloetta's President, as well as the costs incurred by the company for the remuneration of the President during 2019 and 2020.

Total remuneration of the President and CEO

Remuneration – costs incurred

	Financial year	Fixed remuneration		Variable remuneration				Total remuneration	Proportion of fixed and variable remuneration
		Base salary	Other benefits	One-year variable	Multi-year variable	Extraordinary items	Pension expense		
Henri de Sauvage-Nolting	2020	5,000	92	5	529	–	1,500	7,126	93%/7%
	2019	4,660	96	3,658	388	–	1,398	10,200	60%/40%

Remuneration – paid

	Financial year	Fixed remuneration		Variable remuneration				Total remuneration	Proportion of fixed and variable remuneration
		Base salary	Other benefits	One-year variable	Multi-year variable	Extraordinary items	Pension expense		
Henri de Sauvage-Nolting	2020	5,000	92	3,649	257	–	1,500	10,498	63%/37%
	2019	4,660	96	263	–	–	1,398	6,417	96%/4%

Share-based remuneration* Outstanding long-term incentive plans

Cloetta has currently three outstanding long-term incentive plans, LTI 2018, LTI 2019 and LTI 2020. During 2020, LTI 2017 vested. The long-term incentive plans serve 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.

All of the long-term incentive plans require a personal shareholding in Cloetta. Following a three-year vesting period, the participants are allocated class B shares in Cloetta free of charge, provided that certain conditions are fulfilled. Under LTI 2017 and LTI 2018, the participants received so-called matching share rights, which entitle the participant to class B shares in Cloetta, conditional upon continued employment with

Cloetta and that the personal shareholding in Cloetta is continuously maintained. The matching share rights under LTI 2017 and LTI 2018 were replaced by series A performance share rights in LTI 2019 and 2020, that also require a minimum average EBIT over the vesting period. In addition, under all of the long-term incentive plans, the participants receive so-called series B performance share rights, which entitle the participant to class B shares in Cloetta, conditional upon the fulfilment 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.

LTI 2017 vested in 2020. None of the two performance targets of LTI 2017 were met. The performance targets were related to growth in Cloetta's compounded sales value during the period 2017 to 2019 and EBIT level during 2019. In total, 95,264 class B shares in Cloetta were delivered to

the participants under the program due to the matching share rights.

LTI 2018 will vest in 2021. The two performance targets of LTI 2018 were not met. The performance targets were related to growth in Cloetta's compounded sales value during the period 2018 to 2020 and EBIT level during 2020. In total, a maximum of 138,441 class B shares in Cloetta will be delivered to the participants under the program due to the matching share rights.

The first table below sets out further information with respect to LTI 2019 and LTI 2020.

The President participated in LTI 2017 which expired during 2020 and is currently participating in the following outstanding programs: LTI 2018, LTI 2019 and LTI 2020. Information of each of the outstanding programs may be found in the second table below.

* 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.

Main characteristics long-term incentive plans

	LTI 2020	LTI 2019	LTI 2018
AGM approval date	2 April 2020	4 April 2019	16 April 2018
Maximum number of B shares to be allocated	1,206,374	1,648,046	1,201,602
as percentage of total shares	0.4	0.6	0.4
as percentage of voting rights	0.4	0.5	0.4
Number of employees offered the opportunity to participate	45	45	54
Number of participants at inception date	30	30	44
Estimated number of B shares to be allocated, subject to possible recalculation	1,021,771	523,046	138,441
as percentage of total shares	0.4	0.2	0.0
as percentage of voting rights	0.3	0.2	0.0
Number of participants at reporting date	28	25	32

Remuneration of the President and CEO in shares

Plan	The main conditions of share award plans				Information regarding the reported financial year						
	Performance period	Award date	Vesting date	End of retention period	Shares held at the beginning of the year	Opening balance	During the year		Closing balance	Shares subject to a performance condition	Shares to be allocated if performance targets are met in full
						Shares invested	Shares vested	Shares granted on vesting date			
Henri de Sauvage-Nolting	LTI 2017	2017–2019	April 2017	April 2020	n/a	11,587	–	11,587	11,587	–	n/a
	LTI 2018	2018–2020	April 2018	April 2021	n/a	14,471	–	–	–	14,471	101,297
	LTI 2019	2019–2021	April 2019	Q2 2022	n/a	18,739	–	–	–	18,739	121,804
	LTI 2020	2020–2022	April 2020	Q2 2023	n/a	–	24,382	–	–	24,382	158,483
	Total					44,797	24,382	11,587	11,587	57,592	381,584

Application of performance criteria

Cloetta's business strategy involves, inter alia, to strengthen the company's position as the leading confectionery company in Northwestern Europe. In order to achieve this, the company is working to grow sales, especially organically, and to further improve the profitability on the company's main markets being Sweden, Finland, the Netherlands, Denmark, Norway, Germany and the UK. It is essential for Cloetta to create an incentive for the Group Management Team to drive commitment, forward thinking and activities that drive sales and strengthen Cloetta's brands in a way which is sustainable in the long-term. The remuneration to the Group Management Team shall ensure that Cloetta can recruit and retain qualified employees and that the Group Management Team has the right focus and that right behaviour is encouraged. The types of remuneration shall be in line with market practice and competitive based on the conditions on the markets where Cloetta

operates and shall be designed in a way that motivate the members of the executive management team to do their utmost to create shareholder value.

Any variable salary shall be limited to the equivalent of one fixed annual salary. The variable salary shall be linked, directly or indirectly, to the achievement of the financial targets set by Cloetta's Board of Directors, which relate to organic sales growth and EBIT margin. The targets shall be measured in relation to the development of the entire group or be linked to the development of e.g. a region or otherwise to the executive's area of responsibility. Variable salary shall generally be paid based on performance over a period of twelve months (the calendar year) and shall be based on the company's most recently published financial information. Variable salary shall only be paid if the profit for the year exceeds the previous year's profit. Cloetta's Board of Directors is responsible for assessing the outcome in relation to variable salary to the President.

In relation to variable salary to the other members of the executive management team, the President is responsible for assessing the outcome which shall be confirmed by the remuneration committee.

Set out in the first table below is a description of how the criteria for payment of variable short- and long-term compensation have been applied for the President during the financial year 2020. The table shows realization of 2020 targets. Bonus paid out in 2020 was based on realization of 2019 targets.

The second table below presents the change of remuneration and company performance since 2017. Due to the divestment of the Italian business and the acquisition of Candyking in 2017, the period 2017–2020 reflects the most appropriate reference period, as the company's structure in years prior to 2017 are not fully comparable. The current President was appointed in 2017.

Criteria for variable short-term compensation of the President and CEO¹

	Description of the criteria related to the remuneration component	Relative weighting of the performance criteria	a) Measured performance and b) award/remuneration outcome ²
<i>Henri de Sauvage-Nolting</i>	Group net sales	45%	a) SEK 5,695m b) 0
	Group operating profit, adjusted	45%	a) SEK 515m b) 0
	Group indirect costs	10%	a) SEK -924m b) 0
			0

1) For long-term compensation criteria, please refer to the section "share-based remuneration".

2) Threshold for pay out of variable short-term remuneration was not reached.

Change of remuneration and company performance over the last three reported financial years (RFY)

	2018 vs 2017		2019 vs 2018		2020 vs 2019		2020
	SEK thousand	in %	SEK thousand	in %	SEK thousand	in %	SEK thousand
Annual change							
Total remuneration President	1,003	16%	2,749	37%	-3,074	-30%	7,126
Company's performance							
Group net sales	434	8%	275	4%	-798	-12%	5,695
Group operating profit, adjusted	73	12%	66	10%	-228	-31%	515
Average remuneration on a full-time equivalent basis of employees¹	50	15%	11	3%	-8	-2%	397

1) All employees of the Cloetta Group, excluding the Group Management Team, have been included in the calculation of the average remuneration on a full-time equivalent basis.