Cloetta

ANNUAL REPORT 2009

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CENTER
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MJÖLKCHOKLAD MED LJUVLIG NOUGATFYLLNING

About Cloetta

Founded in 1862, Cloetta is the Nordic region's oldest and only major wholly Swedish confectionery company. The company's best known brands are Kexchoklad, Center, Plopp, Polly, Tarragona, Guldnougat, Bridge, Juleskum, Sportlunch and Extra Starka. Cloetta has two production units in Sweden, one in Ljungsbro and one in Alingsås.

Highlights of the year

- **Consolidated net sales** for the financial year from 1 September 2008 to 31 August 2009 reached SEK 1,184 million (1,387).
- **Operating profit** was SEK 0 million (–57). One-time items affecting comparability with the prior year were charged to profit in an amount of SEK 8 million (114). Excluding these items, operating profit was SEK 8 million (57), equal to an operating margin of 0.7% (4.1).
- **Earnings per share,** basic and diluted, were SEK 0.23 (–2.63).
- **Cloetta's class B share** has been traded on NASDAQ OMX Stockholm since 16 February 2009.
- **Dividend** – the Board proposes that no dividend be paid.

The comparative figures refer to the period from 1 September 2007 to 31 August 2008 (pro forma).

Quarterly data

	2008/2009	Q4	Q3	Q2	Q1	2007/2008	Q4	Q3	Q2	Q1
	Sep 2008 – Aug 2009	2009 Jun–Aug	2009 Mar–May	Dec 2008 –Feb 2009	2008 Sep–Nov	Sep 2007 –Aug 2008	2008 Jun–Aug	2008 Mar–May	Dec 2007 – Feb 2008	2007 Sep–Nov
Net sales, SEK M	**1,184**	212	237	278	457	**1,387**	304	305	332	446
Operating profit, SEK M	**0**	–22	–8	–8	38	**–57**	–89	3	–9	38
Operating margin, %	**0**	neg.	neg.	neg.	8.3	**neg.**	neg.	1.0	neg.	8.5
Operating profit/loss, SEK M [1]	**8**	–19	2	–8	33	**57**	3	3	–9	60
Operating margin, % [1]	**0.7**	neg.	0.8	neg.	7.2	**4.1**	1.0	1.0	neg.	13.5
Earnings per share, SEK	**0.23**	–0.80	–0.32	–0.18	1.53	**–2.63**	–3.64	0.09	–0.18	1.10

[1] Excluding items affecting comparability.

Managing Director's comments

We can now look back on our first full financial year as an independent company. It has been intense, eventful and demanded an enormous commitment on the part of all our employees, but above all the past year has been inspiring, enjoyable and interesting.

Since the start of the new Cloetta we are focused exclusively on Cloetta's position and brands. As an independent company we can now prioritise differently than during the Cloetta Fazer years. Regardless of a company's size, the available resources are always limited and priorities must always be set, which means that many of Cloetta's brands could previously not be given scope to develop to their full potential. For an independent Cloetta, I see ample opportunities for many of our well known and popular brands to achieve prominent positions in their respective markets with the right support and development initiatives. It is a longstanding Cloetta tradition to deliver delicious combinations such as wafers and chocolate, toffee and chocolate, marshmallows and chocolate and nuts and chocolate, to name a few. Cloetta will be introducing more tasty combinations in the future.

> **"Our chosen approach has resulted in a focused, agile and goal-oriented organisation."**

Adapting to a new reality

To a large extent, the first half of the year was marked by the adaptation of our operations and organisation to the new conditions resulting from the demerger of Cloetta Fazer. When Cloetta discontinued the sale of Fazer's products, this gave rise to redundancies and led to reductions in our workforce. We have realigned everything from our strategies and business plans to work processes and the product range, and have closed the office in Stockholm to gather our development and marketing resources in Ljungsbro. Our original base in Ljungsbro will thus serve as the hub for finding and developing attractive products that will once again give Cloetta's brands the attention they deserve.

This adaptation is far from finished and is an ongoing process in which old truths are continuously questioned and new ideas and suggestions are welcomed and evaluated with a view to Cloetta's best interests. Our chosen approach has resulted in a focused, agile and goal-oriented organisation with all the necessary attributes to play an important role in the Nordic confectionery market of the future.

Integration of Karamellpojkarna

Efforts to integrate Karamellpojkarna have continued. The acquisition gave us access to a new segment and in the past year we presented innovations from Karamellpojkarna through a new design and a new flavour that have been well received by the market. Part of the integration process remains to be completed. The resources contributed by Cloetta in the form of production and process knowhow, distribution capacity and development expertise will make it possible to better exploit the potential in Karamellpojkarna.

Partnerships

In order to expand in the Nordic market and according to our strategy, Cloetta signed a sales and distribution agreement with Panda of Finland in December 2008. Under the agreement, Cloetta will market and sell Panda's products on the Swedish market and Panda will do the same with Cloetta's products in Finland. Since our product portfolios complement each other well, the partnership will enable both Cloetta and Panda to strengthen their positions as attractive suppliers that continuously renew and improve their customer offerings. Among other things, the collaboration with Panda has enabled Cloetta to broaden its range with liquorice products.

The positive experiences from our cooperation with Panda have inspired us to strengthen Cloetta's position in other markets in collaboration with partners.

Cloetta has significant potential to grow in Denmark and will do so together with our new distributor

Beauvais, which will take over responsibility for distribution and marketing of Cloetta's brand in Denmark as of 1 April 2010.

In the important Travel Trade market, however, we took over distribution in Baltic Sea traffic during the autumn of 2008 in order to focus resources in this area under our own management.

Cloetta recently established a partnership with SIA Glass, which will launch ice cream products based on well known Cloetta favourites in 2010.

Positive reactions

In working to identify, implement and communicate what the new Cloetta stands for, we have received positive reactions from our customers, suppliers and other stakeholders.

I have noted appreciation for Cloetta's ability, as an independent company, to function as an upstart and a pioneer in the market. We have strong brands, we are innovative, we are responsive to customer needs and we dare to challenge.

Extraordinary employees

We could never have come so far in such a short amount of time without all of our fantastic employees. It may sound like a cliché, but at Cloetta it is undeniably true. The past year has been very demanding and I feel enormous pride in being able to say that each and every individual has shown an extraordinary commitment. Although we are a relatively large listed company, the entrepreneurial spirit and enthusiasm typically found in small companies is very tangible here at Cloetta. Cloetta's brands are created through the combined efforts of all our employees.

A bright future outlook

The results of our first financial year as an independent company are impressive in numerous areas. Our efforts have been successful and many of Cloetta's brands have advanced and strengthened their positions, efficiency in production has improved more than ever before, the financial outcome is better than forecasted at the time of the demerger and we have many interesting and exciting innovations in the pipeline. I feel very optimistic about the future and our progress thus far gives every indication that we will be able to meet to our long-term goals.

Ljungsbro, November 2009

Curt Petri
Managing Director and CEO

Curt Petri's special favourite is one of the year's new launches – Center Mint.

New product launches

New design and new flavours

In February 2009 Cloetta relaunched the five brands Center, Plopp, Guldnougat, Sportlunch and Tarragona as countlines with a new and modern design and at the same time introduced the two new taste varieties Plopp Saltlakrits and Center Mint. Aside from new packages, the chocolate bars are now moulded with different patterns that reflect their unique personalities.

Plopp Saltlakrits was an immediate success among lovers of salt liquorice and quickly attracted a fan club on Facebook called "Save Plopp Saltlakrits". They can rest assured that Cloetta will continue producing Plopp Saltlakrits!

Center family expanded with a new roll in autumn 2009

Center Nougat has a pure nougat filling that melts in the mouth and is surrounded by a shell of Center's delicious milk chocolate.

New Tarragona for all nut lovers. Hazelnut, Almond and Cashew

In the autumn of 2009 Cloetta relaunched Tarragona, an 80 g chocolate bar in which whole, roasted hazelnuts are surrounded by creamy milk chocolate. This true Swedish classic is now also available in almond and cashew varieties. Tarragona was the sponsor of the Swedish Davis Cup team in the playoff match against Romania in September 2009.

Polly Dark Sensation

Polly dragées covered with dark chocolate were launched in May 2009.

Extra Starka with a new flavour and package design

In the autumn of 2009 Extra Starka was given a whole new design and a new flavour was launched ahead of the cold season, Extra Starka – Extra effektiv.

New chocolate box – a taste of the good life

The new box of assorted light and dark filled chocolates will be introduced ahead of the 2009 Christmas season.

The new Cloetta
– a company with long traditions

Vision, goals and strategies

Vision

Cloetta's vision is to be one of the Nordic region's leading confectionary companies.

Goals

Growth

Cloetta's goal is to achieve average annual organic growth of 3% over a five-year period. In addition, Cloetta aims to grow through partnerships and acquisitions.

Operating margin

The long-term operating margin should amount to at least 8%.

Equity/assets ratio

The equity/assets ratio should be at least 35%. A lower ratio can be accepted temporarily in connection with acquisitions.

Dividend

Cloetta strives to maintain an even dividend payout ratio. The target is to distribute at least 40% of the Group's net profit.

Strategies

Optimise our sales opportunities in the Swedish market

- Cloetta is a very well known brand in the Swedish market. Based on this high recognition, we will further develop and market our strong product brands. Thanks to its good reputation and distinctive profile, the Cloetta brand can also be used in new product segments.
- Together with our customers we will work to improve the retail potential, among other things through attractive product innovations, relevant marketing and effective sales support.
- By complementing our own portfolio with other products via sales agencies we can expand our customer offering, thereby enhancing our attractiveness as a supplier and strengthening our competitiveness. With a more diversified portfolio it is also possible to optimise capacity utilisation in the sales force.

Expand in the Nordic market, partly through acquisitions and partnerships

- The far-reaching similarities in confectionery consumption and taste preferences between the Nordic countries provide favourable conditions for Cloetta to expand with its existing product range in the Nordic market through partnerships with distributors and agents. During the financial year, Cloetta signed an agreement with Oy Panda Ab in Finland under which Panda will market Cloetta's products in Finland and Cloetta will market Panda's products in Sweden. We are already seeing excellent results from this collaboration and are seeking to develop partnerships of this type in other markets.
- Cloetta can also expand through acquisitions and partnerships that complement the existing product range. Acquisitions can provide access to products in market segments that are new to Cloetta. Aside from sales and marketing expertise, Cloetta can in turn contribute development resources, production knowhow and process knowledge.

Develop attractive product innovations with a focus on our customers and consumers

- A stronger focus on the Cloetta brand, together with innovative product launches and new sales channels, will create significant scope to increase our impact among both customers and consumers. We will continue to draw up clearly defined plans for our strongest brands with regard to new product launches, packaging innovations and marketing activities.
- Cloetta has long experience of both product development and brand building. Trend and market monitoring combined with in-depth knowledge of consumer preferences are prioritised competence areas. Cloetta must be alert and responsive to changes in the market that are of relevance to the company and that should therefore influence our product development and innovation.

Enhance our competitiveness by recruiting, developing and retaining competent employees

- Cloetta strives to offer an attractive workplace with opportunities for involvement and participation. This facilitates efforts to recruit, develop and retain competent employees, which in turn strengthens Cloetta's competitiveness. By gathering our administrative and commercial resources in Ljungsbro, we have focused our energy and resources on operations that will increase our attractiveness and competitiveness.

Optimise operating efficiency

- Through better capacity utilisation, we will optimise our production economy. Cloetta's pursuit of continuous improvements leads to results and positive changes in all processes.
- Shorter lead times in product development and a high level of customer service are decisive in raising cost-efficiency throughout the value chain.

The vision, goals and strategies together express Cloetta's business mission.

Share and shareholders

Cloetta's class B share has been listed on NASDAQ OMX Stockholm, Nordic list, since 16 February 2009.

Listing on the stock exchange

On 18 November 2008 Cloetta applied for listing of the company's class B shares on NASDAQ OMX Stockholm, Nordic List. After reviewing the application, the stock exchange's listing committee found that no listing would be possible until Cloetta had published an interim report. In view of the listing committee's decision, Cloetta was traded on NASDAQ OMX First North during a transitional period, with E. Öhman J:or Fondkommission AB as Certified Adviser. Trading of Cloetta's class B share commenced on 8 December 2008.

On 4 February 2009, the listing committee approved Cloetta's application for listing on NASDAQ OMX Stockholm, Nordic List, after which trading of the class B share of Cloetta AB (publ) commenced on NASDAQ OMX Stockholm, Nordic List, on 16 February 2009. The share is traded under the ticker symbol CLA B with ISIN code SE0002626861. A round lot consists of one (1) share.

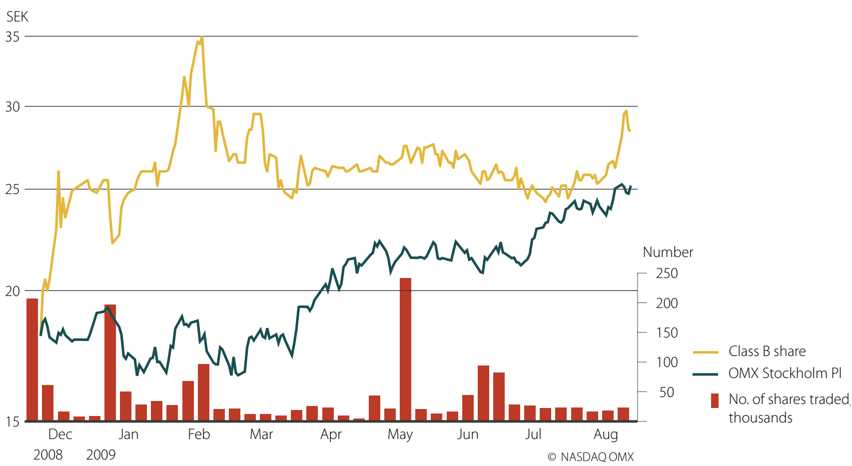
Shareholders

At 31 August 2009 Cloetta AB had 3,866 shareholders, of whom 206 were institutional and 3,660 were private investors. Institutional investors held 88.1% of the votes and 77.6% of the share capital. There were 128 foreign shareholders, who accounted for 11.3% of the votes and 21.3% of the share capital. AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). The ten largest shareholders held 88.9% of the votes and 79.2% of the share capital, see table below. After 31 August 2009, Malfors Promotor increased its ownership by acquiring additional class B shares and has thus raised its holding to more than 50% of the share capital.

Share price and trading

When the share began trading on NASDAQ OMX First North on 8 December 2008, it was quoted at SEK 15.50. When trading commenced on NASDAQ OMX Stockholm, Nordic List, on 16 February 2009, the share was quoted at SEK 33.30. The listing prospectus for Cloetta AB

Cloetta's share price development



Ten largest shareholders at 31 August 2009

Name	No. of class A shares	No. of class B shares	Total no. of shares	Total no. of votes	% of share capital	% of votes
AB Malfors Promotor	2,358,864	8,453,848	10,812,712	32,042,488	44.8	70.6
Nordea Fonder	–	2,212,808	2,212,808	2,212,808	9.2	4.9
Sydbank A/S	–	1,799,799	1,799,799	1,799,799	7.5	4.0
Livförsäkringsaktiebolaget Skandia	–	1,533,170	1,533,170	1,533,170	6.4	3.4
Ulla Håkanson	–	1,000,000	1,000,000	1,000,000	4.1	2.2
Olof Svenfelt	10	408,020	408,030	408,120	1.7	0.9
JP Morgan Chase Bank	–	360,680	360,680	360,680	1.5	0.8
Marianne Sjövall	–	341,795	341,795	341,795	1.4	0.7
Wilhelm Trotzig	8	316,000	316,008	316,080	1.3	0.7
Anna Ros	–	316,032	316,032	316,032	1.3	0.7
Others	1,118	5,017,044	5,018,162	5,028,224	20.8	11.1
Total	**2,360,000**	**21,759,196**	**24,119,196**	**45,359,196**	**100.0**	**100.0**

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2009.

(publ) that was published in preparation for the move to NASDAQ OMX Stockholm, Nordic List, is available on the company's website www.cloetta.se.

From the market listing on 8 December 2008 to 31 August 2009, Cloetta's share price rose by 84% from SEK 15.50 to SEK 28.50. The SIX General Index rose by around 37% over the same period. The highest quoted bid price for the Cloetta share during the period was SEK 36.80 and the lowest was SEK 15.50.

A total of 3,295,161 class B shares were traded during the period from 8 December 2008 to 31 August 2009 for a combined value of SEK 80.6 million.

Share capital and capital structure

The Annual General Meeting on 5 November 2008 resolved to increase the share capital, via a bonus issue with an unchanged number of shares, by SEK 20,595,980 to SEK 120,595,980. The total number of shares is 24,119,196, consisting of 2,360,000 A class A shares and 21,759,196 class B shares, equal to a quota value of SEK 5 per share. Cloetta's Articles of Association contain a CSD provision and the company's shares are affiliated with Euroclear Sweden AB, which means that Euroclear Sweden AB administers the company's share register (Euroclear Sweden AB, Box 7822, SE-103 97 Stockholm, Sweden). Each A share grants the right to ten votes and each B share to one vote in shareholder meetings.

All shares grant equal entitlement to participate in the company's profits and an equal share in any surplus arising on liquidation. The class A shares are subject to pre-emption, see also "Administration report" on page 55.

Offer by Malfors Promotor

As a consequence of the Swedish Securities Council's statement AMN 2008:18, Malfors Holding, a wholly owned subsidiary of AB Malfors Promotor, made an offer to the former shareholders on 19 March 2009. The offer was open to those who had previously accepted the public offer from Oy Karl Fazer Ab ("Fazer") to the shareholders in Cloetta to acquire class B shares in Cloetta from Malfors Holding in proportion to the number of shares in Cloetta Fazer tendered by each shareholder under Oy Karl Fazer Ab's public offer. The offer included a total of 756,321 shares and the price per share was SEK 37.71. The offer was the result of a previous agreement between AB Malfors Promotor and Oy Karl Fazer Ab, and was carried out in accordance with the Swedish Securities Council's statement AMN 2008:18 in order to ensure equal treatment of the previous shareholders in Cloetta Fazer. After the end of the application period on 8 April 2009, 78 shareholders had applied to acquire a total of 1,324 class B shares in Cloetta within the framework of the offer.

Shareholder statistics at 31 August 2009

	Shareholder		Holding	
No. of shares	**Number**	**%**	**Number**	**%**
1–1,000	3,485	90.2	765,136	3.2
1,001–5,000	275	7.1	633,679	2.6
5,001–50,000	75	1.9	1,193,240	4.9
50,001–	31	0.8	21,527,141	89.3
Total	**3,866**	**100.0**	**24,119,196**	**100.0**

Shareholder categories at 31 August 2009

No. of shares	No. of shareholders	% of capital	% of votes
Swedish institutions	111	56.4	76.8
Swedish private investors	3,627	22.3	11.9
Foreign institutions	95	21.2	11.3
Foreign private investors	33	0.1	0.0
Total	**3,866**	**100.0**	**100.0**

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2009

Development of the share capital

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 shares is SEK 100	–	100,000	–	1,000
2008	Non-cash issue in connection with demerger of Cloetta Fazer	99,900,000	100,000,000	999,000	1,000,000
2008	24-for-1 split, quota value of shares changed from SEK 100 to SEK 4	–	100,000,000	23,119,196	24,119,196
2008	Bonus issue, quota value of shares changed from SEK 4 to SEK 5	20,595,980	120,595,980	–	24,119,196

Shareholder agreement

Fazer, Conclo Ab, Oy Cacava Ab and certain private individuals affiliated with Fazer have, in relation to Malfors Promotor, bound themselves not to directly or indirectly acquire shares in Cloetta during a ten-year period starting on the first date of trading for Cloetta's class B shares on NASDAQ OMX First North, provided that the Hjalmar Svenfelt Foundation does not reduce its direct or indirect holding during this period to a level of less than 30% of the votes in Cloetta.

Market maker

Cloetta has commissioned E. Öhman J:or Fondkommission AB to act as market maker for Cloetta's class B shares. The goal is to enhance the liquidity of the share and reduce the spread between bid and ask prices in day-to-day trading. Under the agreement, E. Öhman J:or Fondkommission AB will post buy and sell volumes of at least SEK 30,000 each with a maximum bid-ask spread of 4% calculated on the offered bid price. The agreement is valid until further notice.

For key ratios per share, see page 93

Convertible note program

In accordance with the previously announced resolution passed by the extraordinary general meeting of Cloetta on 20 March 2009, the employees in Cloetta were offered the opportunity to subscribe for convertible notes in Cloetta during the period from 27 March to 8 April 2009. A total of 155 employees have subscribed for convertible notes with an aggregate principal amount of more than SEK 39.5 million. In view of the maximum permitted capital dilution of 4% and with consideration to the established conversion rate of SEK 30.40, the convertible debenture loan may amount to no more than SEK 30.5 million. The employee convertible note offer was thus oversubscribed. The convertible notes run from 14 May 2009 until 30 March 2012 and will bear interest at a rate equal to STIBOR plus 2.5 percentage points. The convertible notes can be converted to class B shares in Cloetta during the period from 25 February 2011 to 25 February 2012 at a conversion rate of SEK 30.40, which will lead to an increase of 1,004,889 class B shares upon full conversion.

For additional information, see the complete resolution that can be found on Cloetta's website, www.cloetta.se.

Dividend

The dividend is resolved on by the Annual General Meeting and disbursement is handled by Euroclear Sweden AB. The right to dividends is granted to those persons who on the record date established by the Annual General Meeting are listed as shareholders in the share register maintained by Euroclear Sweden AB.

The Board proposes to the Annual General Meeting that no dividend be paid for the financial year 2008/2009.

Convertibles create solidarity

In the past spring all Cloetta employees had the opportunity to participate in a convertible note programme. A total of 155 subscribed for convertibles. Eva Gad and Jan Lindblom were two of the people involved in administrative efforts to spread information about the programme throughout the company in connection with subscription.

"Our work on the convertible note programme was a very positive experience and my impression is that the programme has contributed to a stronger sense of solidarity between the employees and the company. I think that most of us who subscribed for convertible notes now feel a greater commitment to and interest in Cloetta's future," says Eva Gad, Assistant HR and Finance, here together with Jan Lindblom, Production Controller.

Our brands

Cloetta's strong brands

All of the activities carried out by Cloetta's employees have contributed to creating Cloetta's greatest asset; a portfolio of strong brands that are well established in the consumer consciousness and enjoy a high degree of purchasing loyalty. The company works with a continuous focus on fostering and developing the brands.

The new logotype signals the start of the new Cloetta. With an expression that is modern but still in touch with its origins – and with a sunny hue inspired by Cloetta's red and yellow tradition – we convey a warm feeling and the new Cloetta.

Brands

Cloetta has two so-called umbrella brands, Cloetta and Karamellpojkarna, under which there are a number of very strong product brands with long histories and a special place in the heart of consumers. These include Kexchoklad, Center, Plopp, Polly, Guldnougat, Sportlunch, Tarragona and Extra Starka. Several of these product brands are leaders in their market segments. Cloetta's success in multiple segments makes the company an attractive partner for customers in the retail trade. Cloetta can offer a wide product range, strong brands and product innovations that appeal to consumers.

The Cloetta brand

Cloetta is a leading player in the Swedish confectionery industry and its brand has a high value and a strong position in the confectionery market. The Cloetta brand, which is firmly established among Swedish consumers, conveys the company's tradition and acts as a guarantee for high product quality. This brand is used in communication with employees, customers, shareholders and the capital market.

Surveys* show that the Cloetta brand represents many positive values, such as reliability, success, a good reputation and high product quality. Younger respondents strongly associated Cloetta with spontaneity, togetherness and an outgoing personality.

Product brands

Cloetta's product brands have been on the market for a long time and are well established among both customers and consumers. Some have traditions dating back to the early 1900s.

Several of Cloetta's top-selling brands, such as Kexchoklad, Center, Polly and Extra Starka, have excellent market positions. However, strong brands are not necessarily synonymous with growth. Good growth is achieved by further developing the brands, primarily via product innovations and effective marketing.

Leading brands

Through its key brands, Cloetta's entire brand portfolio can be highlighted and strengthened.

Cloetta has market-leading brands in the countline (Kexchoklad) and chocolate dragée segments (Polly).

In the countline segment, Cloetta has five additional strong brands in Center, Plopp, Sportlunch, Tarragona and Guldnougat. In February 2009 Cloetta relaunched these five countlines with a new, more modern design and packaging and at the same time launched the two new taste varieties Plopp Saltlakrits and Center Mint. Both the new design and new products were very well received by consumers and Cloetta has further advanced its position in the countline segment.

In the throat lozenge segment, Extra Starka has a strong position and Extra Starka Original is the segment's best-selling product in terms of volume. A more modern packaging design and a new flavour, Extra Starka – Extra effektiv, were launched in the autumn of 2009.

Marketing

Together with product development, effective marketing is a critical success factor in a mature market where the products are most often purchased on impulse. Cloetta's marketing is based on the brands' positions in their various market segments and is characterised by image-creating brand advertisements in the mass media, sponsorship and events directed to selected target groups. These marketing activities are often combined with high-impact in-store sales promotion.

Sources: Research International Brand Image study 2007, and Brand Jobs brand survey 2008

The bulk of Cloetta's development resources are concentrated on the ten brands presented below, all of which are characterised by high sales, a firmly established consumer relationship and good development potential. For these brands, Cloetta draws up detailed three-year plans that are continuously updated and cover aspects like product innovation, package development and marketing.

Kexchoklad

Kexchoklad was launched in **1938**. Despite its advanced age, Kexchoklad has maintained one of the top rankings in the Swedish Youth Barometer, a survey in which young people between the ages of 15 and 25 years choose their favourite brands. Kexchoklad is Sweden's most sold confectionery item.

Kexchoklad – three crispy wafers separated by a thin layer of filling and covered with milk chocolate – a taste sensation anytime and anywhere. Kexchoklad Dark is dipped in dark chocolate.

Original flavour: Crispy chocolate-filled wafers with a coating of light milk chocolate.

Center

Center was born in **1941** – at that time as a roll. Although the roll is the symbol for Center, the Center countline launched in the early 1990s is sold in larger volumes than the rolls. Center is number one in the chocolate rolls segment and among the top ten in the countline segment. In recent years, Center has been featured in popular campaigns with a film theme. The Center Nougat roll was launched in the autumn of 2009 and Center Mint was launched as a countline earlier in the year. Center's main market is Sweden but it is also sold in the other Nordic countries, the Travel Trade and other exports.

Original flavour: A soft toffee filling with a taste of caramel in milk chocolate.

Plopp

Plopp was introduced in **1949** and is personified by the bite-sized mini bar, although it is offered in several different formats and taste varieties today. Plopp, alongside Center, is the leader in the segment for toffee-filled chocolate countlines. Plopp Saltlakrits was launched in 2009 and quickly became a favourite among liquorice lovers.

Original flavour: Milk chocolate with a soft toffee filling.

Polly

Polly has been a Swedish favourite since **1965** and the original Polly Blue and Polly Red versions are still the most popular. Polly Hazel & Coconut was launched in 2008 and Polly Dark Sensation in 2009.

Original flavour: Chewy foam drops coated with light or dark chocolate.

Tarragona

Tarragona consists of milk chocolate with whole hazelnuts. Tarragona is one of Cloetta's oldest brands, and was launched as early as **1928**. The name Tarragona comes from a city in Spain from which Cloetta previously imported much of its hazelnuts. In the autumn of 2009 Tarragona was relaunched as a chocolate bar in three taste varieties: hazelnut, almond and cashew.

Original flavour: Whole roasted hazelnuts surrounded by light milk chocolate.

Guldnougat

Guldnougat is one of Cloetta's oldest brands and was launched in **1913**. Guldnougat was the first nougat product to be sold in Sweden.

Original flavour: Rich, soft and creamy nougat.

Bridge

Bridge is a candy mix that was introduced on the market in **1965**. The original version is a delicious blend of ten different treats, including chocolate-covered hazelnuts, mint balls, liquorice sticks and chocolate-covered raisins. Aside from Bridge Original, the product is offered in the Bridge Mingle version which also contains fruit and liquorice jellies.

Original flavour: chocolate-covered hazelnuts, raisins and puffed wheat together with chocolate- and sugar-coated almonds, foam dragées, chocolate pastilles, liquorice sticks and mint balls.

Juleskum

A very popular Christmas treat. Cloetta's Juleskum is a two-coloured marshmallow Santa with a taste of strawberry that is a cherished Swedish Christmas tradition. Cloetta made marshmallow Santas as early as **1934** and introduced the predecessor to today's Juleskum in the 1960s, at that time in a somewhat different package. Although Juleskum is sold only at Christmastime, this product is number two in the marshmallow segment.

Original flavour: A soft two-coloured marshmallow Santa with a taste of strawberry.

Sportlunch

Sportlunch consists of pure chocolate with crispy wafers in easy-to-break pieces. The product was launched in **1936**, at that time as "Mellanmål", and changed name to the well known Sportlunch in 1996. Sportlunch has a particularly strong market position in Norway.

Original flavour: Pure chocolate and crispy wafers generously coated with milk chocolate.

Extra Starka

The Extra Starka Original brand was launched in **1965** and is Sweden's top-selling product in the throat lozenge segment in terms of volume. Extra Starka is available in original, lemon and sugar-free versions. In the autumn of 2009 Cloetta launched Extra Starka – Extra Effektiv. At the same time, the brand was given a new package design.

Original flavour: Refreshing hard throat lozenges with a taste of menthol, eucalyptus and peppermint.

The confectionery market

The confectionery market can be divided into chocolate and sugar confectionery. Cloetta is primarily focused on chocolate confectionery but also manufactures and sells sugar confectionery.

Chocolate confectionery consists of product groups like filled chocolates, chocolate bars, dragées, countlines (candy bars) and rolls. Sugar confectionery includes lozenges, pastilles, liquorice, marshmallows and jellies. In terms of value, the chocolate segment is largest.

The Nordic confectionery market is comparatively mature and at the same time relatively insensitive to economic trends. For several years, volume growth has averaged at around or just above zero. Per capita consumption in the Nordic countries is now roughly equal. Ten years ago consumption varied more between countries, and for example was around twice as high in Denmark as in Finland. Since then, consumption has fallen in Denmark and risen Finland. However, growth in the various product segments varies from year to year and from market to market.

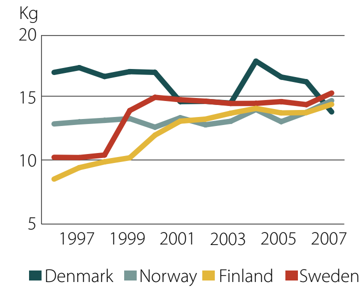
The Nordic countries account for around 2% of total global confectionery consumption. Per capita consumption of chocolate is significantly higher in Central Europe than the Nordic countries, which would indicate considerable growth potential in the Nordic chocolate segment.

Consumption patterns

Confectionery is relatively insensitive to economic trends and is one of the most impulse-driven categories in the grocery trade – over 80% of purchasing decisions are made at the point of sale (source: Movement BSI Report 2008).

The majority of confectionery purchases in Sweden are made via the traditional grocery trade. Another important sales channel is the service trade, i.e. filling

Total confectionery consumption per capita in the Nordic region



Sources: Caobisco and Delfi for 2007

Per capita confectionery consumption in the Nordic region is roughly equal in all four countries.

stations, newspaper kiosks, etc. Because accessibility is a key driver for impulse-driven purchases, it is vital to be visible where consumers are found. As a result, new types of sales channels are always of keen interest to Cloetta.

In Sweden the pick-and-mix segment has a very strong position and accounts for around one fourth of all confectionery consumption, the highest share in the Nordic region. In recent years the market share for pick-and-mix has decreased somewhat.

Market drivers

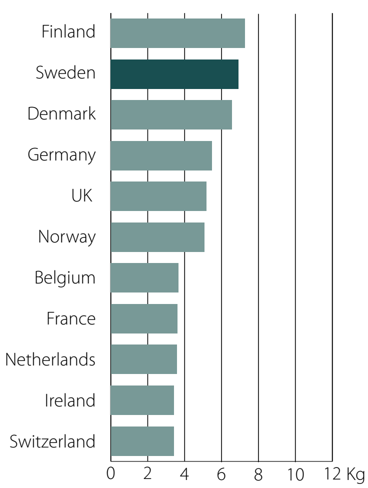
Consumers

The Nordic market is defined by low growth and high consumer loyalty to strong local brands. Increased consumption per capita and a expanding population are contributing to growth. In certain segments, such as chocolate bars, growth in recent years has outpaced that for the total market. One key success factor is the regular launch of new and attractive products in segments where consumer demand is strongest. To encourage loyalty and win new consumers, it is important to supply the market with product innovations and to enhance and modernise the existing range. A rising share of single-person households and an individualistic lifestyle are increasing the need for differentiated products. Greater consumer interest in healthy living and natural raw materials is also a central driver for product development. A growing awareness of and knowledge about labour conditions in many raw material producing countries is another factor that is increasingly influencing consumer buying decisions.

The grocery chains' private labels and the establishment of discount chains in the Nordic region are exerting pressure on prices. However, surveys show that consumers are increasingly basing their buying decisions on factors other than price, such as taste, quality, product development, environmental performance and social responsibility.

Per capita consumption of sugar confectionery in Europe

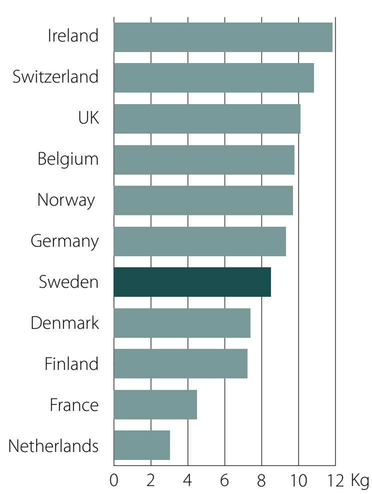
e.g. tablets/pastilles, liquorice, marshmallows, jellies and chewing gum



Source: Caobisco

Per capita consumption of chocolate confectionery in Europe

e.g. filled chocolates, cocoa, dragées, countlines and rolls



Source: Caobisco

Retail trade/customers

The Nordic grocery trade is highly concentrated, with the three largest chains in each country accounting for over 70% of total grocery sales in Sweden, Finland, Norway and Denmark. Some of the leading chains are established in several Nordic countries and there are cases of pan-Nordic cooperation on the purchasing side. The trend in industry is also moving toward larger units at the expense of smaller shops.

To stand out as a attractive supplier to the retail trade, factors like Nordic ties, well known brands and a continuous flow of successful product launches are increasingly important.

The advance of the discount retail chains, which include foreign players, has also contributed to a higher share of private labels. In most western European countries, private labels now account for between 10% and 30% of total confectionery sales. In recent years this trend has levelled out, for example in the UK, which has the highest share of private labels in the trade. In the Nordic market, the share of private labels in the confectionery segment has stabilised at a under 10%. Current surveys show that consumers are prepared to pay a little more for well known brands.

To fend off competition from the grocery trade's private labels, it is vital for confectionery producers to focus on building strong brands and to respond to new trends and consumer needs. Product development, quality, familiarity and visibility are decisive for a brand's vitality and the degree of consumer loyalty and preference.

Competitors

The global market for chocolate and sugar confectionery is dominated by multinationals such as Nestlé, Mars, Kraft Foods and Cadbury. In the Nordic market, these companies meet tough opposition from local players like Cloetta that have strong positions in their home markets.

The confectionery industry is characterised by excess capacity and is undergoing a gradual process of consolidation. No player has yet established a strong position in all of the Nordic markets. The industry has a long history and the rate of technological change is low. To defend and advance an already strong position, it is vital to develop both the brand and the product range.

Venture capitalists have emerged as influential players through the acquisition of several confectionery companies. One possible development is that the venture capital companies will sell these to industrial buyers.

Suppliers

There is a high degree of consolidation among suppliers, and few alternatives to choose from. Nordic Sugar is a major supplier of sugar and milk products are supplied primarily by Arla Foods. The European market for raw materials is expected to be opened to further competition, which will among other things provide opportunities to buy sugar outside Europe.

Consumer trends

Health and natural products

Health trends and the public debate on diet, weight and sugar are having a certain, if limited, impact on the confectionery market. Confectionery is something many people are continuing to purchase and enjoy.

The formerly so heated sugar debate has now expanded to include health issues in general. The health trend has also spurred a growing interest in natural and genuine raw materials. Additives and synthetically produced substances, as well as the large number of ingredients that are unfamiliar to consumers, are being questioned in favour of natural products. The sugar debate has thus taken on a new dimension – natural sugar rather than synthetic sweeteners. The nature trend is also reflected in consumer views on packages and packaging materials.

The most tangible effect of the sugar debate and health trends on the confectionery market is a drop in demand for sugar confectionery in favour of chocolate, which is favourable for Cloetta.

Locally produced

In the wake of rapid globalisation, individual consumers are more aware of how their consumption patterns affect the environment and conditions not only in the immediate vicinity, but all over the world. With a growing sense of social responsibility and global citizenship, consumers want to know more about product origins, manufacturing methods, raw materials, etc. This is sparking greater interest in environmental and Fairtrade labelling. Demand for locally produced products is also rising, which is an advantage for Cloetta.

Everyday and luxury

In many parts of Europe, up to 40% of all households are inhabited by a single person and the rising share of single-person households is also reflected in changing buying patterns. Convenience and small package sizes are typical features of single household demand for confectionery.

Confectionery consumption can be said to be of two different types; everyday, consisting of products that are fast, simple and easily accessible, and luxury, made up of products that are a bit more expensive and are saved for weekends and special occasions.

Interest in chocolate

When it comes to chocolate, consumers have become more quality-conscious and for many years this led to a rising demand for premium chocolate, although the rate of growth has now stagnated. Today, trend-sensitive chocolate consumers are instead showing a tendency to seek new and, in a confectionery context, unusual flavourings and combinations of different raw materials. Delicious combinations are a longstanding tradition at Cloetta. Mixing chocolate with ingredients like wafers, nuts, berries, toffee or liquorice is a Cloetta trademark. In the future Cloetta will continue to introduce new and exciting combinations. Interest in chocolate is also visible in the fact that chocolate tasting has become as well established as wine tasting. Furthermore, high quality chocolate is increasingly common as an ingredient not only in desserts but also other cuisine.

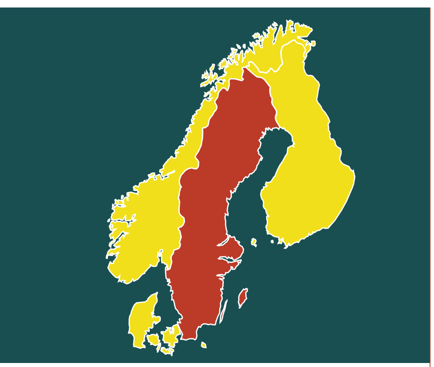
Sources: AC Nielsen, Caobisco, Kairos Future, Trendwatching.com, Datamonitor and Cloetta

We love chocolate

"You have to love chocolate if you want to work in product development at Cloetta. Being able to sit in a business meeting and taste Cloetta's all new assorted chocolate box really brings out the happy child in me! The box will be launched for the holiday season, but those of us who have had a taste feel certain that it will be sold throughout the year," says Sara Röken, Product Innovator, here sampling Cloetta's new assorted chocolates together with Staffan Emanuelsson, Product Manager.

Customers and sales

The geographical market is made up of Sweden, which is Cloetta's home market, as well as Norway, Denmark and Finland. Additional markets are other exports and the Travel Trade, consisting of sales at airports and on ferries.

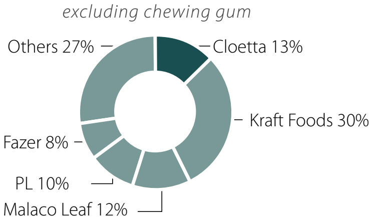


Sweden

Population:	approx. 9 million
Market size:	consumer sales of approx. SEK 16 billion**
Largest customers:	Axfood, Bergendahls, Coop and ICA
Top-selling brands:	Kexchoklad, Polly, Center and Plopp
Cloetta's sales by weight:	approx. 14,500 tonnes

Confectionery market, Sweden – Volume share

excluding chewing gum



Source: AC Nielsen, DVH incl. HD + SVH, MAT JJ-09

Cloetta's sales for the period from 1 September 2008 to 31 August 2009 showed positive development and amounted to approximately 17,000 tonnes. Around 85% is sold in Sweden, which is the company's home market.

Sweden

Sweden has a population of more than 9 million and is the single largest market in the Nordic region.

The Swedish consumer market for packaged confectionery via the grocery trade and service outlets, excluding chewing gum, is worth around SEK 6.5 billion* annually. The total market, i.e. including the pick-and-mix and chewing gum segments and sales through other channels, is worth approximately SEK 16 billion**. Examples of other channels include video rental outlets, cinemas, cafés, commercial kitchens, restaurants, airports, trains and various temporary sales points. The pick-and-mix category is more popular in Sweden than the other Nordic countries and accounts for roughly one fourth of the total market. Easter is an especially important time for these sales.

During the period from 1 August 2008 to 31 July 2009, the Swedish confectionery market including pastilles and throat lozenges was largely unchanged, with volume growth of 0.1%. Volume sales of chocolate confectionery rose by 0.5% and sugar confectionery by 0.2%, while pastilles declined by 5.4%. Sweden is Cloetta's largest market, with a volume share of 13%. The foremost competitors are Kraft Foods and Malaco Leaf, with volume shares of 30% and 12%, respectively. The retail chains' private labels have stabilised at a volume share of around 10% of total confectionery sales.*

Cloetta has a strong position in Sweden as number two in the market in terms of volume. Cloetta is also the only major Swedish-owned company in the confectionery industry with manufacturing in Sweden.

Cloetta strives to be an innovator and pacesetter in the Swedish confectionery market. Cloetta's already strong position will be further strengthened through a sustained focus on high quality products, appealing product innovations, strong and well known brands, wide accessibility, high consumer recognition and close cooperation with the retail trade. Through the acquisition of AB Karamellpojkarna in 2007, Cloetta has diversified into product areas where the Group has previously had a weak position or none at all.

The partnership forged with Finland-based Oy Panda Ab in 2009 has further broadened the portfolio of products Cloetta can offer, such as a variety of liquorice products, and has strengthened Cloetta's position as an attractive supplier and partner to the trade.

*Swedish confectionery market, volume excluding chewing gum**

Segment	%
Chocolate bars	25
Chocolate countlines	18
Jellies and wine gums	12
Filled chocolates	11
Marshmallows	6
Pastilles	6
Throat lozenges	5
Other	17

Strong brands the greatest asset

Cloetta's strong brands are its most valuable asset. The company's greatest competitive strength is the ability to build brands and deliver attractive product innovations under these. Because confectionery brands are predominantly local in nature and consumers in mature markets tend to be relatively loyal, expansion and sales in different markets is largely a matter of capitalising on the strengths of the well-known brands. In several segments, Cloetta has brands that are market-leaders.

Price increases due to rising raw material costs

Consolidation in the grocery retail industry and the spread of discount grocery chains is exerting powerful price pressure on suppliers. At the same time, sales prices must be raised to compensate for higher raw

* Sources: AC Nielsen, DVH incl. HD + SVH, MAT JJ-09 and Delfi
** Source: Delfi 20008

material costs, which have risen due to weakening of the Swedish krona. The higher customer prices that were introduced in 2008 have not been able to offset these costs increases and additional price hikes to customers were introduced in the fourth quarter of the financial year.

To minimise the need to raise prices, however, Cloetta is continuing its ongoing efforts to optimise efficiency at every level and seeking new approaches and solutions that lead to lower costs.

Collaboration with the trade a key success factor

The ability to cooperate closely and flexibly with the grocery and service trades based on the specific needs of individual customers is a key success factor. Close partnerships with customers create a better basis for prioritisation of the aspects deemed most important by both parties. By maintaining close relationships with, and in-depth knowledge of, its customers, Cloetta can present products and solutions that support the customers' business objectives and strategies.

Cloetta's sales on the Swedish market showed positive development during the financial year, with a slight increase in volumes. Sales will continue to focus on the brands that are most popular in the Swedish market, such as Kexchoklad, Polly, Center and Plopp. Several of the brands are market-leaders in their segments. The largest individual product is Kexchoklad, which is also the leading countline and Sweden's best-selling confectionery product.

The grocery retail trade in Sweden, as in most of Europe, has become increasingly centralised over time and all chains have central agreements governing the product range.

Cloetta has a nationwide sales force that serves both the grocery and service trades. The sales reps ensure that the central agreements are followed and that the specified products also are stocked on the store shelves. Another task is to sell in and expose Cloetta's campaigns among the customers. As an added service, the sales reps support retailers via advice aimed at maximising sales and profitability in the confectionery category. To increase the visibility of Cloetta's products, the sales reps also work actively to increase the number of exposure points in the stores.

Other markets

At present, Cloetta does not offer its entire product range on the export market. For the brands that are sold, product innovations are every bit as important as in the Swedish home market. Competition is aggressive and one way to ensure visibility is by continuously presenting appealing new products. New launches in the export market will also be selected from Cloetta's existing products that have proven successful in the home market.

Norway

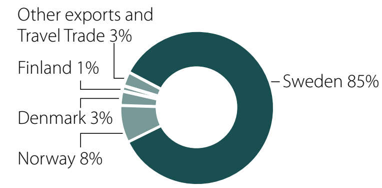
Norway is Cloetta's second largest market and sales of the company's products increased during the financial year. In particular, sales of Juleskum were highly successful.

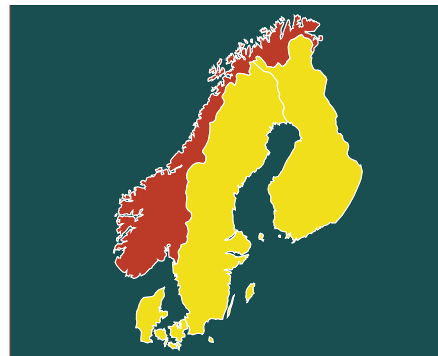
Annual consumer sales in the Norwegian confectionery market, excluding chewing gum, are worth over SEK 6 billion. Kraft Foods has long held a dominant position in the market with a volume share of approximately 38%. During the period from 1 September 2008 to 31 August 2009, the market grew by 0.9% in volume. The number two player is Nidar, with a volume share of 25%. Next in order comes Brynild with a volume share of around 10%.

Galleberg has been responsible for distribution of Cloetta's products in Norway since 2005. Galleberg has a market share of approximately 8%, including sales of products from Cloetta. Pick-and-mix accounts for roughly 17% of the market.

As in the other Nordic countries, the grocery trade is dominated by major chains. Coop, ICA, NorgesGruppen and Reitan together control around 95% of the trade. Decisions about the product range are made at

Cloetta's sales volume by country

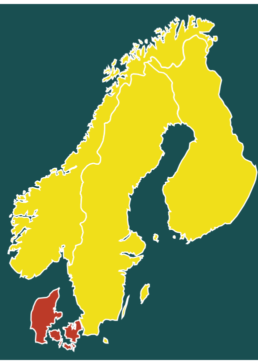




Norway

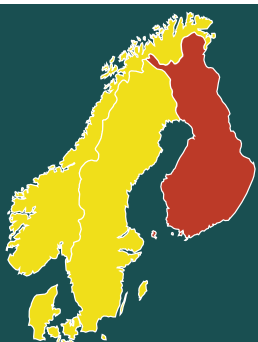
Population:	approx. 4.8 million
Market size:	consumer sales of approx. SEK 6 billion*
Largest customers:	Coop, ICA, Norges-Gruppen and Reitan
Top-selling brands:	Pops, Bridge, Center, Sportlunch and Juleskum
Cloetta's sales by weight:	approx. 1,400 tonnes

* Excluding chewing gum



Denmark

Population:	approx. 5.5 million
Market size:	consumer sales of approx. SEK 6 billion*
Largest customers:	Coop, Dansk Supermarked and SuperGros
Top-selling brands:	Center, Juleskum and Bridge
Cloetta's sales by weight:	approx. 400 tonnes



Finland

Population:	approx. 5.3 million
Market size:	consumer sales of approx. SEK 4 billion*
Largest customers:	Kesko, S-Gruppen, Tokmanni and Tradera
Top-selling brands:	Polly and Center
Cloetta's sales by weight:	approx. 200 tonnes

Travel Trade and other exports

Largest customers:	Ferry lines, airports and IKEA
Top-selling brands:	Kexchoklad, Center, Polly, Bridge and Juleskum
Cloetta's sales by weight:	approx. 500 tonnes

* Excluding chewing gum

a central level and effective cultivation by the sales force is critical in ensuring that centrally decided product listings are implemented in the stores.

Future product innovations on the Norwegian market will consist predominantly of existing products that have proven successful in Sweden. Brands that are very strong locally, such as Pops which is sold only in Norway, and Sportlunch, will also be supported and developed.

Denmark

Consumer sales in the Danish confectionery market, excluding chewing gum, are worth approximately SEK 6 billion. The total Danish confectionery market, excluding chewing gum, shrank by around 4.6% in volume during 2008. Cloetta's sales growth in Denmark outpaced the market and rose by approximately 10% in volume. Center Mint was launched successfully during the financial year.

The market-leader in Denmark is Toms and the next largest player is Haribo, followed by Leaf and Kraft Foods. Cloetta's sales in Denmark are currently handled by Valora, but on 1 April 2010 A/S Beauvais will take over responsibility for distribution and marketing of Cloetta's brands and products on the Danish market. Price pressure in Denmark is severe and size adaptations to various price groups are therefore crucial for success in the market.

The Danish grocery trade is moving towards greater centralisation, but is still far more decentralised than in the other Nordic countries. Extensive efforts at the store level are therefore required to increase distribution. The most important customers include Coop, Dansk Supermarked and SuperGros.

As in Norway, product innovations on the Danish market will be selected mainly from Cloetta's existing range of products in other markets.

Finland

Consumer sales in the Finnish confectionery market, excluding chewing gum, are worth around SEK 4 billion annually. Of all the Nordic markets, Finland has shown the highest growth for several years. Fazer Confectionery is the leading player in Finland, followed by Leaf and Panda.

The volume share for the grocery trade's private labels is relatively stable at close to 10% of total confectionery sales.

Cloetta's sales in Finland are currently low and amounted to just under 200 tonnes for the period from 1 September 2008 to 31 August 2009. Since sales of Cloetta's brands were significantly higher before the merger with the Fazer group's confectionery division, there is considerable potential to increase sales of Cloetta's brands. In December 2008, Cloetta signed an agreement for a sales partnership with Oy Panda Ab that has strengthened Cloetta's opportunities for growth in Finland.

The Finnish grocery trade is dominated by major chains like Kesko, S-Gruppen, Tokmanni and Tradera that primarily use centralised purchasing. One advantage of centralised buying is the potential for wide distribution of new products and fast access to many consumers.

Travel Trade and other exports

The Travel Trade consists of sales to ferry lines, charter tour operators and airports, a channel where attractive product innovations are important. Confectionery is the ideal gift to bring home from a trip, and one of the primary competitive tools in this market consists of unique package designs and sizes.

With its stores around the world, IKEA is an important customer that is helping to spread Cloetta's brands outside the Nordic market. Through IKEA, Cloetta sells Kexchoklad, Polly and Juleskum.

At present, Cloetta's sales in the Travel Trade and other exports are low. Because sales were significantly higher prior to Cloetta's merger with the Fazer group's confectionery division, the potential to increase sales of products in this segment is deemed strong.

Cloetta sees ample scope to boost sales of its products in the Travel Trade and other exports, both in the existing range and through the launch of new products that are especially attractive to these markets.

Product development

Product innovations are a key driver and a decisive success factor in the confectionery industry. Cloetta is therefore devoting greater resources to product development.

Cloetta has strengthened its resources in product development and innovation. The introduction of new products enhances Cloetta's offering to both customers and consumers and revitalises the product brands. Effective marketing, from advertisements to in-store promotion, increase consumer knowledge of and demand for Cloetta's products.

Trend monitoring

Market analysis and trend monitoring provide the marketing department with valuable information. Fashions and trends also play a role in the confectionery business in terms of colours, package designs, new flavours and ingredients. Changes in consumption patterns are followed up and analysed. Knowledge about market trends and consumer behaviour is necessary to develop successful product innovations. In view of Cloetta's size, it is not possible to exploit all trends and it is important to be highly skilled at identifying the trends that can be significant for the company. Thorough and competent market monitoring is therefore vital.

Product development

To a large degree, the confectionery market is driven by new trends and products. Attractive innovations and an effective product development process are essential for profitable growth and are imperative in maintaining Cloetta's strong position in the Swedish confectionery market. Innovations and new product launches under the strong existing brands are therefore critical for Cloetta. The drivers for both product development and innovation include market trends, new consumer needs and the question of how these can be ideally combined with the existing brands.

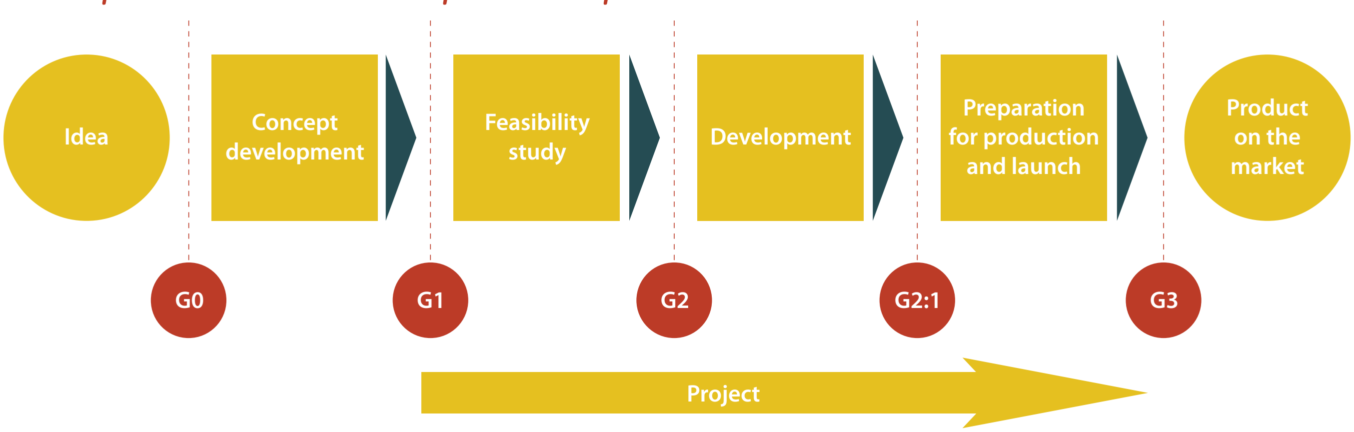
Aside from tasting good and being reasonably priced for consumers, a new product has to be commercially attractive to the retail trade and must be packaged and distributed to different channels in a way that makes it easy to sell.

New products are given effective sales support through marketing activities such as campaigns, events, in-store promotion and advertisements that serve to stimulate consumer interest and demand.

In order to appeal to consumers, the brands must be modern, adapted to market trends and distinctively profiled. Both the product contents and packages are continuously developed and all innovations are of a consistent high quality.

Through line extension, i.e. new packages, sizes or taste varieties of a brand, it is possible to maintain

The product development process



The product development process is divided into phases. Each phase is separated by a decision point, or gate, where a decision is made whether to progress to the next phase, improve the idea before moving forward or discontinue the project. The idea bank contains more than 100 ideas that can in turn lead to several projects. Between 10 and 20 projects are continuously underway at Cloetta. Of these, an average of between four and five reach the market every year. The process from concept to a product ready for launch normally takes about one year, but with focused resources can be shortened to only a few months.

G Decision gate

modernity and satisfy changing consumer needs. Examples of this include Plopp Saltlakrits, Center Mint, Polly Dark Sensation and Center Nougat. Another example of brand-building consists of brand extension, where an existing brand is launched in new product segments, such as Kexchoklad Snacks.

Cloetta encourages and promotes ideas and suggestions for product development from the entire organisation. In a structured idea bank that is continuously updated and filled, Cloetta stores suggestions, test parameters and results.

The new chocolate moulding line in Ljungsbro that was successively deployed in the autumn of 2009 will increase the capacity for exciting and high quality innovations that can be produced efficiently. In the autumn of 2009, nut chocolate bars were relaunched under the Tarragona brand.

A focus on flavour

Packages and marketing can lure consumers to try a new product, but if the flavour fails to measure up there is rarely a second purchase. It is therefore critical that the product innovations launched by Cloetta meet consumer requirements and expectations. The focus is on flavour when Cloetta develops new products. Cloetta has an internal taste testing panel and many products also undergo consumer testing to gather consumer input on of attributes like flavour, consistency and overall impression.

Package development

One critical step in any product development process is to find the right packaging. With proper packaging, many brands that are well placed in one market can also secure a good position in new markets. The important factors here are details like bag size and weight, but also brand. Even a good and high quality product relies on brand identity and effective marketing to reach consumers.

By primarily adapting only the packaging design and size to each market, it is possible to realise scale economies in production.

Partnership

SIA Glass and Cloetta signed a partnership agreement in the autumn of 2009 and a number of new ice cream products with flavours and consistencies inspired by well known Cloetta products will be introduced at the beginning of 2010.

Protection of intellectual property

Through a monitoring service, Cloetta is alerted about applications for registration of brands that are identical or confusingly similar to Cloetta's key brands. If Cloetta finds another brand to be too similar to its own brand, the company takes measures such as filing a formal objection to registration of the similar brand or entering into co-existence agreements that limit use of the similar brand.

Tarragona in new taste varieties

"Our customer Reitan gave us the opportunity to launch a new series of chocolate bars in Pressbyrån and 7-Eleven stores in the autumn of 2009. The condition was that we could create a competitive offering adapted to Reitan's "on-the-go" philosophy under a strong brand. The chosen product was Tarragona, with an updated design, a new format and the addition of the new Cashew and Almond taste varieties alongside the classic Hazelnut.

"Many people in the company have done a fantastic job to develop the new Tarragona series so quickly," says Johan Eriksson, Customer Manager Service Trade, here shown together with Therese Hamilton, Sales Coordinator.

Supply chain

During the financial year from 1 September 2008 to 31 August 2009, Cloetta produced a total of approximately 20,000 tonnes of confectionery. Efficiency in the supply chain showed very positive development. Cloetta's confectionery products are manufactured in the Group's own factories in Ljungsbro and Alingsås.

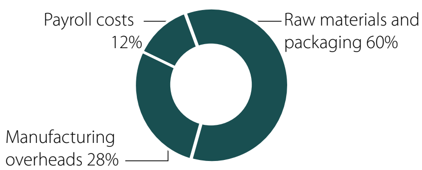
Production in Ljungsbro is mainly focused on chocolate confectionery, while the factory in Alingsås produces throat lozenges, toffee and lollipops. Aside from the production facilities, the supply chain includes the logistics process, the purchasing unit and product development. Equipment maintenance was previously outsourced to ABB but will be handled internally by Cloetta starting on 1 January 2010. The decision to insource maintenance has been motivated partly by cost-efficiency and partly by the fact that ABB has provided a platform on which Cloetta has been able to build an effective internal process and organisation for maintenance.

A learning culture

Cloetta's overall business plan also contains three-year plans for areas in the supply chain. The plans are based on analyses in which strengths and weaknesses are identified and clear and measurable action programmes are drawn up. By pursuing continuous improvements and creating a learning culture, Cloetta has achieved excellent results throughout the supply chain. The processes have developed exceptionally well during Cloetta's first year of operations. At the same time, occupational health and safety has improved in many cases through automation of labour-intensive production steps thanks to a long-term and systematic effort to continuously enhance and refine the company's working methods and processes.

Another key success factor is ongoing and relevant competence development. Preventative measures, optimised shift schedules and development of the employees' job content contributed to higher productivity

Production costs in 2008/2009

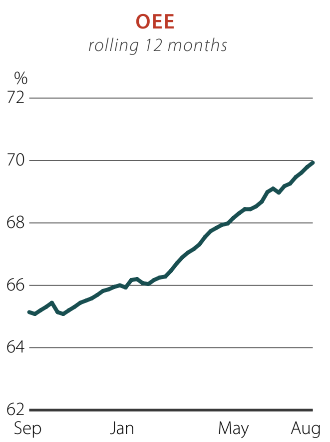


measured in kilo per employee at Cloetta's Ljungsbro factory during the financial year.

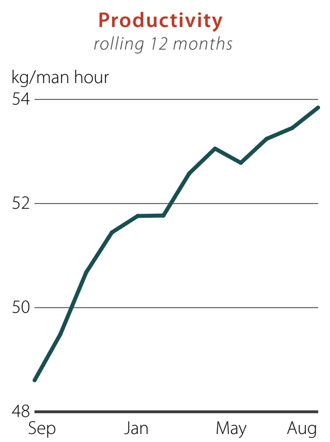
Management systems

The management systems in production have been analysed and developed. The systems have been deployed in Ljungsbro and are being implemented in Alingsås. Among other things, the meeting structure and frequency have been systematised and production evaluation meetings are held on a shift, daily, weekly and monthly basis to detect both positive and negative deviations from plan and gather feedback on possible improvements. Results and efficiency in the supply chain are continuously visualised on large-format displays and bulletin boards, which contributes to a good overall perspective and knowledge about the current

On an average working day in 2009 the Ljungsbro factory produced 84 tonnes of confectionery, of which 17 tonnes were Kexchoklad. This is equal to 3.5 standard 55 gram Kexchoklad bars per second!



OEE (Overall Equipment Efficiency), a set of basic indicators that measure equipment performance in relation to stoppages caused by events such as product changes, disruptions or equipment malfunctions.



Productivity rose sharply during the year, mainly as a result of a cultural transition and an increased commitment that led to many small improvements.

The number of returns is just over 30 per 1,000 tonnes of produced products.

Taste testing a new line

"During the autumn Niklas, Anette and I started to fine tune and 'taste in' the new chocolate moulding line. In cooperation with the technical and maintenance departments, we continuously develop routines and descriptions as more products are moulded on the line.

"There are many small pieces that have to fall into place before we are satisfied. The greatest challenge in introducing a whole new line is to make sure the chocolate has exactly the right flavour, consistency and appearance. Getting the tempering perfect is critical. You have to look, taste and feel your way forward. Together with the lab there has been a lot of test tasting during the year," says Yvonne Wennermark (at left), an operator on the new chocolate moulding line, here shown together with her colleagues Niklas Gustavsson and Anette Johansson.

situation. The necessary action is taken immediately and systematic follow-up creates scope for proactive improvements.

Incidents and accidents are continuously followed up in the factory's daily meetings. A greater awareness of the potential causes of accidents results in more effective preventative measures and has led to a decrease in both sickness absence and the number of accidents.

Efficiency

In day-to-day operations Cloetta strives for efficiency improvements and cost savings mainly by improving process quality and thereby reducing the number of rejects and the related costs for labour, input materials and energy.

The Group influences its total raw material costs by using these materials more efficiently and minimising production rejects, which provides the greatest scope for cost savings since fewer rejects translate into lower costs not only for materials but also labour and energy.

The purchasing unit is of central importance in optimising the Group's costs for purchased goods and services. The unit is responsible not only for direct purchasing of raw materials and packaging, but also for all indirect purchases in the Group.

Continuous efforts are made to raise efficiency in production and optimise machine capacity utilisation. One of most important performance metric is OEE (Overall Equipment Efficiency), a set of basic indicators that measure equipment performance in relation to stoppages caused by events such as product changes, disruptions or equipment malfunctions.

One essential component in the development of new products is the Product Development Tool (PDT) system, which serves as a checklist in which every function involved in the product development process can monitor how a new product is progressing.

Investments in production

In 2007 a decision was to invest in a new chocolate moulding line in Ljungsbro that will boost manufacturing capacity for chocolate products by around 5,000 tonnes. The investment is the largest in Cloetta's history and is entirely self-financed. The line was successively taken into operation in the autumn of 2009.

Quality and product safety

Continuous activities are conducted throughout the Group to ensure that each product meets the requirements of both consumers and the retail trade. High quality products and delivery reliability are key success factors. Quality management has been further intensified through reinforcement of the related organisation.

The BRC Global Standard, which is a system for product safety in the food industry, is a cornerstone of the Group's quality management. The majority of customers require a certified or otherwise documented quality management system from their suppliers. The Swedish grocery retail chains ICA and Axfood, for example, require BRC certification from suppliers of their own private label products. Cloetta's factories in Ljungsbro and Alingsås received BRC certification in 2004 and 2007, respectively.

In the BRC standard, product safety is based on the HACCP method (Hazard Analysis Critical Control Points). With the help of the HACCP, it is possible to identify potential food safety hazards and then select critical control points (CCP) for these.

In view of product safety risks, Cloetta has drawn up a detailed product recall programme to enable rapid withdrawal of a product from the market if needed.

Matters of significance for product safety have been compiled in special policy documents relating to issues such as Cloetta's position on the use of food colourings (azo) and additives, as well as allergens and intolerance-triggering ingredients such as hazelnuts, peanuts and lactose.

Neither azo food colourings nor transfats are used in Cloetta's products.

Both the BRC standard and EU food product legislation require traceability of raw materials. The traceability of all ingredients has been tested and verified. Raw materials are purchased only from known suppliers that meet Cloetta's quality and hygiene requirements.

Quality assurance

Cloetta sets rigorous quality standards. For each product there is a quality specification describing the required flavour, aroma, appearance, consistency, etc. In the production process, every shift takes regular measurements and performs sensory assessments to ensure that the products in question meet the specified criteria. Chemical, physical and microbiological tests are also conducted and all products are examined with a metal detector to ensure that they are free from metal particles.

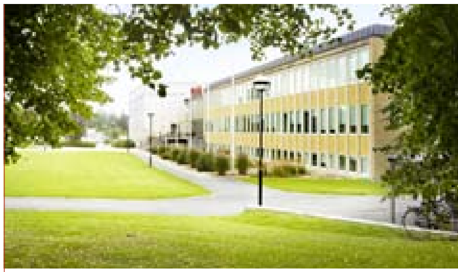
Consumer and customer feedback

Consumer feedback is vital to Cloetta and the company strives to both respond to and effectively translate consumer input into development and improvement initiatives.

Raw materials and packaging

Cloetta's largest cost items, accounting for around 60% of total production costs, are raw materials and packaging. The most significant raw materials in terms of value are cocoa, sugar and milk products.

The prices of many of Cloetta's raw materials are affected by agropolitical decisions regarding govern-



Ljungsbro

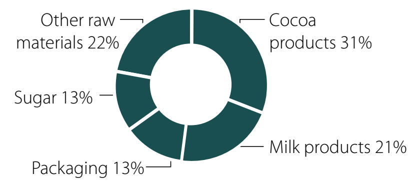
Production volume in 2008/2009:	18,500 tonnes
Number of factory operatives:	201
Certifications:	BRC Global Standard and ISO 14001 since 2004
Number of production lines:	14
Largest products:	Kexchoklad, Center, Polly, Plopp and Bridge

Alingsås

Production volume in 2008/2009:	1,400 tonnes
Number of factory operatives:	33
Certifications:	BRC Global Standard since 2007
Number of production lines:	8
Largest products:	Extra Starka, Fruktklubbor, Hemkola, Fünf Kräuter and Kungen av Danmark

Raw materials and packaging in 2008/2009

share of costs



Cocoa price development

US dollars/tonne

© NASDAQ OMX

ment support, subsidies, trade barriers, etc. The prices of nearly all raw materials used by Cloetta rose sharply in 2007 and throughout most of 2008. In 2008/2009, Cloetta has also been negatively affected by weakening of the Swedish krona.

Cocoa

The price of cocoa remains relatively high, which is partly explained by the fact that the cocoa exchange is comparatively small and therefore of interest for speculation, and partly by structural problems in many cocoa-producing countries where the rate of rejuvenation in the cocoa plantations is far too low. Because Cloetta purchases cocoa under long-term delivery contracts, the impact of movements in cocoa prices on the company's earnings is somewhat delayed. Cocoa prices continued to rise to record levels in the autumn of 2009.

Other raw materials

The prices of most other raw materials have fallen from the peak levels noted in the summer of 2008. This applies particularly to milk, wheat, oils and fats.

For milk products, Arla Foods is Cloetta's main supplier. The sugar market in the EU is being successively deregulated and sugar prices have fallen slightly during the year. Cloetta's sugar supplier is Nordic Sugar.

Since the majority of raw materials used by Cloetta are priced in euros, recent weakening of the Swedish krona has led to higher costs for Cloetta. In order to reduce the risk level and currency exposure, Cloetta hedges a minimum of 50% and a maximum of 100% of the forecasted transaction exposure for a period of nine to twelve months.

A day in production

6:48 – 7:00 a.m. Shift change
Handover and briefing on events during the previous shift. This takes place at the information boards, where information about production in the past 24 hours is gathered.

7:00 – 7:05 a.m. Team meeting
The reporting representative from each line meets with a maintenance representative to review the events of the past 24 hours and assess the existence of any occupational health and safety risks/accidents (Green Cross).

7:30 – 7:45 a.m. Maintenance meeting
The maintenance representatives gather information from all production lines.

8:05 – 8:20 a.m. Process meeting
The reporting and maintenance representatives meet with the process manager and resource manager. The day's action plan is drawn up based on Green Cross, maintenance requirements and the previous day's OEE values (Overall Equipment Efficiency).

9:00 – 9:15 a.m. Factory meeting
The production management and all support functions meet to review the day's events and can quickly take measures to address problems if needed.

2:48 – 3:00 p.m.
Shift change, see above.

9:48 – 10:00 p.m.
Shift change, see above.

A passion for flavour – under responsibility

Cloetta in society

Corporate Social Responsibility, CSR, is the way in which companies address the impacts of their activities on other parts of society. CSR encompasses issues related to the environment, occupational health and safety, labour standards, human rights and society at large.

Cloetta has been a responsible corporate citizen throughout its long history. The organisation has always been permeated by a commitment to, and interest in, the company's operations, and it has been natural to take a position on current issues. In the past the CSR focus was most often local and could involve the provision of housing and daycare facilities for the employees and their families. Today this commitment is not only local but also regional, national and global. By taking an active approach to CSR, Cloetta can more easily achieve the company's goals and strengthen and develop its brand.

To create a well defined and stable platform for ongoing CSR activities, Cloetta started an effort in the past financial year to identify areas of importance to the company and its operations where it is possible to exert an influence. In all of the identified areas, there are already established collaborations and initiatives at different levels. For example, Cloetta is working together with other companies and organisations to promote better working and living conditions among raw material suppliers in developing nations. In several areas, Cloetta intends to increase its commitment and collaboration with other players in order to take a clearer stand on issues of key importance to the company.

Cloetta's CSR work is closely linked to the company's core values: Expertise, Responsibility, Innovation and Enjoyment. To the greatest possible extent, Cloetta strives to act in an ethical and environmentally sustainable manner. All operations and collaborative arrangements are continuously reviewed from a CSR perspective.

Cloetta and Ljungsbro

- Cloetta is the Nordic region's oldest and only major wholly Swedish confectionery company. The company that moved to Ljungsbro in 1901 has its roots in the rural industrial society and is an integral part of the Ljungsbro community. Cloetta has been the largest employer in Ljungsbro for many generations, which has given the company a natural and prominent role in taking responsibility for the community and its development.
- Ljungsbro was built as a model community – an airy and healthy garden city where the company was responsible for all urban planning, including road maintenance and the supply of water and electricity for many years. Employee housing was built already in the 1910s and as late as the 1930s there was a post office, a telephone station and a bank inside the factory compound itself. The workers were granted low-interest home loans in order to purchase inexpensive plots of land that were provided by Cloetta.
- In the 1940s there was a vision for Ljungsbro to become Sweden's "chocolate city". The company had its own architectural firm that designed and built employee housing, daycare centres and medical and dental clinics.
- Cloetta is proud of its history and combines this legacy with a modern entrepreneurial spirit.

Code of conduct

Cloetta is dedicated to manufacturing and marketing its products in a manner that generates added value for consumers, customers, shareholders, employees and business partners. Added value is created under responsibility, and Cloetta has established a set of principles to guide the way in which the company conducts its operations. These are described in Cloetta's Code of Conduct.

General principles

Cloetta prioritises a long-term approach to value creation, primarily by building and nurturing profitable brands.

Cloetta recognises and supports the ten principles in the UN's Global Compact and works to promote these in the communities and environments where the company conducts business.

To ensure compliance with these general principles, Cloetta has adopted a number of basic standards:

- Cloetta complies with the applicable laws, regulations and norms in the countries where the company operates.
- Cloetta conducts its operations with the highest standards of integrity and ethics and takes responsibility for its actions.
- Cloetta respects the UN's Declaration of Human Rights and accepts responsibility for protecting the rights of employees and society in its operations.
- Cloetta takes part in international collaborative efforts to improve the working conditions of those active in producing the company's raw materials, such as cocoa.

In the areas where Cloetta conducts business, the company actively encourages its suppliers to adhere to the principles in Cloetta's Code of Conduct.

Consumer and customer relations

Cloetta safeguards and respects the trust customers and consumers invest in the company by honouring their legitimate right to information about Cloetta's values and activities.

Employee relations

Employee relations are built on a foundation of mutual respect and trust. All terms of employment comply with the provisions in collective agreements, national laws and the relevant ILO conventions (International Labour Organisation).

Business ethics

Corruption, bribes and unfair competition-restricting practices distort the market and hinder economic, social and democratic progress. Cloetta never employs or is otherwise associated with such methods.

Environment

Environmental consideration permeates every aspect of Cloetta's work. The ambition is to consistently surpass the expectations of consumers, customers and other stakeholders with respect to product safety, quality and environmental performance.

A tasteful investment

"We are continuously raising the level of technology in the factory and made major advances in automation of the production lines during the year. Through a structured approach and effective project management methods, we have succeeded in completing many large projects. This autumn we took our new chocolate moulding line into operation. As responsible for the technical department and the biggest investment project in Cloetta's history we have naturally had a schedule and budget to follow. At Cloetta, the focus is always on taste. The first product to be moulded in the new machine was Tarragona.

"I am very satisfied with the results of our work," says Christian Anderson, Technical Director (centre), here shown together with Linda Carlson, Process Development and Project Director, and Klas Halvorsen, Process Engineer.

Environment and ethics

Open reporting on the various aspects of operations is part of Cloetta's effort to highlight the values underpinning the company's environmental and ethical commitment.

Cloetta works continuously to minimise the environmental impact of its operations through systematic environmental and quality management. Cloetta deems its operations to be in compliance with statutory environmental requirements and the Group is not party to any environmental disputes. As a significant player in the Nordic confectionery market, Cloetta must preserve and nurture the strong confidence placed in the company by consumers. Cloetta strives to exceed the requirements of consumers, customers and other stakeholders, not only with regard to environment and quality but also areas such as ethics and product safety.

Environmental work

Awareness about the effects of different manufacturing processes on the environment and quality is enhanced through a structured and detailed process for measurement, monitoring and action. Frequent follow-up and evaluation of methods creates knowledge about "best practice" and provides a decision basis for activities that improve quality and environmental management and contributes to more clearly defined goal formulations.

One explicit ambition is to significantly reduce raw material wastage in production, which has a positive effect both on the environment and the Group's cost mass.

Prioritised environmental areas

Efforts to reduce environmental impact in production are being carried out through ISO 14001-certified environmental management systems since 2004 and are focused on the following areas:

- Conservation of energy
- Reduction of wastewater emissions and solid waste
- Lower carbon dioxide emissions
- Reduced raw material wastage

Certification

The production unit in Ljungsbro was certified according to BRC and ISO 14001 in 2004. The unit in Alingsås received BRC certification in 2007. The certificates are revised and renewed continuously.

Environmental impact

Environmental impact in the confectionery industry arises among other things through water and energy usage, wastewater emissions, raw material and packaging waste, production waste and transports. Certain environmental effects are also caused by coolants, chemicals, particles and noise. The greatest environmental impact comes from emissions of nutrients and fats into the water and sewage network.

Commitment and responsibility

An awareness of, and commitment to, the environment and quality are promoted through education and communication. Regular training courses in environment, hygiene and quality are provided at the production units.

Cloetta's participation in numerous international bodies is aimed partly at accelerating development towards sustainable production of raw materials such as cocoa and palm oil. For example, Cloetta is a member of the World Cocoa Foundation, which promotes sustainable cocoa growing, and the RSPO (Roundtable on Sustainable Palm Oil), which is committed to improving the conditions for palm oil production in Asia. In 2005 the RSPO adopted "Principles and Criteria for Sustainable Palm Oil Production" and has drafted a proposed Code of Conduct. Cloetta's own Code of Conduct is fully consistent with the content of these documents.

In 2007 Cloetta adopted a new company car policy which states that the chosen cars should have the smallest possible impact on the environment.

Environmental investments

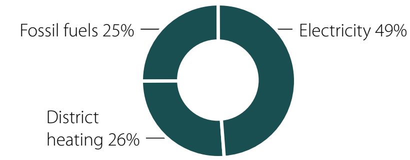
Ongoing investments are made to reduce the Group's environmental impact arising from consumption of energy, water and raw materials. The factory in Ljungsbro has installed a heat battery to preheat the air used in production of marshmallow products and heat exchangers to recover waste heat from the wafer oven.

Raw materials and packaging

Many of the unique qualities of Cloetta's products come from the raw materials and processes used to make them. The main ingredients in chocolate confectionery are cocoa mass, cocoa butter, sugar, other vegetable oils and milk, but the products can also contain nuts, almonds and raisins. To ensure high product quality, Cloetta takes ongoing measures to deal with hygiene and quality issues. All of Cloetta's suppliers undergo an approval process before being permitted to deliver material to the factories. The process differs depending on the type of supplier and material to be delivered. Certain suppliers are audited physically by Cloetta's personnel at regular intervals. The aspects examined in an audit include product safety, quality, environmental and ethical issues.

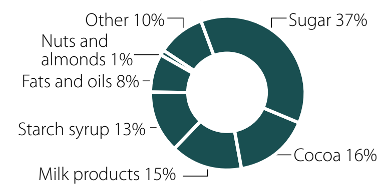
The packaging materials must perform several functions, such as protecting the product on its way to the consumer, enabling easy handling of the product and communicating the brand. Cloetta places rigorous environmental demands on its material suppliers. The most commonly used consumer packaging method is flowpack, a material that can be recycled or incinerated. Cloetta fulfils its producer responsibility through affiliation with REPA, which is part of FTI (Swedish Packaging and Newspaper Collection).

Share of energy types in 2008/2009



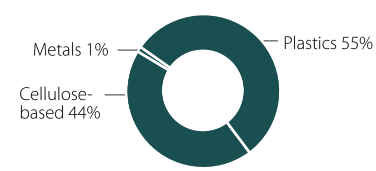
Raw material purchasing in 2008/2009

(by weight)

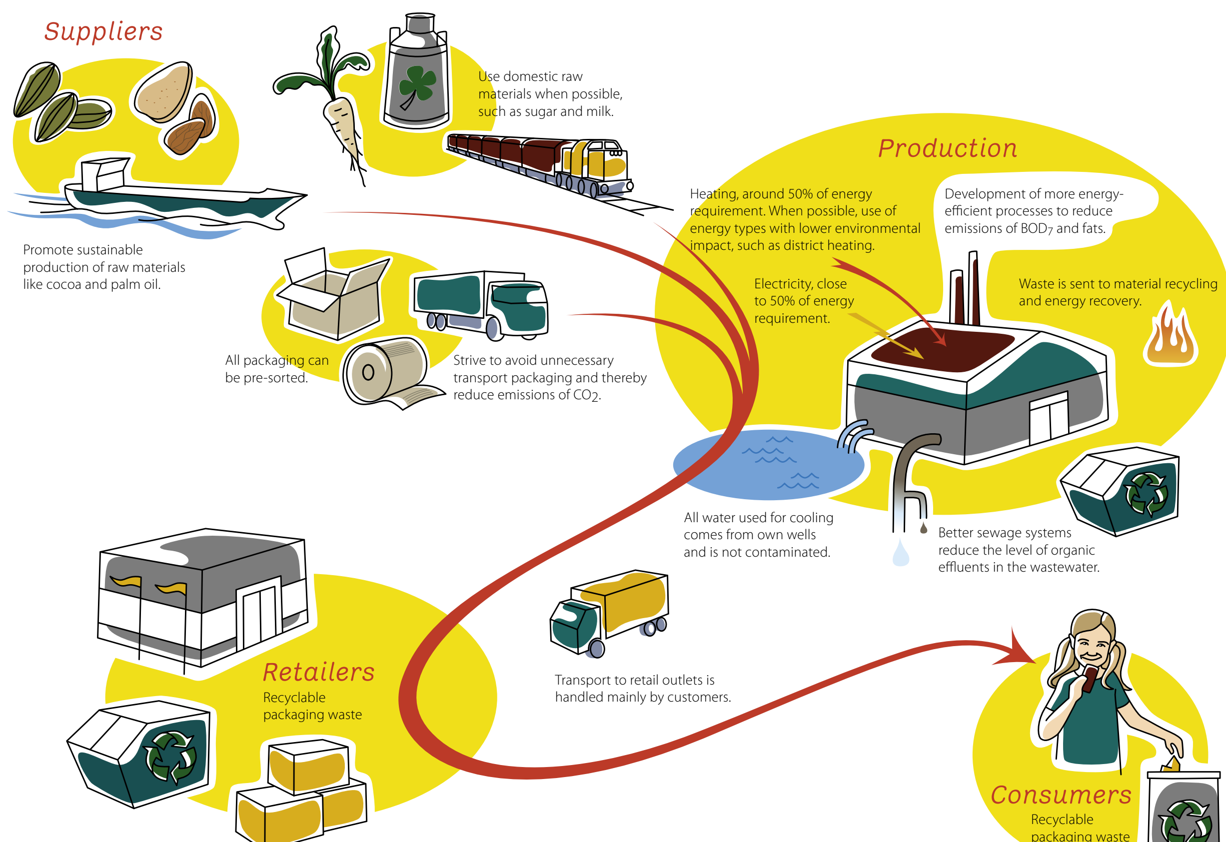


Packaging consumption in 2008/2009

(by weight)



The value chain



Environmental impact in the confectionery industry is related to water and energy usage, wastewater emissions, raw material and packaging waste, production waste and transports.

Energy

The Group has an aggregate annual energy usage of around 42 GWh. Approximately half of the total energy usage is fixed, i.e. related to heating and cooling of properties, while the other half is directly linked to production. Heat is produced mainly with non-fossil fuels. In order to minimise energy usage in production of cooling, Cloetta has invested in free cooling systems that utilise cold outdoor air and cold water. In collaboration with Tekniska Verken in Linköping, Cloetta has replaced fuel oil with wood powder to produce the steam needed for certain manufacturing processes. Cloetta's goal is to develop more energy-efficient processes and choose energy types with lower environmental impact.

Since 1 June 2009, all electricity used at the Ljungsbro facility is wind power-certified. By changing to wind power, Cloetta has reduced its annual CO_2 emissions by around 2,400 tonnes.

Waste management

The Group's combined fresh water usage between 1 September 2008 and 31 August 2009 amounted to approximately 68,000 m^3. The single largest category of water consumption is used for cooling and is not contaminated, but is instead pumped to onsite wells and reused. As a result, the volume of water discharged into the municipal sewage system is lower than total water usage, and amounted to approximately 41,700 m^3 during the financial year.

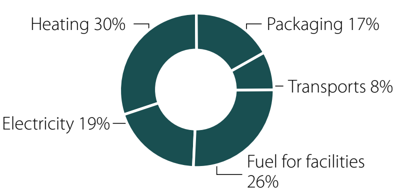
BOD_7

The wastewater mainly contains organic effluents. The degree of pollution is measured in biochemical oxygen demand over a period of seven days (BOD_7). In order to lighten the load on the municipal wastewater treatment plants, it is vital to minimise concentrations of organic effluents. Emissions are therefore reduced through the use of separate sewage systems.

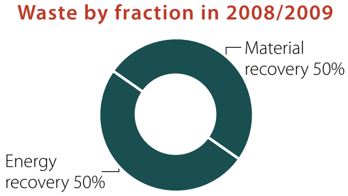
Waste management

All of Cloetta's production units have effective systems for pre-sorting of waste. The goal is to continuously develop the company's waste management and reduce total waste volumes. At present, 50% of the waste is recycled and the remaining 50% is used for energy production.

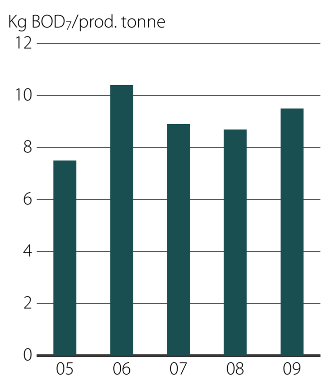
Sources of CO_2 emissions in 2008/2009



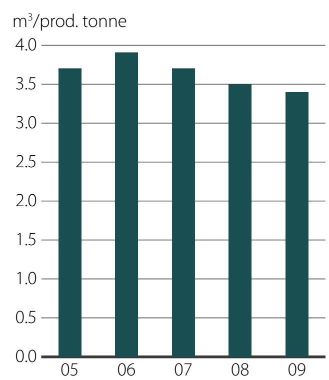
Waste by fraction in 2008/2009



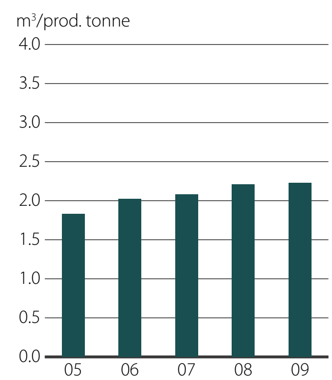
Wastewater: level of pollution (BOD_7)
per produced tonne



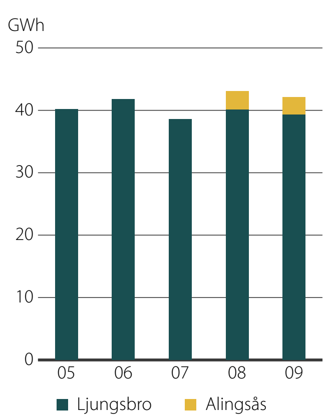
Water usage
per produced tonne



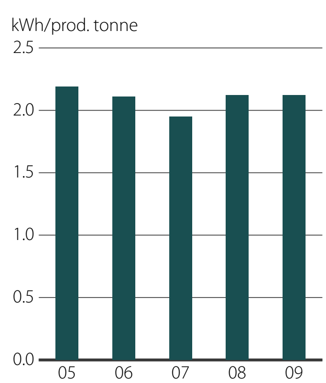
Wastewater
per produced tonne



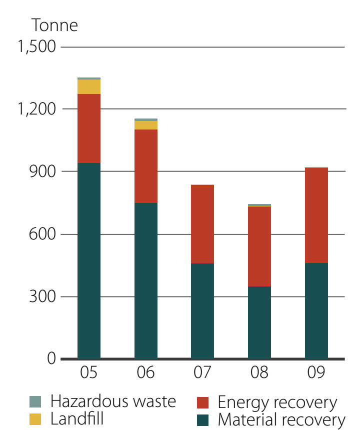
Total energy usage (GWh)



Total energy usage (kWh)
per produced tonne



Volume of waste by fraction (tonnes)



The figures for 2005 – 2008 refer to the calendar year, while the figure for 2009 refers to the period from September 2008 to August 2009. The figures include only the factory in Ljungsbro until 2007.

Alingsås accounts for approximately 80 tonnes (55) of energy recovery and 4 tonnes (6) of material recovery.

Cocoa growing

Cloetta's goal to provide high quality and flavourful products must always be balanced by consideration to factors such as the well-being of its employees and the company's environmental responsibility. Cloetta's long traditions and experience are reflected in its core values: expertise, responsibility, innovation and enjoyment.

Part of this tradition means being responsive to the needs of society and the market, as well as developing and driving change in harmony with consumers, customers, suppliers and the surrounding world.

Cloetta's Code of Conduct provides a framework for the company's interaction with society and various stakeholders. It rests on an ongoing process in which operations are conducted based on a set of values that is continuously adapted to changes in local, national and international laws, market trends, social and cultural values.

Delivery reliability, consumer knowledge and high quality are key success factors for Cloetta. Today the products are sold primarily in the Nordic and Baltic regions and are manufactured in the company's own factories, close to the Cloetta's consumers.

Raw materials

In its Code of Conduct, Cloetta has gathered all of the general principles that govern the Group's social and ethical commitments, also with regard to raw materials. Cloetta takes part in international initiatives aimed at promoting sustainable extraction and distribution of raw materials. Cloetta requires all of its raw materials to comply with the company's principles in these issues, and expects them to demand the same from their own suppliers.

Cocoa

Every year, Cloetta buys approximately 3,300 ton tonnes of cocoa in the form of cocoa mass, butter and powder that are manufactured in Europe. The cocoa comes from West Africa. Local intermediaries then distribute the raw materials to international cocoa distributors.

The West African cocoa farmers face daunting challenges such as poverty, a lack of education and weak economic development. Quite clearly, no government, company or organisation can single-handedly solve these enormous problems. For that reason, Cloetta collaborates with other major players in the chocolate industry to promote better conditions at the cocoa plantations and communities. The goal is to achieve environmentally, socially and economically sustainable development in cocoa growing. For Cloetta, it is important to play an active role in driving these issues.

World Cocoa Foundation

For several years the international chocolate and cocoa industries have been working together with the cocoa-producing countries to promote environmentally, socially and economically sustainable cocoa production.

Since 2005, Cloetta is a member of the World Cocoa Foundation (WCF), which supports cocoa farmers and their families through a variety of programmes aimed at increasing the farmers' yields and incomes and promoting sustainable cultivation. In concrete terms, this consists of cooperating to gather the best knowledge and expertise in order to promote the establishment of international work standards in cocoa cultivation and to draft guidelines for monitoring and reporting of these standards. Other initiatives spearheaded by the World Cocoa Foundation include teacher training programmes and micro loans for cocoa growers, health-related issues and activities to combat hazardous child labour.

In the summer of 2007 Cloetta's Purchasing Director Arto Almér visited Ghana together with some 30 other chocolate producers. The goal of the trip, which was arranged by the WCF, was to learn more about how cocoa is cultivated, the conditions on a cocoa plantation and the logistics of cocoa farming. Another objective was naturally to see the results of the WCF's work and how it can be further developed.

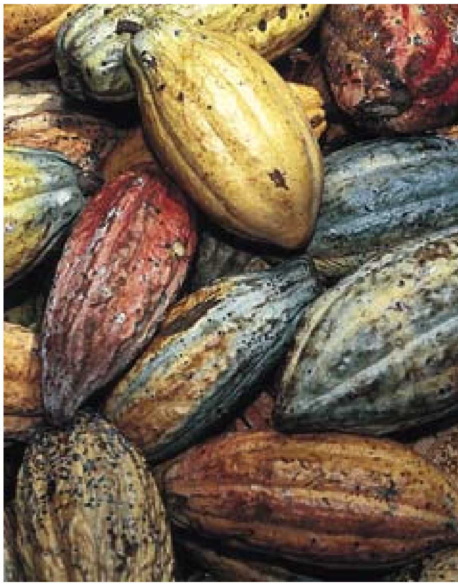
Caobisco

Cloetta also supports efforts to promote sustainable cocoa cultivation through membership in Caobisco (Association of chocolate, biscuit and confectionery industries of the European Union).

RSPO

Cloetta is a member of the RSPO (Round Table on Sustainable Palm Oil), which is committed to improving the conditions for palm oil production in Asia.

Together with delegates from the World Cocoa Foundation, Arto Almér from Cloetta visits Sekyerekroho in Ghana to take part in a lecture at Farmer Field School, an initiative run by the World Cocoa Foundation in Ghana. Here, cocoa growers from small farms are given training in efficient cultivation including eco-friendly pest management and fertilisation.



Employees

Cloetta strives to offer an attractive workplace with opportunities for involvement and participation. This facilitates efforts to recruit, develop and retain competent employees, which in turn strengthens Cloetta's competitiveness.

Cloetta has established four core values that guide the way of working and acting, both within and outside the company. These core values are **Expertise**, **Responsibility**, **Innovation** and **Enjoyment**. The core values are based on Cloetta's longstanding tradition of confectionery production and the challenges facing the confectionery market today and in the future.

Expertise

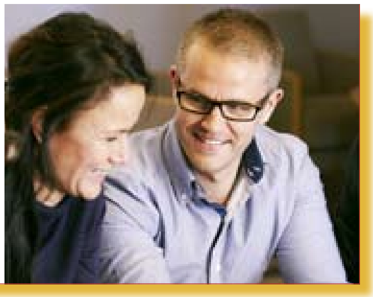
For Cloetta, expertise means fine-tuning our professional skill, building on our aggregate experience and enhancing our knowledge in all areas of operation. It is vital that we continuously improve the ability to realise our ideas as attractive products on the store shelf. Through a high level of expertise, we also strengthen our relationships with business contacts, partners and subcontractors.

Responsibility

At Cloetta, one aspect of responsibility is to be accountable for the ways in which our operations and brands affect the environment, employees, suppliers and local community. For the individual employees, it means showing a commitment even outside their own work duties, striving for the good of the company at every level and being a good representative for Cloetta.

Innovation

Innovation at Cloetta means questioning ingrained habits and daring to follow new paths. It is about challenging the old and taking new initiatives, but always with respect for others. Interdisciplinary cooperation and a desire to achieve objectives together are success factors that Cloetta, in our capacity as a local and relatively small company, can utilise to the full extent.



Enjoyment

Enjoyment means that Cloetta cherishes and feels pride in the company's origins and that our many popular products are a source of enjoyment. By treating others as we wish to be treated ourselves, we create a working environment characterised by satisfaction and well-being. Together with our colleagues, we contribute to the company's future.

Tina Åhlund, Process Manager, and Sofia Hugosson, TPU Coordinator.

Competence development

Cloetta is characterised by a commitment to continuously renewing the company's aggregate expertise. This approach is based on awareness that the right competence creates the conditions to maintain Cloetta's position as an attractive and innovative partner for customers, suppliers, employees and business partners.

Since 2005 the company has conducted a management and leadership training programme aimed at maximising the personal potential of managers and leaders, closely aligned with the company's current needs. The programme identifies and exploits the potential of each individual and leads to higher performance and a stronger focus that benefits Cloetta. Senior managers in both the commercial and supply chain organisations are participating in the programme, which was also started by mid-level supply chain managers in the autumn of 2009.

Another focus area for competence development has been Cloetta's participation in a competence mapping project under the supervision of the Swedish Food Federation. The project was started in April 2009 with involvement from companies across the entire food industry. This mapping also gives the employees an indication of the competencies that are needed among all of Cloetta's more than 200 employees in production. By defining the competencies that exist, it is possible to use these in the right way and at the right time as a means for reducing lead times and optimising efficiency.

A similar mapping that resulted in a joint competence development programme has been carried out in the sales force. In the programme, which has been underway since 2008, all job categories in sales have the opportunity to achieve the defined competence profile in all its dimensions.

Cloetta also provides continuous job-specific training for individual employees and courses on hygiene, ergonomics, forklift operation and fire safety for groups of employees. In a new addition for the year, shift workers have been offered a highly appreciated health course that provides tools for ensuring that they are able to meet their needs for sleep, nutrition and social interaction when working shift.

Health

Cloetta's management has an explicit focus on promoting and spreading a healthy working climate and creating a safe and secure working environment for its employees. All aspects of the working environment are handled, targeted and monitored in the company's Occupational Health and Safety Council, consisting of representatives from all parts of the Cloetta's operations.

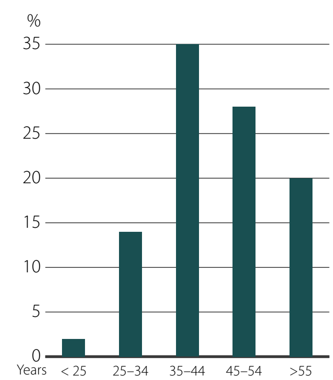
Through several years of consistent health and fitness efforts, the company has reduced sickness absence and the number of accidents. By systematically following up all incidents and accidents in the workplace, Cloetta has increased awareness of possible risks as a basis for more effective preventative measures.

Cloetta's Human Resources department has developed tools for use together with managers with staff responsibility for early-stage detection of signals that could lead to dissatisfaction and long-term absence. Through a wide contact network with suppliers of company health services, health and fitness providers and other health-related disciplines, health issues can be handled quickly and professionally.

In addition, the Human Resources department has further enhanced the offering of multi-faceted health and fitness services to encourage Cloetta's employees to invest proactively in their personal health.

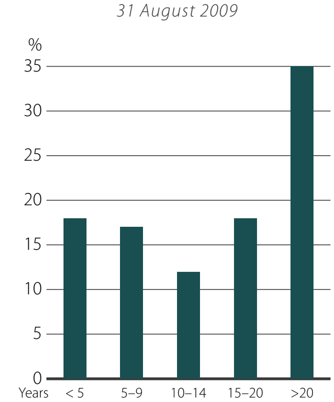
Age distribution

31 August 2009

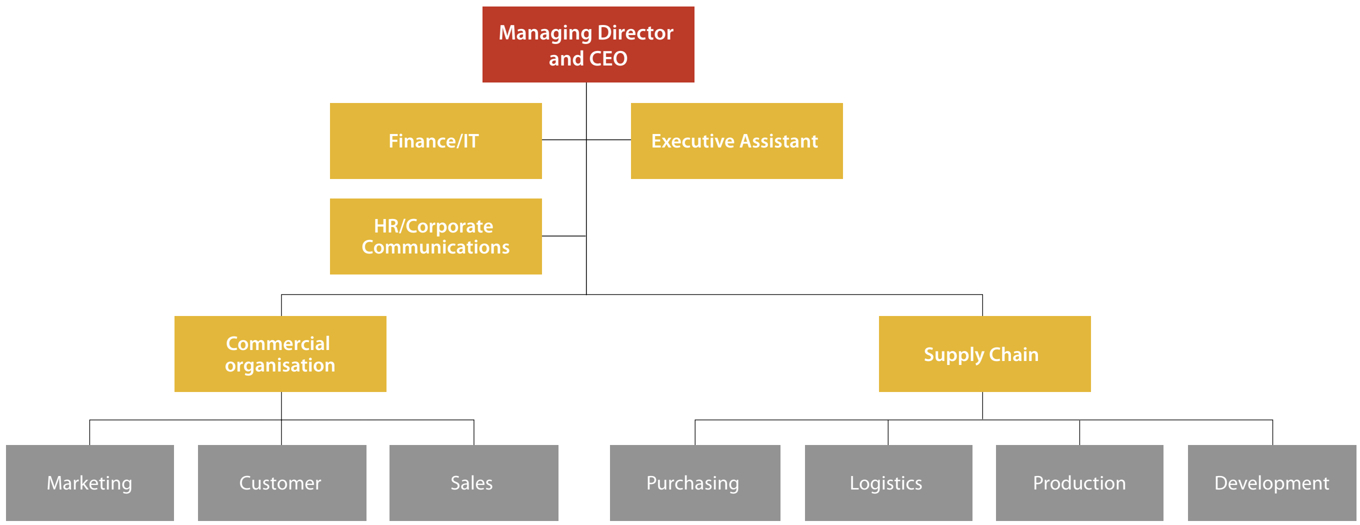


Average term of employment

31 August 2009



Organisation



Together

"A passion for chocolate and confectionery is the driving force for everything we do. For me personally, it is vital that we are able to maintain an enjoyment of and pride in our products. I also want everyone in the company to feel satisfaction in what we can achieve though our combined efforts. Together, we will continue to uphold the special atmosphere of unity that permeates Cloetta," says Curt Petri, Managing Director and CEO.

Positions and remuneration

Cloetta has carried out a large-scale review of all positions in the company. The review has provided a basis for concrete job descriptions and the establishment of salary and remuneration levels for each position based on market norms.

Convertible note programme

An extraordinary general meeting on 20 March 2009 approved the issue of a convertible debenture loan amounting to approximately SEK 30 million to all employees in the Cloetta Group. The convertible debenture loan was oversubscribed and the convertible notes can be converted to shares at a price of SEK 30.40 during the period from 25 February 2011 to 25 February 2012.

The motive for the convertible note programme was to achieve a personal and long-term ownership commitment among the employees, which is expected to stimulate a stronger interest in the company's business and earnings trend, boost motivation and increase the sense of solidarity throughout Cloetta.

Number of employees

The average number of employees in Cloetta during the financial year from 1 September 2008 to 31 August 2009 was 464 (512). The decrease is mainly attributable to workforce reductions in response to redundancies arising when Cloetta discontinued sales of Fazer's products. The staff reductions carried out at the Alingsås factory have not yet affected the average number of employees. Of the total number of employees, 55% are employed under collective agreements and 45% are salaried employees.

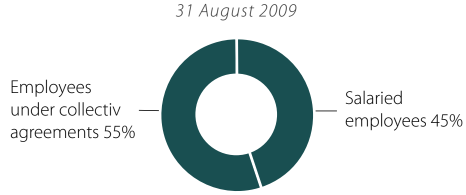
Employees	Sep 2008 – Aug 2009
Average number of employees	464
– of whom, women	255
Employee turnover, %	2
Hiring rate, %	6
Job rotation, %	5
Sickness absence	
– salaried employees, %	3
– employees under collective agreements, %	7
Number of accidents [1]	2

[1] Accidents on the job and during business travel (> 3 days of absence).

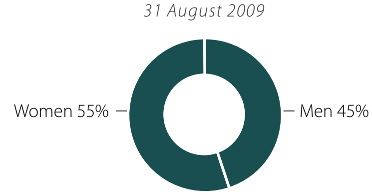
Group Management Team

The Group Management Team is made up of competencies that represent all of the company's functions: marketing, customer support, sales, supply chain, finance, IT and HR/corporate communications. For more information about the Group Management Team's working methods, see the corporate governance report.

Employee categories
31 August 2009



Gender distribution
31 August 2009



Corporate governance

Corporate governance report

The aims of good of corporate governance are to create the conditions for active shareholder participation, to uphold a transparent and sound balance of power between the company's governing bodies and to ensure the provision of correct and timely information to the market.

Swedish Code of Corporate Governance

Cloetta AB (publ) operates under Swedish law and its corporate governance is also regulated by the Articles of Association, the listing agreement with the Stockholm Stock Exchange, other applicable rules and norms, the Code of Conduct and other instructions and policies. Since 1 July 2008, all companies whose shares are traded on NASDAQ OMX Stockholm AB are required to apply the Swedish Code of Corporate Governance regardless of their market capitalisation.

Cloetta is subject to compliance with the Swedish Code of Corporate Governance, which is based on the "comply or explain" principle. This means that a company can deviate from the Code's provisions without this entailing a breach of the Code. However, a company that intends to deviate from a rule in the Code must explain the reason for doing so.

General Meeting of Shareholders

The General Meeting of Shareholders is the company's highest decision-making body. At a General Meeting, all shareholders have the opportunity to exert an influence over the company by exercising 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. Cloetta's financial year runs from 1 September to 31 August, which means that the company's Annual General Meeting (AGM) must be held during the months of November, December or January. Notice to attend must be given no more than six weeks and no fewer than four weeks prior to the AGM.

The AGM resolves on adoption of the year's balance sheet and profit and loss account, dividends, election of Board members and auditors, fees to Board members and auditors, and other items of business as prescribed by the Swedish Companies Act and the Articles of Association.

Each class B share corresponds to one vote and each class A share to ten votes, although all shares carry equal entitlement to the company's assets and profits. Every shareholder has the right to participate in the AGM, in person or by proxy. Every shareholder has the right to request that a matter be taken up at the AGM. A shareholder who wishes to have a matter addressed at the AGM must submit a written request to the Board. In order to be taken up at the AGM, the request must be submitted to the Board

1. no later than one week before earliest date on which the notice of meeting may be published (e.g. the request must be received at the latest seven weeks before the AGM), or
2. after the date specified in 1 but in such time that the matter can be included in the notice to attend the AGM.

2008 Annual General Meeting (AGM)

The latest AGM was held on 5 November 2008 in Stockholm. The AGM resolved that the Board would consist of Olof Svenfelt (Chairman), Lennart Bohlin, Johan Hjertonsson, Ulrika Stuart Hamilton, Mikael Svenfelt and Meg Tivéus. In addition, the union organisations appointed two employee representatives to the Board. Olof Svenfelt was elected as Board Chairman. Among other things, the AGM also resolved on the implementation of a bonus issue, the appointment of a nominating committee and guidelines for remuneration to senior executives.

Extraordinary General Meeting (EGM) in 2009

An extraordinary general meeting was held on 20 March 2009 in Stockholm. The EGM resolved to implement a convertible note programme for all employees in the Cloetta Group.

2008/2009 Annual General Meeting (AGM)

The 2008/2009 AGM will be held at 2:00 p.m. on Friday, 18 December 2009, at Collegium in Linköping. Notice to attend the AGM will be published in mid-November 2009 and will also include a description of the Board's proposed appropriation of earnings and other proposals. For additional information, see page 95 and the company's website www.cloetta.se.

Articles of Association

The Articles of Association are adopted by the General Meeting and contain obligatory information of a fundamental nature to the company.

These articles specify the object of the company's operations, the size of the share capital, the voting rights attached to the different classes of shares and the composition of the Board.

The full Articles of Association can be viewed on Cloetta's website www.cloetta.se.

The Board of Directors and its work plan

The primary task of the Board is to serve the interests of the shareholders in the conduct of the company's business in such way as to ensure the best possible long-term return on investment for the shareholders. The Board is also responsible for making sure that the Group is suitably structured so that the Board can optimally exercise its governance over the subsidiaries and associated companies. The Board's powers and duties are regulated in the Swedish Companies Act and the Articles of Association.

In addition, the activities of the Board are governed by a work plan and instructions pertaining to the division of responsibilities (between the Board, the Managing Director and those company bodies set up by the Board) that has been adopted by the Board.

Work plan

The Board's work plan contains and regulates the following points:

- Certain of the Board's obligations pursuant to the Swedish Companies Act, etc.
- Notice to attend general meetings

- Financial reporting to the market
- Items of business to be taken up at Board meetings, etc.
- Internal reports to be submitted to the Board
- Notice to attend meetings, etc.
- Presence of a quorum
- Minutes from Board meetings
- Disqualification due to impartiality, etc.
- Liability of Board members, etc.

Instructions and policies

Furthermore, the Board issues instructions and policies regarding:

- Financial targets/objectives for the Group
- Financial limits and administrative routines for investments, etc.
- Responsibility and principles for financial management
- Responsibility and routines for safeguarding and strengthening the value of the brands
- Basic principles for internal and external communication
- Responsibilities and principles for purchasing of cocoa products

Internal reports

Internal reports such as the consolidated accounts are compiled and delivered to the Board on a monthly basis. Prior to each regular Board meeting, a sales report is also drawn up for the prioritised brands, a purchasing report for the most significant raw materials, a review of the Group's liquidity and development and an overview of budgeted, decided and implemented investments. Every financial year, a profit, balance sheet and investment budget is prepared for the Group and is adopted at the regular Board meeting in August.

Board meetings

According to the work plan, the Board holds at least six scheduled meetings per year with certain fixed items on the agenda.

The **December** meeting, preferably held in connection with the AGM, deals with approval of the interim report for the period from September to November. The statutory meeting is held immediately following the AGM and handles matters such as appointment of minutes-keepers and minutes-checkers, decision on signatory authority, election of the remuneration committee and audit committee, as well as review and adoption of the instructions issued by the Board.

A meeting is held in **February** if needed.

The **March** meeting deals with approval of the interim report for the period from September to February. By this meeting at the latest, decisions are made regarding the time and place of the coming year's AGM (see page 95), the dates and times for the coming year's regular Board meetings and the publication dates for the coming year's financial reports to the market.

The **June** meeting deals with approval of the interim report for the period from September to May.

In **August**, the Board reviews and approves business plans and budgets for the coming year.

The **October** meeting deals with items such as the annual accounts, the proposed dividend, appropriations, the draft annual report and administration report, the year-end report and the upcoming AGM.

At the scheduled meetings, the Board also discusses the activities and financial results of the company and the subsidiaries, as well as other pertinent projects and matters. Extra meetings may be held in addition to the scheduled meetings and, in urgent cases, also by telephone. Since the AGM on 5 November 2008, and aside from the statutory meeting, the Board has held six scheduled meetings at which it dealt with the fixed items on the agenda of each Board meeting, such as the business and market situation, financial reporting, liquidity, investments and budgetary matters. In addition, overall strategic matters have been analysed with regard to the company's focus, external factors and growth opportunities. Aside from the regular Board meetings, ten extra meetings were held. During these meetings, the Board dealt with matters related to the demerger of Cloetta Fazer, the issue of convertible notes to the employees and other strategic business decisions.

Board members

The current Board of Directors consisted of the following six members that were elected by the AGM on 5 November 2008: Olof Svenfelt (Chairman), Lennart Bohlin, Johan Hjertonsson, Ulrika Stuart Hamilton, Mikael Svenfelt and Meg Tivéus. Olof Svenfelt and Mikael Svenfelt had previously held seats on the Board since 25 August 2008. Although the other members, i.e. Lennart Bohlin, Johan Hjertonsson, Ulrika Stuart Hamilton and Meg Tivéus, were formally elected to the Board on 5 November 2008, these individuals had been informally active on the Board since 1 September 2008 in preparation for the market listing. For information about the Board members' significant assignments outside the Group and shareholdings in the company, see page 47.

Lena Grönedal and Birgitta Hillman have served on the Board as employee representatives, with Linus Ekegren and Birgitta Junland as deputies. Other than the employee representatives and their deputies, no Board member is employed by the company. Kent Sandin, the company's CFO, has acted as primary Board Secretary during the year.

According to the decision of the AGM on 5 November 2008, the Board Chairman receives fees of SEK 175,000 and the other regular Board members receive fees of SEK 150,000 each. The employee representatives receive fees of SEK 20,000 each. The Board members serving on the audit committee receive additional fees of SEK 20,000 each.

Of the Board's six members, all are independent in relation to the company and its management and four are independent in relation to the company's major shareholders.

Chairman

The Chairman is responsible for ensuring that the Board carries out its duties in an organised and efficient manner and for monitoring the Group's development. The Chairman also ensures that the Board is continuously provided with the information required to carry out its duties with consistently high quality and in accordance with the Swedish Companies Act. The AGM on 5 November 2008 elected Olof Svenfelt as Board Chairman.

Managing Director

The Managing Director, who is also the CEO, supervises operations according to the instructions adopted by the Board. He is responsible for ensuring that the Board members are supplied with the necessary information and decision data and is also required to present reports and put forward proposals at Board meetings regarding issues dealt with by the Executive Management. The Managing Director continuously informs the Board and Chairman about the financial position and development of the company and the Group. The Managing Director of Cloetta AB and CEO of the Cloetta Group since September 2008 is Curt Petri. For information about his significant assignments outside the Group and shareholding in the company, see page 48.

Group Management Team

The Managing Director of Cloetta AB heads the Group Management Team, which – in addition to the CEO – consists of those persons proposed by the CEO and appointed by the Board (see page 48). This is a consultatory body for the CEO and therefore has no autonomous executive authority. The Group Management Team meets as decided by the CEO.

Financial reporting

The Board of Directors is responsible for ensuring that the company's organisation 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 the annual report are prepared in accordance with the legal requirements, relevant accounting standards and other rules and directives applicable to listed companies. The interim reports are examined by the Board's audit committee and are issued by the CEO on behalf of the Board. The semi-annual report for the period from September to February, like the annual report, is issued by all members of the Board and the CEO. The CEO ensures that 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 Managing Director 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 (see also section on internal reporting on page 41).

The Board ensures the quality of the Group's financial reporting through the audit committee, see below. The audit committee deals not only with the company's financial reports and significant accounting matters, but also matters related to internal control, compliance with rules, reliability of reported values, events after the balance sheet date, changes in estimates and judgements and other conditions affecting the quality of the financial statements.

Committees

It is of considerable significance to the company that well-founded and credible nominations for appointment of Board members and auditors can be presented to the AGM. Professional expertise, independence and integrity are qualities that should characterise the company bodies.

Nominating committee

The AGM of Cloetta on 5 November 2008 resolved on the appointment of a nominating committee essentially according to the following. From among the Board members who are independent from the major shareholders, the company's Board of Directors shall appoint one member to serve on the nominating committee. Furthermore, the largest shareholder in terms of voting power has the right to appoint one member to the nominating committee. The two members thus appointed shall together appoint a third and final member to represent the small to mid-sized shareholders. From among its members, the nominating committee shall then appoint a chairman (who may not be the Board Chairman). The composition of the nominating committee shall be announced at least six months prior to the AGM. The task of the nominating committee is to prepare recommendations to be put before the AGM for decision regarding election of Board members, fees to the Board of Directors, remuneration for committee work, election of the Board Chairman, election of a chairman of the AGM, and, when applicable, election of auditors and auditing fees.

The nominating committee ahead of the 2008/2009 AGM has the following composition:

- Christer Wagenius, chairman of the nominating committee (appointed by AB Malfors Promotor)
- Johan Hjertonsson (appointed by the Board of Cloetta AB from among the members independent from the major shareholders)
- Erik Sjöström (representing the shareholder Livförsäkringsaktiebolaget Skandia, appointed by Christer Wagenius and Johan Hjertonsson)

Ahead of the AGM, the nominating committee will propose rules for appointment of the nominating committee.

Audit committee

The Board has appointed an audit committee consisting of Olof Svenfelt, Mikael Svenfelt and Meg Tivéus. The main task of the committee is to support the Board in its efforts to ensure the quality of the company's financial reporting and to stay continuously informed about the focus and scope of the audit.

From the date of the previous AGM, the committee held three meetings. The company's audi-

Board of Directors

					Attendance at Board meetings since the AGM on 5 November 2008				
	Year elected	Fees, SEK[1]	Independent from company	Independent from major shareholders	Total no. of meetings: 17	Of which, scheduled and statutory meetings: 7	Of which, extra meetings: 10	Audit committee[2]	Remuneration committee[3]
Elected by the AGM:									
Chairman									
Olof Svenfelt	2008	175,000	X		17	7	10	X	X
Members									
Lennart Bohlin	2008	150,000	X	X	16	7	9		X
Ulrika Stuart Hamilton	2008	150,000	X	X	15	7	8		X
Johan Hjertonsson	2008	150,000	X	X	13	4	9		X
Mikael Svenfelt	2008	150,000	X		16	6	10	X	X
Meg Tivéus	2008	150,000	X	X	16	7	9	X	X

[1] The AGM on 5 November 2008 resolved that Board fees would be paid fees in a maximum amount of SEK 1,005,000 and that fees to the members of the audit committee would amount to no more than SEK 60,000. Of the total Board fees, it was resolved that SEK 175,000 would be paid to the Board Chairman, SEK 150,000 to each of the other Board members and SEK 20,000 to each of the employee representatives. For further details see Note 7.

[2] The audit committee has held three meetings since the previous AGM. For attendance, see information about the audit committee on page 43.

[3] The remuneration committee has held two meetings since the previous AGM. For attendance, see information about the remuneration committee on page 43.

tor, Helene Willberg, has participated in all meetings of the audit committee. On one occasion, the auditor has also met with the committee without the presence of the Executive Management. Together with the Executive Management, the committee has evaluated the year's audit performance. Furthermore, the Board has met with the auditor in connection with the Board meeting on 16 October 2009 at which adoption of the annual accounts was dealt with.

Member	Attendance at a total of 3 meetings
Olof Svenfelt	3
Mikael Svenfelt	3
Meg Tivéus	2

Remuneration committee

The Board has appointed a remuneration committee consisting of all Board members to prepare recommendations for remuneration and other terms of employment for the Executive Management, as well as matters related to incentive programmes. The committee held two meetings during the period since the previous AGM. For remuneration to the Managing Director and other senior executives, see Note 7.

Member	Attendance at a total of 2 meetings
Olof Svenfelt	2
Lennart Bohlin	2
Lena Grönedal	2
Birgitta Hillman	2
Johan Hjertonsson	2
Ulrika Stuart Hamilton	2
Mikael Svenfelt	2
Meg Tivéus	2

Audit

The auditor is responsible for examining the company's annual accounts and accounting records and the administration of the Board of Directors and the Managing Director. After every financial year, the auditor shall present an audit report to the AGM.

The auditor is appointed by the AGM to serve for a mandate period normally lasting for four years. The AGM on 23 April 2007 appointed the certified auditing firm of KPMG AB as the company's auditor for the following four-year period. Authorised Public Accountant Helene Willberg is Auditor in Charge.

Board report on internal control

over financial reporting during the financial year from 1 September 2008 to 30 August 2009

Introduction

As stated in the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for internal control.

This report has been prepared in accordance with the Code, sections 10.5 and 10.6, and is limited to internal control over financial reporting.

The report is not part of the formal annual report and has not been examined by the company's auditors.

Framework for internal control

The guidelines issued by Svenskt Näringsliv (the Confederation of Swedish Enterprise) and FAR SRS (the Institute for the Accountancy Profession in Sweden) regarding the Board's report on internal control over financial reporting identify COSO (Committee of Sponsoring Organizations of the Treadway Commission [1]) as the most widely used and internationally accepted framework, and as having a special status in defining good internal control. The company has therefore decided to implement the COSO framework for internal control over financial reporting and the framework has been adapted to the company's operations and conditions.

Ongoing activities and planned initiatives

The company has performed an analysis at the Group level of the risk for significant deficiencies in the consolidated profit and loss accounts, balance sheets and related notes, with respect to both quantitative and qualitative risk parameters. Based on this risk analysis, a number of significant accounts and underlying processes were identified where the company's controls were analysed, documented and evaluated during the year in order to minimise the risk of significant deficiencies.

In the past year, clearly defined roles and responsibilities were formulated for internal control over financial reporting and Cloetta designed effective general IT controls such as IT access structures, routines for changes in systems, backup routines and general IT security. In 2009/2010, independent testing and verification will be carried out in combination with self-assessments.

The self-assessments will provide a basis for the Board's evaluation of the effectiveness of internal control over financial reporting.

The Board has defined guidelines for the above work which include roles, responsibilities and processes that are vital in maintaining good internal control. The following description of how control over financial reporting is currently organised complies with the structure prescribed in the Svenskt Näringsliv/FAR SRS guidelines.

Description

Control environment

Effective oversight by the Board of Directors is the basis for good internal control. The company's Board of Directors has established well defined processes and procedures for its work. One key task of the Board is to decide on the internal control framework to be applied in the Group and to formulate and approve a number of fundamental policies and guidelines related to financial reporting. These include an accounting manual with instructions for financial accounting and reporting, a finance policy, instructions on decision-making powers and authorisation of business transactions and an ethical policy.

In addition, the Board has ensured that the organisational structure is logical and transparent with clearly defined roles, responsibilities and processes that promote effective management of operating risks.

The audit committee assists the Board in continuous monitoring of internal control. The tasks of the audit committee include evaluation and discussion of significant accounting and reporting issues.

Since the Annual General Meeting on 5 November 2008, the audit committee has received reports from the company's management on the progress of the internal control project.

The audit committee has examined and evaluated the routines for financial accounting and reporting and has monitored and evaluated the external auditor's performance, qualifications and independence. In the past year the audit committee held three reviews with, and received reports from, the company's independent auditors.

The company's management has operating responsibility for internal control. The Group CFO has overall operating responsibility for internal control over the Group's financial reporting, and reports to the management and the Board.

Those in charge of finance and accounting in the subsidiaries will have overall responsibility for internal control over financial reporting in their own units, and will continuously report on the status of internal control to the Group CFO.

Risk assessment

As mentioned earlier, risk analyses are performed to assess the risk for irregularities in financial reporting.

Furthermore, the company has established a number of risk management processes that have a considerable influence on the company's ability to ensure complete and accurate financial reporting. These procedures cover the following main areas:

- Risk assessments in which one aim is to quickly identify events in the market or in operations with a potential effect on the financial reporting.

[1] Originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting in the USA.

- Processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the company's financial reporting.

Control activities

Control structures are designed to manage the risks which the Board judges to be significant for internal control over financial reporting and which have been identified in the company's risk analysis. These control structures consist partly of an organisation with clearly defined roles that facilitate an effective, and from an internal control standpoint, appropriate division of responsibilities, and partly of specific control activities aimed at detecting or preventing risks for significant deficiencies in financial reporting. As a result of the ongoing activities, critical control activities have been thoroughly documented and linked to the inherent risks they are intended to minimise for every significant account in the profit and loss account and balance sheet and the related notes in the company's annual report.

Examples of control activities include channels and procedures for significant decisions (such as investments, agreements, approval of accounting transactions, etc.), profit analyses and other analytical procedures, reconciliations, inventories and automatic controls in IT systems.

Information and communication

The company's normative documents in the form of policies, guidelines, manuals, etc., with relevance for financial reporting are continuously updated and communicated via appropriate channels, such as the intranet and internal meetings.

Internal reporting on the effectiveness of internal control will be implemented throughout the Group and will be carried out continuously starting in the next financial year. Verification that the controls are functioning as intended will be accomplished through self-assessments by the process owner in combination with objective testing, and will be reported within the organisation.

For communication with external parties, there is an explicit policy that contains guidelines for how this should be carried out. The purpose of the policy is to ensure that all information requirements are met in a complete and accurate manner.

Monitoring

The Board continuously monitors and evaluates the information provided by the management and audit committee. One area of particular importance for monitoring internal control is the work of the audit committee in evaluating the efficiency of the management's activities in this area. This includes ensuring that action is taken with respect to the deficiencies and recommendations identified in external audits.

Monitoring of internal control will include audits of compliance with certain policies and guidelines, and will evaluate the effectiveness of significant control activities linked to risks for significant deficiencies in financial reporting.

Furthermore, the Board of Directors and audit committee have an annual process to ensure that appropriate measures are taken to address the shortcomings identified and measures recommended by the independent auditors.

Evaluation of the need for a separate internal audit function

At present, the Group has no separate internal audit function.

In view of the initiated process for performance of self-assessments and objective testing by an independent party, the Board of Directors has concluded that there is currently no need for a separate internal audit function in order to perform effective monitoring of internal control.

The Board of Directors

Board of Directors and auditors

Board of Directors from left: Linus Ekegren, Lena Grönedal, Birgitta Hillman, Lennart Bohlin, Birgitta Junland, Olof Svenfelt, Mikael Svenfelt, Ulrika Stuart Hamilton, Meg Tivéus, and Johan Hjertonsson.

Members elected by the Annual General Meeting

Olof Svenfelt (Chairman)

Born: 1941, M.Sc.Eng. and LL.B. Chairman since 2008.

Elected to the Board: 25 August 2008.

Other assignments: Board member of Metoden Agenturer AB and Phlisa Metall AB. Board member and Managing Director of AB Malfors Promotor and AB Malfors Holding. Board member of Hjalmar Svenfelts Stiftelse, Wilhelm Stenhammars Stiftelse, Stiftelsen Hagdahlsakademien and Georg Hultners Stiftelse.

Previous assignments: Board member and Deputy Chairman of Cloetta Fazer AB. Deputy board member of Highland Group AB.

Shareholding in Cloetta: 10 class A shares and 408,020 class B shares.

Related party shareholdings in Cloetta: 2,358,864 class A shares and 8,485,455 class B shares.

Independent in relation to major shareholders: No

Independent in relation to the company and management: Yes

Lennart Bohlin

Born: 1942, MBA.

Elected to the Board: 5 November 2008.

Other assignments: Chairman of AB Anders Löfberg, CMA Research AB, Norins Ost AB, Redakliniken AB and Stjärnägg AB. Deputy chairman of IHM Business School AB and Östgöta Brandstodsbolag. Board member of Midelfart Sonesson AB (publ), Hamravik Group AB, Kuponginlösen AB, Löfbergs Lila AB, Sales Support Sweden AB and the Östergötland County Museum.

Previous assignments: Managing Director and CEO of Cloetta AB and Cloetta Fazer AB 1989–2002

Shareholding in Cloetta: 10,000 class B shares.

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

Johan Hjertonsson

Born: 1968, MBA.

Elected to the Board: 5 November 2008.

Other assignments: Board member of AB Fagerhult and BRIO AB. Managing Director and CEO of AB Fagerhult.

Previous assignments: Managing Director and CEO of Lammhults Design Group AB and board member of Electrolux Filter AB.

Shareholding in Cloetta: 0.

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

Ulrika Stuart Hamilton

Born: 1958, MBA.

Elected to the Board: 5 November 2008.

Other assignments: Deputy Managing Director of Entreprenörskapsforum. Board member of MittMedia Förvaltnings AB and Stiftelsen Pressorganisation. Board member and Chairman of Liberala Nyhetsbyrån AB.

Previous assignments: Senior positions in the Federation of Private Enterprises (Företagarna), the Centre for Business and Policy Studies (SNS), Gullers Grupp Informationsrådgivare AB, the Swedish Liberal Party and the Swedish Ministry of Finance. Former member of the Companies Act Committee, AB Vattenfall and Gullers Grupp Informationsrådgivare AB. Partner in Kluster Fokus Handelsbolag. Author of a number of publications on finance and politics.

Shareholding in Cloetta: 550 class B shares

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

Mikael Svenfelt

Born: 1966, Marketing and business economist, various law studies.

Elected to the Board: 25 August 2008.

Other assignments: Deputy Managing Director of AB Malfors Promotor. Sales Manager of Nicator IT AB.

Previous assignments: Senior positions in Dell Financial Services, GE Capital Equipment Finance AB and Microage/ID-Network.

Shareholding in Cloetta: 5 class A shares and 7,507 class B shares.

Related party shareholdings in Cloetta: 2,619 class B shares.

Independent in relation to major shareholders: No

Independent in relation to the company and management: Yes

Meg Tivéus

Born: 1943, MBA.

Elected to the Board: 5 November 2008.

Other assignments: Board member of Swedish Match AB, Nordea Fonder AB, Billerud AB, Arkitektkopia AB, Meg Tivéus AB, IUC Sverige AB and Victoria Park AB. Board member and chairman of Frösunda LSS AB, Folktandvården, Stockholms Län AB and the non-profit organisation Swedish Spirits & Wine Suppliers Association (SVL).

Previous assignments: Managing Director of Svenska Spel AB. Deputy Managing Director of Posten AB, Board member of Cloetta Fazer AB, Orrefors Kosta Boda AB, Kungliga Operan AB and the Centre for Business and Policy Studies (SNS). Board member and chairman of BOSS MEDIA AB, Romateatern AB and Onside TV-Production AB.

Shareholding in Cloetta: 204 class B shares.

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

Employee representatives

Lena Grönedal

Born: 1962.

Elected to the Board: 5 November 2008.

Employee representative, the Swedish Food Workers' Union (LIVS). Factory operative, Cloetta Sverige AB.

Shareholding in Cloetta: Convertibles corresponding to 5,032 class B shares.

Related party shareholdings in Cloetta: Convertibles corresponding to 5,032 class B shares.

Birgitta Hillman

Born: 1947.

Elected to the Board: 5 November 2008.

Employee representative, the Negotiation Cartel for Salaried Employees (PTK). Salaried employee, Cloetta Sverige AB.

Shareholding in Cloetta: 19 class B shares and convertibles corresponding to 5,032 class B shares.

Shareholdings at 31 August 2009.

Employee deputies

Linus Ekegren

Born: 1975.

Elected to the Board: 5 November 2008.

Employee representative, the Swedish Food Workers' Union (LIVS). Factory operative, Cloetta Sverige AB.

Shareholding in Cloetta: Convertibles corresponding to 3,289 class B shares.

Birgitta Junland

Born: 1962.

Elected to the Board: 5 November 2008.

Employee representative, the Negotiation Cartel for Salaried Employees (PTK). Salaried employee, Cloetta Sverige AB.

Shareholding in Cloetta: Convertibles corresponding to 5,032 class B shares.

Auditors

Auditor in Charge

Helene Willberg

Born: 1967.

Auditor for the company since 2007.

Authorised Public Accountant, KPMG AB.

Other auditing assignments: Nobia AB and Ortivus AB.

Deputy auditor

Joakim Thilstedt

Born: 1967.

Auditor for the company since 2007

Authorised Public Accountant, KPMG AB

Other assignments (selection): Auditor in Charge for Addtech AB and Lagercrantz AB.

Group Management Team

Curt Petri

Born: 1952.

Position: Managing Director and CEO since 2008, employed since 1990.

Education: MBA.

Other assignments: Board assignments in the Group.

Previous assignments in the past five years: CFO and Deputy Managing Director of Cloetta Fazer AB. Board member of Cloetta AB.

Shareholding in Cloetta: 1,681 class B shares and convertibles corresponding to 31,405 class B shares.

Related party shareholdings in Cloetta: 384 class B shares.

Eva Persson

Born: 1964.

Position: Commercial Director since 2008, employed since 2006.

Education: A number of courses in marketing, finance and leadership.

Other assignments: Board assignments in the Group and Managing Director of Cloetta Sverige AB. Board member of Thomas Persson Finans AB and Edita Oy. Deputy board member of Promessa AB. Partner in Eva and Thomas Persson Handelsbolag.

Previous assignments in the past five years: Marketing Director of Coca-Cola Drycker Sverige AB.

Shareholding in Cloetta: Convertibles corresponding to 31,405 class B shares.

Arto Almér

Born: 1965.

Position: Supply Chain Director since 2008, employed since 2003.

Education: MBA.

Other assignments: –

Previous assignments in the past five years: Purchasing Director of Cloetta Fazer AB and Purchasing Director of Cloetta Sverige AB.

Shareholding in Cloetta: Convertibles corresponding to 31,405 class B shares.

Kent Sandin

Born: 1957.

Position: CFO since 2008, employed since 2008.

Education: Stockholm School of Economics and a number of courses on finance and leadership.

Other assignments: Board assignments in the Group.

Previous assignments in the past five years: Board assignments in the Midelfart Sonesson group. CFO of Midelfart Sonesson AB and Finance Director of Cloetta Fazer AB.

Shareholding in Cloetta: Convertibles corresponding to 31,405 class B shares.

Christina Björck

Born: 1959.

Position: Head of Human Resources and Communications since 2008, employed since 2001.

Education: Social services with a focus on personnel administration and Communication. Executive Programme at the Stockholm School of Economics.

Other assignments: Sole proprietorship of CB Communication.

Previous assignments in the past five years: –

Shareholding in Cloetta: Convertibles corresponding to 31,405 class B shares.

Shareholdings at 31 August 2009.

Demerger of Cloetta Fazer

On 15 June 2008 the two principal shareholders AB Malfors Promotor and Oy Karl Fazer Ab announced a decision for the demerger of the Cloetta Fazer Group. At the Extraordinary General Meeting on 25 July 2008 the shareholders in Cloetta Fazer AB passed a decision in principle to approve the demerger, which resulted in the formation of the two freestanding companies Cloetta and Fazer Confectionery, which has become a division of the Fazer Group.

Formation of Cloetta

The Cloetta group was formed in July and August 2008, when all of the subsidiaries belonging to Cloetta under the Separation Agreement for the demerger of Cloetta Fazer were transferred to Cloetta. Cloetta Sverige AB was acquired by Cloetta through a non-cash issue on 25 July 2008 and AB Karamellpojkarna was acquired in cash on 29 August 2008. As part of the restructuring, Cloetta also acquired assets such as all of Cloetta Fazer's properties in Ljungsbro, equipment and the intellectual property rights to brands under the umbrella brands Cloetta and Karamellpojkarna in exchange for cash consideration.

Separation Agreement

On 15 June 2008 AB Malfors Promotor and Oy Karl Fazer Ab signed a Separation Agreement for the demerger of operations in Cloetta Fazer. The Board of Cloetta Fazer decided to carry out the demerger on the basis of this. The agreement stipulates the general principles for the demerger and the division of intellectual property, real properties, subsidiaries and other types of agreements between Cloetta and Fazer Confectionery. The costs for the legal processes between the principal shareholders preceding the demerger have not been charged to the company.

According to the Separation Agreement, Cloetta's net cash was to be settled in an amount of SEK 200 million at 31 August 2008 with a deduction for investments made in the chocolate moulding line in Ljungsbro as of the same date. This settlement took place through a dividend from Cloetta to Cloetta Fazer in an amount corresponding to the difference between the agreed and actual net cash. Furthermore, under the agreement Cloetta paid SEK 3.5 million for costs related to employee bonuses and received SEK 1.5 million in compensation for the cancelled production transfer of the Kismet chocolate product to the factory in Ljungsbro.

In addition, certain other payments were made between Cloetta and Fazer Confectionery at 31 October 2008 based on the Separation Agreement. As part of these payments, Cloetta received SEK 28 million to cover costs mainly attributable to staff redundancies and more than SEK 6 million related to forward exchange contracts in force. Cloetta and Fazer Confectionery also split total costs of SEK 3.5 million for the Stockholm office in the World Trade Center until 30 September 2009, when the lease expired, as well as costs for certain IT-related agreements.

Additional costs arising from the demerger

The demerger of Cloetta Fazer represented a major adjustment for Cloetta. Cloetta Fazer's Swedish operations were dimensioned for sales of both Cloetta and Fazer products. Cloetta sold Fazer's confectionery products in Sweden during a transitional period that ended on 31 December 2008, after which the sales cooperation was terminated and Cloetta's sales volume decreased by approximately 40%.

This led to a reduced need for staff in marketing, customer support, sales and administration, and contributed to the redundancy of some 60 employees in both white and blue collar positions at Cloetta Sverige AB. A number of the affected employees were offered positions in Fazer Confectionery's Swedish operations. In addition, individual agreements were signed with salaried employees and a number of blue collar jobs were cut. Until 31 March 2009, Cloetta and Fazer Confectionery operated a joint warehouse in Norrköping. The termination of this collaboration gave rise to the redundancy of some 10 employees.

The demerger of Cloetta Fazer also led to other restructuring charges, among other things for the establishment of a new organisation and a new corporate identity. As a result of redundancies and other restructuring measures, Cloetta's profit was burdened with restructuring charges of SEK 23 million during the financial year 2008/2009. These charges are recognised net after the payment of SEK 28 million from Fazer Confectionery on 31 October 2008.

Production agreement

Cloetta has a production collaboration with Fazer Confectionery that has been entered into on market-based terms. According to the production agreement, until 31 March 2010 Cloetta will be Fazer Confectionery's sole supplier of the Fazer products that were manufactured at Cloetta's production facility in Ljungsbro prior to the demerger. In a corresponding manner, until 31 March 2010 Fazer Confectionery will be Cloetta's sole supplier of the Cloetta products that were manufactured at Fazer's production facilities in Finland prior to the demerger. The agreement regarding Cloetta's production of Fazer products accounts for SEK 130 million of Cloetta's total net sales, and is thus of material significance for Cloetta. The agreement, or individual product, can be terminated with nine months notice, albeit no earlier than 31 March 2010. Through an addendum to the agreement regarding Cloetta's production of Fazer products, Cloetta has a unilateral right to extend the exclusive production of certain Fazer products until 31 March 2011. The products covered by the extension right correspond to around 50% of the above-mentioned sales of SEK 130 million.

Distribution of shares in Cloetta[1)]

As part of the demerger, the Annual General Meeting of Cloetta Fazer on 25 November 2008 resolved to approve the distribution of all shares in the wholly owned subsidiary Cloetta to the shareholders in Cloetta Fazer. The shares were distributed in proportion to each individual shareholder's existing holdings in Cloetta Fazer. Each share of class A in Cloetta Fazer AB entitled the holder to one new class A share in Cloetta AB and each share of class B in Cloetta Fazer AB entitled the holder to one new class B share in Cloetta AB.

After the distribution of the shares in Cloetta, the ownership structure has changed significantly due to Fazer's use of class B shares in Cloetta as consideration in the public tender offer made by Fazer to the shareholders in Fazer Konfektyr Service AB (former Cloetta Fazer AB (publ)). Fazer Konfektyr Service AB (publ) conducts, directly or indirectly, the Fazer-related operations previously conducted within the Cloetta Fazer Group.

After the changes in ownership, AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). At 31 August 2009, Cloetta AB had 3,866 shareholders. The principal shareholder Malfors Promotor held 70.6% of the votes and 44.8% of the share capital. Other institutional investors held 17.5% of the votes and 32.8% of the share capital.

1) More information is provided in Cloetta's listing prospectus at www.cloetta.se

Financial information

Administration report

The Board of Directors and the Managing Director of Cloetta AB, corporate identification number 556308-8144, hereby submit the annual report and consolidated accounts for the financial year from 1 September 2008 to 31 August 2009. The company's name Svenska Chokladfabriks AB was changed to Cloetta AB on 3 September 2008.

Information about operations

The Cloetta Group, whose parent company is Cloetta AB, was a sub-group of Cloetta Fazer AB at 31 August 2008. Cloetta Fazer was formed through a merger between Cloetta AB and the Fazer group's confectionery division, Fazer Confectionery, in 2000. Due to differences of opinion between the two principal shareholders – AB Malfors Promotor and Oy Karl Fazer Ab – regarding the contracts in force in connection with the formation of Cloetta Fazer, a Separation Agreement was signed in 2008 for the demerger of Cloetta Fazer. The demerger gave rise to the two freestanding companies Cloetta and Fazer Confectionery.

The Cloetta Group was formed in July–August 2008, when all of the subsidiaries belonging to Cloetta under the Separation Agreement for the demerger of Cloetta Fazer were transferred to Cloetta. The most significant operating companies in the Group after this restructuring are Cloetta Sverige AB and AB Karamellpojkarna. Cloetta Sverige AB was acquired by Cloetta through a non-cash issue on 25 July 2008 and AB Karamellpojkarna was acquired in cash on 29 August 2008. Both companies were acquired at their book value in Cloetta Fazer restructuring, on 29 August 2008 Cloetta acquired among other things all of Cloetta Fazer's properties in Ljungsbro and the intellectual property rights to product brands under the umbrella brands Cloetta and Karamellpojkarna in exchange for cash consideration.

Changed financial year

An Extraordinary General Meeting on 25 July 2008 adopted an amendment to the Articles of Association entailing a change in the company's financial year from the calendar year to a broken financial year from 1 September to 31 August. The decision was conditional on a dispensation from the Swedish Tax Agency, which granted approval on 28 July 2008. The first new financial year was an abbreviated year covering the period from 1 January to 31 August 2008. All Swedish subsidiaries have changed financial year in the same manner as the Parent Company.

Market

Cloetta is active in the chocolate and sugar confectionery market, of which chocolate confectionery accounts for the bulk of sales. The geographic market is made up of Sweden, which is Cloetta's main market, as well as Norway, Denmark and Finland. Additional markets are the Travel Trade and other exports.

During the period from 1 January to 31 August 2008, Cloetta's sales included items from Fazer as part of the standard product range. During the period from 1 September to 31 December 2008, Cloetta Sverige AB sold Fazer products under a license from Fazer Confectionery.

Sales in Sweden are handled by Cloetta's own sales company. In other markets, sales are handled by distributors or representatives. The customers in the Nordic region consist mainly of major grocery store chains.

Production

The Group has two production facilities in Sweden, one in Ljungsbro and one in Alingsås. The Ljungsbro factory mainly manufactures chocolate products, while the Alingsås factory, which was included in the acquisition of Karamellpojkarna in 2007, primarily manufactures throat lozenges and toffees. The aggregate annual production volume is approximately 20,000 tonnes.

Cloetta has signed a production agreement with Fazer Confectionery for the manufacture of Fazer products.

Brands

Cloetta's greatest asset is its portfolio of well known brands. These brands and the associated product range have a very strong position in the Swedish home market. Product development and marketing investments are focused primarily on the prioritised brands, which are assessed to have the greatest growth potential and profitability. Following the demerger of Cloetta Fazer, Cloetta has exclusive rights to the so-called umbrella brands Cloetta and Karamellpojkarna, with product brands such as Kexchoklad, Center, Plopp, Polly and Extra Starka.

Development in 2008/2009

Net sales and profit

The financial year runs from 1 September 2008 to 31 August 2009.

The following comments are presented with comparative figures for the period from 1 September 2007 to 31 August 2008. The comparative information is based on monthly reporting to the board of directors and executive management of the former Cloetta Fazer, see also Note 1, Accounting and valuation principles of the Group, section on Principles of consolidation.

Net sales fell by 14.6% to SEK 1,184 million (1,387). This figure includes sales of SEK 52 million (52) in Karamellpojkarna, which was acquired on 1 October 2007.

As a result the demerger of Cloetta Fazer, Cloetta was licensed to sell Fazer's products on the Swedish, Norwegian and Danish markets during the period from 1 September to 31 December 2008. During the period from September 2008 to August 2009, sales of Fazer products amounted to SEK 217 million (536). In the previous year, sales of these products were included for the entire period. Excluding the year's licensed sales and the previous year's sale of Fazer products, Cloetta's sales amounted to SEK 967 million (851). Net sales for the period include the sale of the remaining inventory of Fazer products at 31 December 2008 to Fazer Confectionery for a value of SEK 17 million. Excluding this item and Cloetta's sales of products manufactured on contract to Fazer Confectionery, sales of Cloetta's own products rose by 5.9% compared to the same period of last year.

Sales of Cloetta's ten prioritised brands were up by 8% compared to the prior year. Cloetta's prioritised brands are Kexchoklad, Center, Plopp, Polly, Tarragona, Guldnougat, Bridge, Juleskum, Sportlunch and Extra Starka.

Gross profit for the period from 1 September 2008 to 31 August 2009 was SEK 336 million (399). Gross margin for the same period was 28.4%, compared to 29.0% the year before. Restructuring charges with an effect on gross profit amounted to SEK 7 million (13). Gross margin excluding these items was 29.0%, compared to 29.7% in the prior year. Price levels for several of Cloetta's most important raw materials have climbed sharply in the past year. To compensate for this, Cloetta raised its customer prices and implemented efficiency enhancement measures during the financial year. However, these steps have not been sufficient, which has led to a drop in both gross margin and gross profit compared to the previous year. The higher raw material prices have had the greatest impact on chocolate products, but have also affected the sugar confectionery segment to a certain extent. Furthermore, Cloetta has been negatively affected by weakening of the Swedish krona, for which reason additional price hikes have been announced in the fourth quarter and continuous efficiency improvements are necessary.

Selling and administrative expenses decreased by SEK 97 million to SEK 365 million (462), of which SEK 44 million (11) consists of restructuring charges. The year-earlier period was charged with goodwill impairment of SEK 90 million. Excluding restructuring charges and goodwill amortisation, selling and administrative expenses fell by SEK 40 million as a result of the demerger.

Operating profit amounted to SEK 0 million (–57) and operating margin was 0% (neg). Operating profit included restructuring charges of SEK 51 million. In the first quarter, operating profit was burdened with restructuring charges of SEK 38 million arising mainly from a reduced staffing need in marketing, customer support, sales and administration following the demerger of Cloetta Fazer. This redundancy is mainly connected to Cloetta's discontinued sales of Fazer products as of 1 January 2009. Operating profit for the third quarter included additional restructuring charges of SEK 10 million that are related to the demerger (e.g. consulting fees), finished goods inventories in Norrköping and redundancies at the factory in Alingsås. As announced in earlier interim reports, further restructuring charges of SEK 3 million are included in operating profit for the fourth quarter. These charges are mainly related to the need, after the demerger, to replace the Cloetta Fazer identity with Cloetta on printed matter, merchandising materials and product packaging.

In connection with the demerger of the Cloetta Fazer Group, it was agreed that Fazer would pay compensation of SEK 28 million for restructuring charges arising in Cloetta. Net restructuring charges for the period from September to August thus amounted to SEK 23 million. Operating profit has also been positively affected by compensation of SEK 6 million from Fazer Confectionery in respect of forward exchange contracts and one-time income of SEK 9 million on the reversal of a purchase price provision for the acquisition of Karamellpojkarna, where Cloetta's current assessment is that no additional purchase consideration will be payable. Profit for the prior year included items affecting comparability of SEK –114 million, of which SEK 24 million is attributable to costs for workforce reductions and SEK 90 million to goodwill impairment.

Operating profit excluding all items affecting comparability was SEK 8 million, compared to SEK 57 million the year before. Operating margin excluding items affecting comparability was 0.7% (4.1).

As previously announced, Cloetta's net sales have decreased by 40%, excluding contract sales of Fazer products, as a result of the demerger. In the short term, it has not been possible to cut costs in an amount equal to the decrease in sales. The year's drop in profit is therefore a result of the lower sales volume that Cloetta has handled since year-end 2008 and has not been able to fully offset. In addition, Cloetta's compensation for the sale of Fazer products during the period from September to December 2008 was lower than revenue from these sales in the year-earlier period when they were part of Cloetta Fazer's brand portfolio, which together with increased raw material costs has impacted gross margin. Operating profit for the year was also negatively affected by foreign exchange losses of SEK 14 million, compared to a foreign exchange gain of SEK 6 million in the previous year. Foreign exchange gain/losses are reported together with other operating income and expenses. The year's negative foreign exchange effect is a consequence of the weakening Swedish krona during the financial year together with the currency hedge portfolio that was taken over in connection with the demerger.

During the period from 1 September to 31 December 2008, Cloetta was responsible for sales of Fazer's products on the Swedish, Norwegian and Danish markets. Of Cloetta's operating profit for the period from 1 September 2008 to 31 August 2009 of SEK 8 million excluding items affecting comparability, SEK 4 million is attributable to these licensed sales (linked to an agreement between Cloetta and Fazer in connection with the demerger regarding Cloetta's compensation for handling sales of Fazer products during September–December 2008). The amount of compensation under the sales agreement was finalised in February 2009. The remaining operating profit of SEK 4 million refers to Cloetta's own sales. Operating margin, based on operating profit before items affecting comparability, was 2.0% on the licensed sales of Fazer products and 0.4% on Cloetta's own sales.

Profit before tax was SEK –1 million (–52). Net financial items totalled SEK –1 million, compared to SEK 5 million the year before. Profit after tax was SEK 6 million (–63), equal to basic and diluted earnings per share of SEK 0.23 (–2.63). The period's income tax expense was SEK 7 million (–11). Starting in 2009 the corporate tax rate in Sweden has been reduced from 28% to 26.3%. The lower tax rate has been applied in calculation of deferred tax on untaxed reserves, and has reduced the period's income tax expense by approximately SEK 7 million. Income arising from the reversal of previously expensed provisions for additional purchase prices is tax-exempt.

Seasonal effects

Cloetta's business follows a seasonal cycle in which the first quarter of the year (leading up to Christmas) is the strongest from a sales and earnings perspective. To a large extent, the company's full year profit is therefore dependent on sales during this period. The Easter holiday, which is the second peak season in the confectionery market, falls in Cloetta's third quarter but affects sales in both the second and third quarters to a varying degree from year to year since Easter can occur in either March or April. Cloetta's fourth quarter is the weakest of the year in relative terms, as consumption of confectionery is normally lower during the summer months.

Financing and liquidity

Cash and cash equivalents and short-term investments at 31 August 2009 amounted to SEK 277 million (279).

Cloetta's working capital requirement is exposed to seasonal variations, partly due to a build-up of inventories in preparation for increased sales during the Christmas holiday. This means that the working capital requirement is normally highest during the autumn, i.e. in the first quarter, and lowest at the end of the financial year, i.e. in the second quarter.

Cash flow from operating activities for the period from 1 September 2008 to 31 August 2009 was SEK 127 million (25). Net cash of SEK 111 million (97) was utilised for investments in property, plant and equipment. Dividends of SEK 4 (–) were paid to the former parent company Cloetta Fazer AB and refer to settlement of Cloetta's net cash according to an agreement signed in connection with the demerger of Cloetta Fazer. In addition, an issue of convertible notes to the employees had a positive effect of SEK 30 million on cash flow. Interest-bearing assets exceeded interest-bearing liabilities by a net amount (i.e. a net receivable) of SEK 183 million (171). The net receivable thus increased by SEK 12 million during the period. The equity/assets ratio was 63.9% (60.9).

Capital expenditure

Gross expenditure on property plant and equipment during the period from 1 September 2008 to 31 August 2009 totalled SEK 111 million (97), and included both capacity and replacement investments in the existing production lines. Depreciation amounted to SEK 46 million (45).

Employees

The average number of employees during the period from 1 September 2008 to 31 August 2009 was 464 (512), all of whom were employed in Sweden. The decrease refers mainly to employees who were offered employment in Fazer's Swedish sales company in connection with the demerger and staff reductions in response to redundancies arising when Cloetta discontinued sales of Fazer's products. The workforce reductions made at the factory in Alingsås have not yet affected the average number of employees.

General principles

Cloetta prioritises a long-term approach to value creation, primarily by building and nurturing profitable brands. Cloetta recognises and supports the ten principles in the UN's Global Compact and works to promote these in the communities and environments where the Group conducts business. To ensure compliance with these general principles, Cloetta has adopted a number of basic standards:

- Cloetta complies with the applicable laws, regulations and norms in the countries where the company operates.
- Cloetta conducts its operations with the highest standards of integrity and ethics and takes responsibility for its actions.
- Cloetta respects the UN's Declaration of Human Rights and accepts responsibility for protecting the rights of employees and society in its operations.
- Cloetta takes part in international collaborative efforts to improve the working conditions of those active in producing the company's raw materials, such as cocoa.

Employee relations

Employee relations are built on a foundation of mutual respect and trust. All terms of employment comply with the provisions in collective agreements, national laws and the relevant ILO conventions (International Labour Organisation).

Information about risks and uncertainties

Cloetta works continuously to assess and evaluate the risks to which the company is, and may be, exposed. These risks are divided into operating risks, which are handled by the operating units, and financial risks, which are managed by the finance function.

Operating risks

The Swedish confectionery market is characterised by relatively few but comparatively strong grocery chains. Cloetta's four largest customers account for around 70% of the company's sales in the Swedish market. International discount chains have also established a presence in recent years, leading to more aggressive competition in the trade. By launching products under their own private labels, the distributors have also been able to increase their share of the confectionery value chain. Together these factors are exerting increased price pressure in the confectionery market, which has also impacted producers. By serving as an active partner to its customers, delivering high quality products and launching innovative new products under strong brands, Cloetta has been able to fend off competition from other players. In 2009 a new chocolate moulding line was taken into operation in Ljungsbro. When fully deployed in 2010, the line will boost capacity and improve efficiency. The Group's long-term goal is to achieve average organic growth of 3% annually over a five-year period. In addition, the Group aims to grow through partnerships and acquisitions.

Rising raw material costs have led to a sharp increase in manufacturing costs in recent years, particularly for chocolate products. To maintain prices at competitive levels, it is necessary to enhance efficiency in both production and other parts of the organisation. However, these measures alone are not sufficient and customer prices must be raised in order to offset higher costs.

Of total manufacturing costs, raw materials and packaging make up approximately 60%. The most significant raw materials in terms of value are cocoa, sugar and milk products. The prices of many of the most important raw materials are influenced by factors such as political decisions, rising living standards, speculation on the commodities exchanges, etc. Environmental issues are also having a growing impact on prices in pace with increased alternative use of cultivated crops for energy supply purposes. Cloetta mainly purchases cocoa-based raw materials originating from West Africa, whose cocoa producers account for around 70% of total global production. The political situation has been periodically unstable, which has affected prices. The processed raw materials used by the Group are cocoa powder, cocoa mass and cocoa butter. Demand for the individual components also varies over time, which is reflected in global market prices. By signing long-term delivery contracts, the Group ensures access to raw materials and counters the effects of short-term price fluctuations.

Sensitivity analysis	Change	Operating profit
Net sales	+/–1%	+/– SEK 12 M
Raw materials and packaging	+/–1%	+/– SEK 4 M
Energy price	+/–1%	+/– SEK 0 M
Salaries/wages, incl. pensions	+/–1%	+/– SEK 2 M

Financial risks

Cloetta has good liquidity and a high equity/assets ratio. The Group's financial risks consist primarily of currency risk, interest rate risk and credit risk. Cash and cash equivalents and short term investments at 31 August 2009 amounted to SEK 277 million (279).

Cash flow from operating activities for 2008/2009 was SEK 127 million (25). The Group invests excess liquidity in various money market instruments where the risk may not exceed the levels specified in the finance policy issued by the Board.

The Group is exposed to different types of currency risk. The most significant exposure refers to anticipated or contracted cash flows from purchases and sales in different currencies, to the extent that these transactions are not hedged through forward contracts. The largest transaction volume is denominated in EUR. The net outflow in euros in 2008/2009 amounted to –23.7 million. According to the established finance policy, derivatives may be used to limit the risks to which the Group is exposed. In order to reduce the risk level and currency exposure, Cloetta hedges a minimum of 50% and a maximum of 100% of the forecasted transaction exposure for a period of nine to twelve months. The Group does not apply hedge accounting and all derivatives are stated at fair value with value changes through profit and loss. Exchange rate fluctuations also have an impact on translation of the net assets of foreign subsidiaries to the functional currency of the Parent Company. The Group's policy is to not hedge these net assets.

Credit risk in trade receivables in the Nordic market is limited with respect to the customer structure. In the other export markets where the customer structure and distribution differ from those in the Nordic market, risk exposure is greater. For a more detailed description of financial risks and risk management, see Note 29.

In connection with acquisitions, a risk assessment of the acquired unit is carried out as part of the due diligence process preceding the transaction.

Sensitivity analysis	Change	Net financial items/ Operating profit
Interest rate, %-point	+/–1%	+/– SEK 2 M
Euro	+/–1%	+/– SEK 2 M

Environmental risks

Cloetta works continuously to reduce the environmental impact of its operations through systematic environmental and quality management. Cloetta deems its operations to be in compliance with statutory environmental requirements and the Group is not party to any environmental disputes. Cloetta conducts operations at the plants in Ljungsbro and Alingsås that are subject to permitting and reporting requirements according to the Swedish Environmental Code. These permits apply until further notice.

Environmental impact in the confectionery industry arises through water and energy usage, wastewater emissions, raw material and packaging waste, production waste and transports. Furthermore, certain environmental effects are caused by coolants, chemicals, noise and particles. The greatest environmental impact comes from emissions of nutrients into the water and sewerage network.

The Group takes ongoing measures in all facilities to reduce the environmental impact of its operations. A structured and detailed process for measurement, monitoring and action increases awareness of about the effects of different manufacturing processes on the environment and quality and thereby provides a basis for activities that improve quality and environmental management.

Cloetta participates in various international organisations aimed at accelerating development towards sustainable production of raw materials such as cocoa and palm oil. Cloetta is also a member of the World Cocoa Foundation which promotes sustainable cocoa growing and the RSPO (Roundtable on Sustainable Palm Oil) which is committed to improving the conditions for production of palm oil in Asia.

A more detailed presentation of the Group's environmental policy and environmental work is provided in the "Environment and Ethics" section on pages 32–35.

Research and development

Product development is primarily focused on the creation of new packaging designs and brand varieties within the framework of the existing product range. R&D expenses are expensed as incurred.

Parent Company

The operations of the Parent Company were dormant until 25 July 2008, when Cloetta acquired Cloetta Sverige AB from Cloetta Fazer AB through a non-cash issue. The other subsidiaries in the Cloetta Group, as well as properties and brands, were acquired from Cloetta Fazer AB on 29 August 2008. The company had no employees during the abbreviated financial year in 2008. The company's Managing Director Curt Petri took up duties on 1 September 2008.

Cloetta AB's primary activities include head office functions such as group-wide management and administration.

Net sales in the Parent Company for the full year reached SEK 39 million (–) and referred mainly to intra-group services and rents. Operating profit was SEK –3 (–1), of which SEK 5 million consisted of restructuring charges in connection with the demerger. Net financial items totalled SEK 79 million (–), and include dividends of SEK 80 million from the subsidiary Cloetta Sverige AB that were paid in connection with the demerger of Cloetta Fazer. Profit before tax, after dividends received, was SEK 76 million (–1). Profit after tax was SEK 76 million (–1). Cash and cash equivalents amounted to SEK 56 million (–). A previously expensed purchase price provision of SEK 9 million for the acquisition of Karamellpojkarna is no longer expected to be payable and has been reversed, at the same time that the value of shares in subsidiaries has been reduced by a corresponding amount.

Pursuant to the agreement between Oy Karl Fazer Ab and AB Malfors Promotor for the demerger of the Cloetta Fazer Group (Separation Agreement), Cloetta's net receivable at 31 August 2008 was set at SEK 200 million less certain adjustments (see also the listing prospectus for Cloetta AB (publ) that was published in preparation for the move to NASDAQ OMX Stockholm, Nordic List). The net receivable was settled through a dividend payment of SEK 4 million from Cloetta to the former Cloetta Fazer AB (publ), as approved by Cloetta's Annual General Meeting (AGM) on 5 November 2008.

In connection with this, a decision was made to carry out a bonus issue of SEK 21 million though the transfer of funds from the share premium reserve to the share capital, after which the Parent Company's share capital amounts to SEK 121 million.

In accordance with the previously announced resolution passed by the extraordinary general meeting of Cloetta on 20 March 2009, Cloetta's employees were offered the opportunity to subscribe for convertible notes in Cloetta during the period from 27 March to 8 April 2009. A total of 155 employees have subscribed for convertible notes with an aggregate principal amount of more than SEK 39.5 million. In view of the maximum permitted capital dilution of 4% and with consideration to the established conversion rate of SEK 30.40, the convertible debenture loan may amount to not more than SEK 30.5 million. The employee convertible note offer was thus oversubscribed. The convertible notes run from 14 May 2009 until 30 March 2012 and will bear interest at a rate equal to STIBOR plus 2.5 percentage points. The convertible notes can be converted to class B shares in Cloetta during the period from 25 February 2011 to 25 February 2012 at a conversion rate of SEK 30.40.

The Cloetta share

On 18 November 2008 Cloetta applied for listing of the company's class B shares on NASDAQ OMX Stockholm, Nordic List. After reviewing the application on 26 November 2008, the stock exchange's listing committee found that no listing would be possible until Cloetta had published an interim report for the period from 1 September to 30 November 2008, after which a final decision could be made regarding a listing on NASDAQ OMX Stockholm, Nordic List. In view of the listing committee's decision, Cloetta was traded on NASDAQ OMX First North during a transitional period, with E. Öhman J:or Fondkommission AB as Certified Adviser. Trading of Cloetta's class B share commenced on 8 December 2008.

On 4 February 2009, the listing committee approved Cloetta's application for listing on NASDAQ OMX Stockholm, Nordic List, after which trading of the class B share of Cloetta AB (publ) commenced on NASDAQ OMX Stockholm, Nordic List, on 16 February 2009. The share is traded under the ticker symbol CLA B with ISIN code SE0002626861. A round lot consists of one (1) share.

During the period from 8 December 2008 to 31 August 2009, 3,295,161 shares were traded. The highest quoted bid price for the Cloetta share was SEK 36.80 and the lowest was SEK 15.50. When the share began trading on NASDAQ OMX First North on 8 December 2008, the share was quoted at SEK 15.50. When trading commenced on NASDAQ OMX Stockholm, Nordic List, on 16 February 2009, the share was quoted at SEK 33.30. The listing prospectus for Cloetta AB (publ) that was published in preparation for the move to NASDAQ OMX Stockholm, Nordic List, is available on the company's website www.cloetta.se.

Shareholders

After the distribution of the shares in Cloetta, the ownership structure has changed significantly due to Fazer's use of class B shares in Cloetta as consideration in the public tender offer made by Fazer to the shareholders in Fazer Konfektyr Service AB (former Cloetta Fazer AB (publ)). Fazer Konfektyr Service AB (publ) conducts, directly or indirectly, the Fazer-related operations previously conducted within the Cloetta Fazer Group.

After the changes in ownership, AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). At 31 August 2009, Cloetta AB had 3,866 shareholders. The principal shareholder Malfors Promotor held 70.6% of the votes and 44.8% of the share capital. Other institutional investors held 17.5% of the votes and 32.8% of the share capital.

As a consequence of the Swedish Securities Council's statement AMN 2008:18, Malfors Holding, a wholly owned subsidiary of AB Malfors Promotor, made an offer to the former shareholders on 19 March 2009. The offer was open to those who had previously accepted the public offer from Oy Karl Fazer Ab ("Fazer") to the shareholders in Cloetta to acquire class B shares in Cloetta from Malfors Holding in proportion to the number of shares in Cloetta Fazer tendered by each shareholder under Oy Karl Fazer Ab's public offer. The offer included a total of 756,321 shares and the price per share was SEK 37.71. The offer was the result of a previous agreement between AB Malfors Promotor and Oy Karl Fazer Ab, and was carried out in accordance with the Swedish Securities Council's statement AMN 2008:18 in order to ensure equal treatment of the previous shareholders in Cloetta Fazer. After the end of the application period on 8 April 2009, 78 shareholders had applied to acquire a total of 1,324 class B shares in Cloetta within the framework of the offer.

Preferential rights, pre-emption and conversion of shares

Should the company issue new shares of class A and class B through a cash or setoff 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 share of only class B, all 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. 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 specified class A shares to class B shares.

For additional information, see the company's Articles of Association on Cloetta's website, www.cloetta.se.

Significant agreements between the company and the Board and the Managing Director

Remuneration to the Board of Directors is determined by decision of the AGM. If a Board member discontinues his/her duties prematurely, no special remuneration is paid. In the event of dismissal by the company, the Managing Director is entitled to salary during the 12-month notice period in addition to termination benefits corresponding to one year's salary. For other information about fees to the Board of Directors and salaries and remuneration to senior executives, see Note 7.

Election of the Board and its work plan

The Board of Directors of Cloetta AB is elected yearly by the AGM to serve for the period until the end of the next AGM. The Board of Directors has its registered office in Ljungsbro in the Municipality of Linköping.

The Board of Directors is made up of six members elected by the AGM and two members with two deputies appointed by the employee trade unions. The members elected by the AGM include individuals with connections to the principal shareholders, as well as individuals with no affiliation to these shareholders or the company. The Managing Director is not a member of the Board but normally attends all board meetings. The Managing Director participates in board meetings in the capacity of advisor and expert, and other executives are called upon to report on various matters.

Since the AGM on 5 November 2008 the Board has held six scheduled meetings, one statutory meeting and ten extra meetings. At the extra meetings the Board has dealt with matters related to the demerger of Cloetta Fazer, , a convertible debenture loan to the employees and other strategic business decisions. The work of the Board is governed by the Board's adopted work plan and by instructions regarding the division of responsibilities between the Board of Directors, the Chairman and the Managing Director. Internal reporting to the Board is carried out as specified in the work plan.

The AGM of Cloetta on 5 November 2008 resolved on the appointment of a nominating committee. The nominating committee consists of three members, of whom Christer Wagenius, representing AB Malfors Promotor, has been elected chairman. The other members are Johan Hjertonsson, appointed by the Board of Cloetta AB from among the members independent from the major shareholders, and Erik Sjöström, representing the shareholder Livförsäkringsaktiebolaget Skandia. The duties of the nominating committee are to prepare and present recommendations to the Annual General Meeting (AGM) regarding election of a chairman of the AGM, Board members and the Board Chairman, as well as Board fees and the apportionment of fees between the Chairman and other Board members.

In addition, the Board has appointed a remuneration committee to prepare recommendations for remuneration and other terms of employment for the Executive Management, as well as matters related to incentive programmes. In accordance with the provisions in the Swedish Companies Act, the Board must submit proposed guidelines for remuneration to senior executives to the AGM for approval.

The Board has furthermore appointed an audit committee whose task is to support the Board in monitoring the financial accounts, internal control, financial reporting and the related auditing of the financial statements. The audit committee consists of Board Chairman Olof Svenfelt together with Board members Mikael Svenfelt and Meg Tivéus. The Board's report on internal control for the financial year 2008/2009 is presented in the "Corporate governance" section on pages 44–45.

With regard to the Board of Directors' activities and work plan, see the "Corporate governance" section on pages 40–43 and the corporate website www.cloetta.se.

The Board's proposed guidelines for remuneration to senior executives

Remuneration to the Managing Director and other members of the Group Management Team who report directly to the Managing Director shall consist of fixed salary and a possible variable salary component, as well as other benefits and pension benefits. If variable remuneration is to be paid, it shall be based on the attainment of defined and measurable targets and shall be limited to no more than 30% of fixed salary.

When deemed appropriate by the Board, the executives in question shall also be offered the opportunity to participate in long-term share-based incentive schemes.

The total remuneration package shall be market-based and competitive, and shall be proportionate to the individual's responsibilities and powers.

In the event of dismissal on the part of the company, the term of notice shall be not longer than twelve months. Defined contribution pension plans shall be strived for. The retirement age shall be not lower than 60 and not higher than 67 years of age.

The Board's proposed guidelines to be put before the AGM on 18 December 2009 largely correspond to those adopted at the latest AGM on 5 November 2008. Information about remuneration to senior executives is provided in Note 7.

Dividend

The Board proposes that no dividend be paid.

Future outlook

As a result of the demerger, Cloetta's net sales will decrease by approximately 40% excluding the sale of Fazer products manufactured on a contract basis. Due to the resulting decrease in scale economies, Cloetta's assessment for the short term is that it will not be possible to reduce expenses to an extent equal to the drop in net sales.

Cloetta's assessment ahead of the listing prospectus was that these reduced scale economies would cause operating margin to fall below 1.8% in the pro forma accounts for the period from 1 September 2007 to 31 August 2008 during a transitional period of four to six quarters after Cloetta's listing on NASDAQ OMX First North on 8 December 2008. The pro forma accounts are based on the exchange rates in force between 1 September 2007 and 31 August 2008. In the interim report for the third quarter, Cloetta predicted that operating profit before restructuring charges for the financial year from 1 September 2008 to 31 August 2009 would be close to zero. Mainly owing to positive growth for Cloetta's products during the first financial year, operating profit before restructuring charges for the full year amounted to SEK 8 million.

In order to further enhance its offering and create a more attractive brand portfolio over time, Cloetta is sharpening its focus on the most important brands and its ability to launch attractive new products for the customers and consumers.

Proposed appropriation of earnings

Earnings in the Parent Company at the disposal of the Annual General Meeting (SEK thousands):

Retained earnings	405,347
Profit for the year	75,902
Total	**481,249**

The Board of Directors proposes that no dividend be paid and that the earnings be disposed of as follows:

To be carried forward to new account	481,249
Total	**481,249**

The number of shares at 31 August 2009 was 24,119,196.

The Board of Directors and the Managing Director 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.

Ljungsbro, 20 November 2009

Olof Svenfelt
Board Chairman

Lennart Bohlin
Board member

Johan Hjertonsson
Board member

Ulrika Stuart Hamilton
Board member

Mikael Svenfelt
Board member

Meg Tivéus
Board member

Lena Grönedal
Employee representative

Birgitta Hillman
Employee representative

Curt Petri
Managing Director & CEO

Our audit report was issued on 20 November 2009.

KPMG AB

Helene Willberg
Authorised Public Accountant

The profit and loss accounts and balance sheets of the Group and the Parent Company are subject to approval by the Annual General Meeting on 18 December 2009. 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 27 November 2009, 8:00 a.m. CET.

Consolidated profit and loss account

SEK M	Note	Sep 2008– Aug 2009	2008 Jan–Aug	Pro forma Sep 2007– Aug 2008
Net sales	3	1,184	838	1,387
Cost of goods sold		–848	–598	–988
Gross profit		**336**	**240**	**399**
Other operating income	3	37	6	6
Selling expenses		–255	–289	–392
Administrative expenses		–110	–41	–70
Other operating expenses		–8	0	0
Operating profit/loss	4, 5, 6, 7, 8, 9, 32	**0**	**–84**	**–57**
Financial income		5	7	10
Financial expenses		–6	–4	–5
Net financial items	10	**–1**	**3**	**5**
Profit/loss before tax		**–1**	**–81**	**–52**
Income tax expense	13	7	–4	–11
Profit/loss for the year		**6**	**–85**	**–63**
Profit for the year attributable to:				
Equity holders of the Parent Company		6	–85	–63
Earnings per share, basic and diluted	22	0.23	–3.50	–2.63
Number of shares at end of period [1]		24,119,196	24,119,196	24,119,196

[1] Which also corresponds to the average number of shares during the period.

Quarterly data

	2008–2009				2007–2008			
	Q4 2009 Jun–Aug	Q3 2009 Mar–May	Q2 Dec 2008 – Feb 2009	Q1 2008 Sep–Nov	Q4 2008 Jun–Aug	Q3 2008 Mar–May	Q2 Dec 2007 – Feb 2008	Q1 2007 Sep–Nov
Net sales, SEK M	**212**	237	278	457	304	305	332	446
Operating profit/loss, SEK M	**–22**	–8	–8	38	–89	3	–9	38
Operating margin, %	**neg**	neg	neg	8.3	neg	1.0	neg	8.5
Operating profit/loss, SEK M [1]	**–19**	2	–8	33	3	3	–9	60
Operating margin, % [1]	**neg**	0.8	neg	7.2	1.0	1.0	neg	13.5
Earnings per share, SEK	**–0.80**	–0.32	–0.18	1.53	–3.64	0.09	–0.18	1.10

[1] Excluding items affecting comparability, see Note 9 for information about items affecting comparability.

Comments on the consolidated profit and loss account

In the following comments, comparative figures are presented for the period from 1 September 2007 to 31 August 2008 (pro forma).

Net sales

Net sales amounted to SEK 1,184 million (1,387), a decrease of 14.6% compared to the preceding year. The drop in sales is attributable to the expiry on 31 December 2008 of the sales license initially granted to Cloetta following the demerger of Cloetta Fazer. During the period from September 2008 to August 2009, sales of Fazer products amounted to SEK 217 million (536). In the previous year, sales of these products were included for the entire corresponding period. Excluding the year's license sales and the previous year's sales of Fazer products, Cloetta's sales amounted to SEK 967 million (851). Net sales for the period include the sale of the remaining inventory of Fazer products at 31 December 2008 to Fazer Confectionery for a value of SEK 17 million. Excluding this item and Cloetta's sales of products manufactured on contract to Fazer Confectionery, sales of Cloetta's own products rose by 5.9% compared to the same period of last year.

Sales of Cloetta's ten prioritised brands were up by 8% compared to the prior year.

Operating profit

Operating profit amounted to SEK 0 million (–57). Operating profit included restructuring charges of SEK 51 million that are largely attributable to the demerger of Cloetta Fazer, but also to redundancies at the factory in Alingsås and the finished goods warehouse in Norrköping. For a summary of items affecting comparability, see Note 9. Operating profit was positively affected by the agreed compensation of SEK 28 million from Fazer for restructuring charges, as well as compensation of SEK 6 million from Fazer Confectionery in respect of forward exchange contracts and one-time income of SEK 9 million on the reversal of a previously expensed purchase price provision for the acquisition of Karamellpojkarna. Profit for the prior year included items affecting comparability of SEK –114 million, of which SEK 24 million is attributable to costs for workforce reductions and SEK 90 million to impairment of goodwill. Operating profit excluding all items affecting comparability amounted to SEK 8 million, compared to SEK 57 million the year before. Operating margin excluding items affecting comparability was 0.7% (4.1).

As previously announced, Cloetta's net sales have decreased by around 40%, excluding contract sales of Fazer products, as a result of the demerger. In the short term it has not been possible to cut costs in an amount equal to the decrease in sales, which has led to a drop in earnings for the year. Operating profit for the year was negatively affected by foreign exchange losses of SEK 14 million, compared to a foreign exchange gain of SEK 6 million in the previous year. Foreign exchange gain/losses are reported together with other operating income and expenses. The year's negative foreign exchange effect is a consequence of a weakening Swedish krona during the financial year together with the currency hedge portfolio that was taken over in connection with the demerger.

As previously mentioned, Cloetta was licensed to sell Fazer's products on the Scandinavian markets during the period from 1 September to 31 December 2008. Of Cloetta's operating profit [1] of SEK 8 million for the period from 1 September 2008 to 31 August 2009, SEK 4 million is attributable to these licensed sales.

The remaining operating profit of SEK 4 million refers to Cloetta's own sales. Operating margin, based on operating profit before items affecting comparability, was 2.0% on the licensed sales of Fazer products and 0.4% on Cloetta's own sales.

Gross profit [1] fell by SEK 69 million to SEK 343 million. Gross margin was 29.0%, down by 0.7 percentage points from the previous year. The weaker gross margin is explained by higher raw material costs that could not be fully passed on to customers.

Selling expenses amounted to SEK 255 million and administrative expenses to SEK 110 million. As a result of organisational and management changes arising from the demerger, these expenses have been reallocated between functions. Selling and administrative expenses [1] fell by a total of SEK 40 million to SEK 321 million (361) as an effect of the year's restructuring and cost-adaptations following the demerger.

Other operating income [1] declined by SEK 6 million to SEK 0 million (6).

Other operating expenses [1] amounted to SEK 14 million (0).

Amortisation/depreciation totalled SEK 46 million (45), of which SEK 1 million (1) referred to amortisation of intangible assets.

Profit before tax

Profit before tax rose by SEK 51 million to SEK –1 million (–52). Excluding items affecting comparability of SEK –8 million (–114), profit was SEK 7 million (62). Net financial items fell during the year by SEK 6 million to SEK –1 million. Most of the Group's cash and cash equivalents and short-term investments are placed in listed fixed income instruments such as commercial paper and bonds. The average interest rate on outstanding investments during the financial year was 1.1% (–).

Tax

The year's income tax expense was a refund of SEK 7 millon (–11). Starting in 2009 the corporate tax rate in Sweden has been reduced from 28% to 26.3%. The lower tax rate has been applied in calculation of deferred tax on untaxed reserves, and has reduced the period's income tax expense by approximately SEK 7 million. Income arising from the reversal of previously expensed provisions for additional purchase prices is tax-exempt.

Profit for the year

Profit for the year was SEK 6 million (–63), which is equal to earnings per share of SEK 0.23 (–2.63). Excluding items affecting comparability, earnings per share were SEK 0.35 (1.84).

Key ratios [1]

%	Sep 2008 –Aug 2009	Pro forma Sep 2007 –Aug 2008
Gross margin	29.0	29.7
Operating margin	0.7	–4.1
Return on capital employed	1.2	3.8
Return on equity after tax	1.3	neg

[1] Excluding items affecting comparability, see also Note 9.

(For definitions, see page 93.)

Consolidated balance sheet

SEK M	Note	2009 31 Aug	2008 31 Aug
ASSETS			
Non-current assets			
Intangible assets	14	143	144
Tangible assets	15	461	397
Financial assets	16	2	4
Receivables from group companies		–	0
Total non-current assets		**606**	**545**
Current assets			
Inventories	18	117	153
Trade receivables		88	136
Receivables from group companies	20, 31	–	28
Tax asset		15	11
Other current receivables		1	0
Prepaid expenses and accrued income	19	9	10
Short-term investments	16	21	–
Cash and cash equivalents	20	256	279
Total current assets		**507**	**617**
TOTAL ASSETS		**1,113**	**1,162**
EQUITY AND LIABILITIES			
Equity	21, 22		
Share capital		121	100
Other contributed capital		405	428
Reserves		0	0
Retained earnings incl. profit for the year		185	179
Total equity		**711**	**707**
Non-current liabilities			
Provisions for pensions and similar commitments	23	69	65
Deferred tax liability	13	108	122
Other provisions	24	4	11
Convertible debenture loan	25	26	–
Total non-current liabilities		**207**	**198**
Current liabilities			
Liabilities to credit institutions		–	47
Trade payables		78	72
Liabilities to group companies	31	–	20
Other current liabilities	26	7	7
Accrued expenses and deferred income	27	94	109
Provisions	24	16	2
Total current liabilities		**195**	**257**
TOTAL EQUITY AND LIABILITIES		**1,113**	**1,162**
Pledged assets	30	2	4
Contingent liabilities	30	2	7

Comments on the consolidated balance sheet

In the following comments, comparative figures are presented for the period from 1 September 2007 to 31 August 2008 (pro forma).

Assets

Total assets at 31 August 2009 amounted to SEK 1,113 million, a decrease of SEK 49 million compared to the previous year.

Intangible assets totalled SEK 143 million (144), of which SEK 141 million pertained to consolidated goodwill and brands connected to the acquisition of Candelia in 1998. Other intangible assets referred mainly to software, which is capitalised when the expenses are expected to generate future economic benefits. Internally generated costs for brands are not capitalised. Neither goodwill nor brands are amortised, but are instead tested for impairment at least yearly. See also Note 14. On the balance sheet date at 31 August 2009, there was no indication of impairment.

Tangible assets amounted to SEK 461 million (397). The year's capital expenditure totalled SEK 111 million, of which SEK 31 million referred to buildings, SEK 78 million to machinery and SEK 2 million to equipment. Depreciation is reported at SEK 46 million. The previous year's expenditure totalled SEK 97 million, comprising SEK 37 million for buildings, SEK 55 million for machinery and SEK 5 million for equipment, with depreciation of SEK 45 million. These investments included both capacity enhancement and replacement investments on the existing production lines.

Financial assets totalled SEK 2 million (4) and consisted primarily of endowment insurances relating to direct pension obligations.

Current assets amounted to SEK 507 million, down by SEK 110 million compared to the previous year (617). Trade payables have decreased by SEK 48 million to SEK 88 million (136) and the average credit period fell from 40 to 33 days.

Equity and liabilities

Equity in the Group rose during the year from SEK 707 million to SEK 711 million. The share capital was increased by SEK 21 million through a bonus issue in the Parent Company in which funds were transferred from the share premium reserve. On the balance sheet date, the share capital amounted to SEK 121 million. The year's dividend was SEK 4 million. The dividend was paid to settle the net receivable according to the Separation Agreement, see also page 54 in the administration report. The equity/assets ratio on the balance sheet date was 63.9% (60.9).

Interest-bearing non-current liabilities, consisting mainly of pensions and a convertible debenture loan, increased by SEK 31 million over the previous year and totalled SEK 95 million (64). The convertible debenture loan was raised in the third quarter and amounted to SEK 26 million.

Interest-free non-current liabilities amounted to SEK 112 million (134), of which deferred tax liabilities accounted for SEK 108 million (122). Deferred tax liabilities consist mainly of tax on untaxed reserves.

Current (interest-free) liabilities are reported at SEK 195 million (210), of which SEK 78 million (72) referred to trade payables and SEK 117 million (138) to other liabilities.

Consolidated cash flow statement

SEK M	Note	Sep 2008–Aug 2009	2008 Jan–Aug	Pro forma Sep 2007–Aug 2008
Profit before tax		**–1**	**–81**	**–52**
Adjustments for non-cash items	28	59	114	87
Income tax paid		–10	–14	6
Cash flow from operating activities before changes in working capital		**48**	**19**	**41**
Cash flow from changes in working capital				
Change in inventories		36	–34	–22
Change in operating receivables		77	13	–19
Change in operating liabilities		–34	–33	25
Cash flow from operating activities		**127**	**–35**	**25**
Investing activities				
Net expenditure on property, plant and equipment [1]		–111	–86	–97
Acquisition of subsidiaries		–	–	1
Acquisition/disposal of short-term investments [1]		–21	–	–
Acquisition/disposal of long-term investments [1]		3	6	1
Cash flow from investing activities		**–129**	**–80**	**–95**
Financing activities				
Dividends to shareholders		–4	–	–
Borrowings		–	47	47
Convertible debenture loan		30	–	–
Repayment of debt		–47	–	–
Cash flow from financing activities		**–21**	**47**	**47**
Cash flow for the year		**–23**	**–68**	**–23**
Cash and cash equivalents at beginning of year		279	347	302
Cash and cash equivalents at end of year	20	256	279	279
Cash, cash equivalents and short-term investments < 3 months		256	279	279
Short-term investments > 3 months		21	–	–
		277	**279**	**279**

[1] The amount is the same both net and gross in SEK millions.

Comments on the consolidated cash flow statement

In the following comments, comparative figures are presented for the period from 1 September 2007 to 31 August 2008 (pro forma).

Adjustments for other non-cash items in cash flow are shown in the following table.

SEK M	Sep 2008 –Aug 2009	Pro forma Sept 2007 –Aug 2008
Amortisation/ depreciation and impairment of assets	46	67
Unrealised foreign exchange gains/losses	1	–
Capital gains/losses on the sale of non-current assets	1	–
Provisions for pensions	5	6
Other provisions	5	2
Other non-cash items	1	12
Total	**59**	**87**

Cash flow from operating activities before changes in working capital was SEK 48 million (41), an increase of SEK 7 million over the previous year.

Cash flow from operating activities was SEK 127 million (25), where the improvement compared to the previous year is explained by changes in tied-up working capital. Among other things, inventories have decreased in connection with the demerger of Cloetta Fazer.

Cash flow from investing activities totalled SEK –129 million (–95). Capital expenditure on property, plant and equipment amounted to SEK 111 million (97).

Investing activities also include the acquisition and sale of short-term investments. Most of the Group's cash and cash equivalents are invested in fixed-income instruments such as commercial paper and bonds. If the remaining time to maturity is less than three months on the date of acquisition, these are recognised as cash and cash equivalents. Investments with a maturity of more than three months are recognised as short-term investments. During the year, investments with a maturity of more than three months increased by SEK 21 million. In the previous year, the corresponding figure was SEK – million. The choice of investment horizon is determined primarily by the expected interest rate trend, which has a corresponding effect on the underlying cash flow.

Cash flow from financing activities, consisting of repayment of interest-bearing liabilities, raising of a convertible debenture loan and payment of shareholder dividends, amounted to SEK –21 million (47). The repaid liabilities referred to temporary borrowings in connection with the demerger of Cloetta Fazer.

The net cash flow was SEK –23 million (–23), which decreased cash and cash equivalents to SEK 256 million, compared to 279 million in the previous year.

Cash and cash equivalents consisted of the following items:

SEK M	2009 31 Aug	2008 31 Aug
Short-term investments, maturity < 3 months	65	–
Cash and bank balances	191	279
	256	**279**

Net receivable

Cash and cash equivalents and other interest-bearing assets exceeded interest-bearing liabilities by SEK 183 million (171).

Change in net receivable, SEK M	2009 31 Aug	2008 31 Aug
Net receivable at beginning of year	171	245
Change in interest-bearing liabilities	16	–49
Change in interest-bearing assets	–4	–25
Net receivable at end of year	**183**	**171**

Consolidated statement of changes in equity

SEK M	Share capital	Other contributed capital	Retained earnings incl. profit for the year	Total equity
Equity at 1 January 2008	100	428	250	778
Translation differences	–	–	0	0
Total income and expense recognised directly in equity, excl. transactions with shareholders	**–**	**–**	**0**	**0**
Profit for 2008	–	–	–85	–85
Total recognised income and expense excl. transactions with shareholders	**–**	**–**	**–85**	**–85**
Shareholder contributions received	–	–	17	17
Group contributions paid	–	–	–3	–3
Equity at 31 August 2008	**100**	**428**	**179**	**707**
Translation differences	–	–	0	0
Total income and expense recognised directly in equity, excl. transactions with shareholders	**–**	**–**	**0**	**0**
Bonus issue	21	–21	–	–
Profit for 2008/2009	–	–	6	6
Total recognised income and expense excl. transactions with shareholders	**21**	**–21**	**6**	**6**
Contributed capital, convertible debenture loan	–	2	–	2
Dividend	–	–4	–	–4
Equity at 31 August 2009	**121**	**405**	**185**	**711**

Parent Company profit and loss account

SEK M	Note	Sep 2008–Aug 2009	2008 Jan–Aug	Pro forma Sep 2007–Aug 2008
Net sales	3	39	–	–
Costs for property management and sold services		–1	–	–
Gross profit		**38**	**–**	**–**
Other operating income	3	0	–	–
Administrative expenses		–41	–1	–1
Other operating expenses		0	–	–
Operating profit/loss	4, 5, 6, 7, 8	**–3**	**–1**	**–1**
Result from participations in group companies		80	–	–
Financial income		1	–	–
Financial expenses		–2	–	–
Total result from financial investments	11	**79**	**–**	**–**
Profit/loss before tax		**76**	**–1**	**–1**
Appropriations	12	–1	–	–
Income tax expense	13	1	0	0
Profit/loss for the year		**76**	**–1**	**–1**

Parent Company balance sheet

SEK M	Note	2009 31 Aug	2008 31 Aug
ASSETS			
Non-current assets			
Intangible assets	14	0	0
Tangible assets	15	4	4
Financial assets			
Participations in group companies	17	538	547
Deferred tax asset	13	1	–
Total non-current assets		**543**	**551**
Current assets			
Receivables from group companies	20, 31	41	33
Other current receivables		0	0
Prepaid expenses and accrued income	19	1	–
Cash and bank balances	20	56	–
Total current assets		**98**	**33**
TOTAL ASSETS		**641**	**584**
EQUITY AND LIABILITIES			
Equity	21		
Restricted equity			
Share capital		121	100
Non-restricted equity			
Share premium reserve		405	428
Retained earnings		0	1
Profit/loss for the year		76	–1
Total equity		**602**	**528**
Untaxed reserves	35	**1**	**–**
Non-current liabilities			
Provisions for pensions and similar commitments		0	–
Other provisions	24	–	9
Convertible debenture loan	25	26	–
Total non-current liabilities		**26**	**9**
Current liabilities			
Liabilities to credit institutions		–	47
Trade payables		3	0
Income tax expense		1	–
Other current liabilities	26	1	–
Accrued expenses and deferred income	27	7	0
Total current liabilities		**12**	**47**
TOTAL EQUITY AND LIABILITIES		**641**	**584**
Pledged assets	30	none	none
Contingent liabilities	30	71	7

Parent Company cash flow statement

SEK M	Note	Sep 2008–Aug 2009	2008 Jan–Aug	Pro forma Sep 2007–Aug 2008
Profit before tax		**76**	**–1**	**–1**
Adjustments for non-cash items		0	–	–
Income tax paid		–	–	–
Cash flow from operating activities before changes in working capital		**76**	**–1**	**–1**
Cash flow from changes in working capital				
Change in inventories		–	–	–
Change in operating receivables		–6	–	–
Change in operating liabilities		8	1	1
Cash flow from operating activities		**78**	**0**	**0**
Investing activities				
Acquisition of shares in subsidiaries		–	–10	–10
Net investment in non-current assets [1]		0	–4	–4
Change in other interest-bearing receivables [1]		–1	–33	–33
Acquisition/sale of non-current investments [1]		–	–	–
Cash flow from investing activities		**–1**	**–47**	**–47**
Financing activities				
Dividends to shareholders		–4	–	–
Borrowings		–	47	47
Convertible debenture loan		30	–	–
Repayment of debt		–47	–	–
Cash flow from financing activities		**–21**	**47**	**47**
Cash flow for the period		**56**	**0**	**0**
Cash and cash equivalents at beginning of year		0	–	–
Cash and cash equivalents at end of year	20	56	–	–
Cash, bank balances and short-term investments < 3 months		56	–	–

[1] The amount is the same both net and gross in SEK millions.

Parent Company statement of changes in equity

		Restricted	Non-restricted		
SEK M	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Equity at 1 January 2008		0	–	–	0
Total income and expense recognised directly in equity, excl. transactions with shareholders		**–**	**–**	**–**	**0**
Profit for 2008		–	–	–1	–1
Total recognised income and expense excl. transactions with shareholders		**–**	**–**	**–1**	**–1**
Shareholder contributions received		–	–	0	0
Non-cash issue		100	428	–	528
Group contributions paid		–	–	1	1
Equity at 31 August 2008		**100**	**428**	**0**	**528**
Total income and expense recognised directly in equity, excl. transactions with shareholders		**–**	**–**	**–**	**–**
Bonus issue		21	–21	–	–
Profit for 2008/2009		–	–	76	76
Total recognised income and expense excl. transactions with shareholders		**21**	**–21**	**76**	**76**
Contributed capital, convertible debenture loan		–	2	–	2
Dividend		–	–4	–	–4
Equity at 31 August 2009		**121**	**405**	**76**	**602**

Notes to the financial statements

NOTE 1 Accounting and valuation policies of the Group

General

Cloetta AB, corporate identification number 556308-8144, is a Swedish-registered limited liability company domiciled in Linköping, Sweden. The company's address is Hjalmar Svenfelts väg, SE-590 69 Ljungsbro, Sweden. The consolidated financial statements for the financial year from 1 September 2008 to 31 August 2009 include the accounts of the Parent Company and all its subsidiaries, together forming the Group.

The annual report and consolidated financial statements were approved for publication by the Board of Directors on 20 November 2009. The profit and loss accounts and balance sheets of the Group and the Parent Company will be put before the Annual General Meeting on 18 December 2009 for adoption.

Compliance with norms and laws

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 International Financial Reporting Interpretations Committee (IFRIC) which have been endorsed by the European Commission for application in the EU. The applied standards and interpretations are those that were in force and had been endorsed by the EU at 31 August 2009. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1.1, Supplementary Accounting Rules for Groups, has been applied.

The annual report of the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2.1, Accounting for Legal Entities.

The Parent Company applies the same accounting standards as the Group except for in those cases specified below in Note 2, Accounting and valuation policies of the Parent Company.

Basis of presentation

Assets and liabilities are recognised at cost, except for certain financial assets and liabilities that are stated at fair value according to the accounting policies described below.

The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. The consolidated financial statements are thus presented in SEK. Unless otherwise stated, all amounts are rounded off to the nearest million.

The preparation of financial statements in conformity with IFRS requires the 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 then used to make judgements about the carrying value of assets and liabilities that cannot be readily determined from other sources. Actual outcomes 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, or in the period of the change and future periods, if the change affects both.

Note 3 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 significant adjustments in the financial statements of later years.

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.

Changed accounting standards

New standards and interpretations have been published and are mandatory for periods beginning on or after 1 January 2008. The following new standards have been applied in preparation of the year's financial statements:

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions, addresses share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent). IFRIC 11 provides guidance on whether these transactions should be accounted for as equity-settled or cash-settled in the financial statements of the Parent Company and other affected group companies. This interpretation has had no impact the consolidated financial statements.

The following recommendations are not applicable to the Group; IFRIC 14 and IAS 19 – The Limit on a Defined Benefit Asset.

New IFRS standards and interpretations not yet adopted

The Group has chosen not to early adopt the new standards and interpretations effective for annual periods beginning on or after the start of the coming financial year in the preparation of these financial statements. To the extent that the anticipated effects arising on application of the following new or changed standards and interpretations on the financial statements are not described below, Cloetta has not yet assessed these.

- IFRS 8, Operating Segments, replaces IAS 14, Segment Reporting (effective 1 January 2009), and adapts segment reporting to the requirements in the US standard SFAS 131, Disclosures About Segments of an Enterprise and Related Information. The new standard requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker. Because the financial statements are presented in conformity with internal reporting to the management, this standard will not affect the presentation of the financial statements.
- IAS 1 (Revised), Presentation of Financial Statements (effective 1 January 2009). The revised standard primarily requires changes in the presentation and titles of financial statements. The statement of changes in equity will

include only transactions with owners. The change will not affect the determination of the reported amounts. The Group will apply IAS 1 (Revised) starting on 1 September 2009. It is most likely that both a separate profit and loss account and a statement of comprehensive income will be presented.

- IFRS 3 (Revised), Business Combinations (effective 1 July 2009). Two changes in the revised standard are that non-controlling equity interests in the acquired entity can be measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, and that all acquisition-related costs must be recognised as expenses. The Group will apply IFRS 3 (Revised) prospectively for all business combinations on or after 1 September 2009.

The following recommendations are not expected to have any significant impact on the financial statements of the Group; IFRIC 12, Service Concession Arrangements, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for Construction of Real Estate, IFRIC 16, Hedges of a Net Investment in a Foreign Operation, IFRIC 17, Distributions of Non-Cash Assets to Owners, IFRIC 18, Transfer of Assets from Customers, IFRS 2, Share-based Payment, IAS 23 (Amendment), Borrowing Costs, IAS 27 (Revised), Consolidated and Separate Financial Statements, IAS 32 (Amendment), Financial Instruments: Presentation, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7 (Revised), Financial Instruments: Disclosures, and IAS 24 (Revised), Related Party Disclosures.

The IASB's Annual Improvements to IFRS contain improvements in a number of IFRSs to make necessary, but non-urgent, amendments that will not be included as part of another major project. Most of the amendments are effective for annual periods beginning on or after 1 January 2009; although entities are permitted to adopt them earlier. In general, the amendments to the IFRSs that are relevant for Cloetta will affect the Group's profit and financial not at all or to a very limited extent.

Segment reporting

A business segment is an identified part of the Group that provides products or services that are subject to risks and returns that are different either from those of other business segments (operating segments), or from those of segments operating in other economic environments (geographical segments). The primary basis for segmentation of the Group's operations consists of geographical segments. Operations are carried out in only one business segment, consisting of manufacturing and sales of confectionery. Of the geographical segments, Sweden is by far the largest market for Cloetta and the other geographical segments do not differ from those in Sweden in terms of risks and opportunities for Cloetta, nor do the risks and opportunities differ between sugar confectionery and chocolate. Consequently, no reporting by segment is provided in the financial reports. Information about the Group's sales and earnings development and financial position is provided in the consolidated profit and loss account, balance sheet and cash flow statement.

Classification, etc.

Non-current assets and non-current liabilities essentially consist of amounts that are expected to be recovered or settled more than 12 months after the closing date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or settled within 12 months from the closing date.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities in which Cloetta AB has a controlling influence. Control is achieved when the company directly or indirectly has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing whether a controlling influence exists, potential voting equity interests that can be immediately exercised or converted are taken into account.

Subsidiaries are reported according to the purchase method of accounting, in compliance with IFRS 3. However, it should be noted that IFRS 3 has not been applicable in connection with the Group's formation, as described below in this section. In the purchase method of accounting, the acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. To determine the Group's cost of acquisition for the investment in the subsidiary, a purchase price allocation (PPA) is conducted to establish the historical cost of the investment and the fair value, on the date of exchange, of the acquired identifiable assets and assumed liabilities and contingent liabilities. The cost of the acquisition is measured as the aggregate of the fair values, on the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree, plus any costs directly attributable to the acquisition. In business combinations where the cost of acquisition exceeds the fair value of acquired assets and assumed liabilities and contingent liabilities that are reported separately, the difference is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Because the group formation refers to companies under the same controlling influence, the rules in IFRS 3, Business Combinations, have not been applicable in this regard. Consolidation has instead been carried out according to the principles for predecessor accounting as of 1 January 2005. This means that all of the companies transferred to Cloetta from Cloetta Fazer during 2008 are reported with combined comparatives from the transferred companies based on the consolidated values at which they were reported in the Cloetta Fazer Group. However, AB Karamellpojkarna is included as of 1 October 2007 when the company was acquired by Cloetta Fazer.

The intellectual property rights to brands under the so-called umbrella brand Cloetta are included in the historical financial statements as of 1 January 2005. In Cloetta Fazer, goodwill attributable to operations in the Cloetta Group has been reported in the historical financial statements of the group as of it had been included as of 1 January 2005.

Transactions to be eliminated on consolidation

All intra-group balances and transactions, including unrealised gains or losses arising from intra-group transactions, are eliminated in full on consolidation. Unrealised losses are similarly eliminated unless there is evidence of impairment.

Foreign currencies

Transactions in foreign currency

Transactions in foreign currencies are translated to the functional currency at the rate of exchange ruling on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the closing day rate. Foreign exchange gains/losses arising on translation are recognised in the profit and loss account.

The functional currency is the currency of the primary economic environment in which the group companies operate. The functional and presentation currency of Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Group.

Financial statements of foreign operations

Assets and liabilities in foreign operations, including goodwill and other fair value adjustments, are translated to SEK at the closing day rate of exchange. Income and expenses in foreign operations are translated to SEK at an average rate that is a reasonable approximation of actual rates on the respective transaction dates. Translation differences arising on translation of foreign operations are recognised directly in consolidated equity as a translation reserve. When a foreign operation is disposed of, the cumulative amount of exchange gain/losses attributable to the operation is realised in consolidated profit or loss after deduction of any currency hedges.

Revenue

Sale of goods

Income arising from the sale of goods to a customer is recognised upon delivery in accordance with the agreed delivery terms. In general, this means that the significant risks and rewards of ownership have been transferred to the buyer. In cases where there is considerable uncertainty regarding payment, associated costs or a risk for returns, and if the seller retains continuing managerial involvement to the degree usually associated with ownership, no revenue is recognised. The sale is reported net after deduction of VAT and discounts.

Other operating income

Other income consists primarily of foreign exchange gains arising in operations and capital gains on the sale of property, plant and equipment.

Government grants

A government grant is taken up in the balance sheet when there is reasonable assurance that the enterprise will comply with any conditions attached to the grant and that the grant will be received. During the financial year from 1 September 2008 to 31 August 2009, government grants consisted of an export subsidy for the sale of food-related goods to countries outside the EU. The subsidy is related primarily to the raw materials sugar and milk, and is recognised in the profit and loss account as a reduction in the cost of goods sold.

Financial income and expense

Financial income consists of interest income on invested funds (including available-for-sale financial assets), dividend income, gains on the sale of available-for-sale financial assets, revaluation gains on financial assets at fair value through profit or loss and gains on hedge instruments that are recognised in the profit and loss account.

Interest income on financial instruments is calculated using the effective interest method (see below). Dividend income is recognised when the right to payment has been established. Gains on the sale of financial instruments are recognised when the significant risks and rewards of ownership of the instrument have been transferred to the buyer and the Group no longer has control over the instrument.

Financial expenses consist of interest expenses on loans, interest effects arising on reversal of the present value of provisions, revaluation losses on financial assets at fair value through profit or loss, impairment losses on financial assets and losses on hedge instruments that are recognised in the profit and loss account. Interest expenses on loans are calculated according to the effective interest rate method.

Foreign exchange gains/losses are reported net.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The effective interest rate is calculated including all fees paid or received by the contractual parties that are part of the effective interest rate, transaction costs and all other discounts and premiums.

Neither the Group nor Parent Company capitalises interest on the historical cost of assets.

Income taxes

Income taxes consist of current tax and deferred tax. Income taxes are included in the profit and loss account except when the underlying transaction is recognised directly in equity, in which case the resulting tax effect is also recognised in equity.

Current tax refers to the tax payable or receivable with respect to the year's profit or loss. This also includes adjustments in current tax for prior periods.

Deferred tax is calculated according to the balance sheet method on the basis of temporary differences between the carrying amount of an asset or liability and its tax base. The measurement of deferred tax reflects the manner in which the carrying amounts of assets or liabilities are expected to be realised or settled. Deferred tax is computed with the application of the rates/laws that have been enacted or substantively enacted by the balance sheet date. Temporary differences are not recognised in consolidated goodwill, nor in temporary differences attributable to participations in subsidiaries and associated companies where the Group can control the date for recovery of these and it is probable that these will not be recovered in the foreseeable future. Deferred tax assets for deductible temporary differences and unused tax loss carryforwards are recognised to the extent that it is probable that these can be utilised. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilised.

Financial instruments

Financial assets recognised in the balance sheet include cash and cash equivalents, trade receivables, derivatives, shares and other equity instruments. Financial liabilities in the balance sheet include trade payables, derivatives and loans.

Financial instruments are initially measured at cost, corresponding to the fair value of the instrument (including transaction costs for assets and liabilities not measured at fair value through profit or loss). Subsequent measurement depends on how the instruments have been classified according to the criteria stated below.

A financial asset or liability is recognised in the balance sheet when the company initially becomes party to the contractual provisions of the instrument. A financial asset (or part thereof) is derecognised from the balance sheet when the risks and rights to receive cash flows under the agreement are realised, expire or the company has relinquished control of the asset. A financial liability (or part thereof) is derecognised from the balance sheet when the obligation specified in the agreement is discharged or otherwise extinguished. The purchase or sale of a financial asset is recognised on the trade date, which is the date on which the company commits to purchase or sell the asset except in the case of listed securities, for which settlement date accounting is applied.

At every reporting date, the company assesses whether there is any objective evidence of impairment of a financial asset or group of financial assets.

Cash and cash equivalents comprise cash on hand and demand deposits with banks or other similar institutions.

IAS 39 establishes a classification of financial investments based on categories. The classification is determined by the intent for acquisition of the financial instrument. The company's management determines the classification on the original acquisition date.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities designated to this category consist or assets and liabilities held for trading. A financial asset or liability is classified as held for trading when it is acquired for the purpose of selling in the short term. Derivatives are classified as held for trading except for those designated as hedge accounting. Assets and liabilities in this category are subsequently measured at fair value with fair value changes through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Assets in this category are recognised at amortised cost. Amortised cost is calculated using the effective interest rate on the acquisition date. After individual assessment, trade receivables are reported in the amount in which they are expected to be received after deduction of doubtful debts.

Other financial liabilities

Financial liabilities not held for trading are measured at amortised cost. Liabilities with an expected maturity longer than 12 months are recognised as non-current liabilities, while current liabilities have a maturity shorter than 12 months. Trade payables are classified as other financial liabilities. Trade payables have short expected maturities and are recognised at the nominal amount without discounting.

Derivatives and hedge accounting

Transaction exposure

To reduce the risk for foreign exchange effects, the Group's forecasted net flows in the respective currencies are hedged for a maximum period of nine to 12 months forward. Matching of forward exchange contracts to the underlying flows does not meet the criteria for hedge accounting. Changes in the fair value of a derivative are therefore recognised directly in profit or loss as income/expenses within operating profit or in net financial items, depending on whether its use is related to an operating item or a financial item.

Net investments

At present, the Group has no hedges of investments in foreign subsidiaries (net assets including goodwill).

Tangible assets

Owned assets

Tangible assets in the Group are recognised at historical cost less any accumulated amortisation and impairment losses.

Historical cost includes the costs of purchase and all directly attributable costs necessary to bring the asset to its required working condition. Borrowing costs are not included in historical cost. The accounting principles for impairment are presented below.

Tangible assets consisting of identifiable parts with different useful lives are treated as separate components of tangible assets.

The carrying amount of a tangible asset is derecognised in the balance sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising on disposal is the difference between the proceeds and the carrying amount of the asset less direct costs to sell, and is recognised as other operating income/expenses.

Leased assets

Leased assets are reported in accordance with IAS 17. In the consolidated financial statements, leases are classified as either finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Assets held under finance leases represent a relatively marginal value in the Group, and are therefore recorded as operating leases. For operating leases, the lease payments are recognised in the profit and loss account over the lease term according to the pattern of benefit, which may differ from the de facto amount of lease payments during the year.

Subsequent expenditure

Subsequent expenditure is added to the recorded value of an asset or recognised as a separate asset when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other types of repair and maintenance are expensed in the profit and loss account for the period in which they arise.

The decisive factor in determining if subsequent expenditure should be capitalised as a component of the asset is whether the expenditure refers to replacement of an identified component, or parts thereof, in which case it is capitalised. In cases where a new component is created, the resulting expenditure is added to historical cost. Any residual value of a replaced component, or parts thereof, is recognised as an expense in connection with replacement. Repairs are expensed as incurred.

Depreciation

Depreciation is carried out on a straight-line basis over the estimated useful life of the asset. Land is not depreciated. The Group applies component depreciation, whereby depreciation is based on the estimated useful life of the components.

Estimated useful lives	2008/2009
Buildings, operating properties	20–40 years
Plant and machinery	5–20 years
Equipment, tools, fixtures and fittings	3–10 years

The residual value and useful life of an asset are reviewed at least annually.

Intangible assets

Goodwill

Goodwill is measured at cost less accumulated impairment losses. Goodwill represents the difference between the fair value of purchase consideration given in connection with a business combination and the fair value of net assets acquired. Goodwill is allocated to cash-generating units and is tested for impairment at least annually.

Brands

Brands refer mainly to brands indirectly acquired by the Group as part of a business combination. These brands have indefinite lives and, like goodwill, are tested for impairment annually or when there is evidence of a decline in value.

Research and development

Expenses for research and development (R&D) are expensed as incurred, since these do not meet the criteria for capitalisation. The development work carried out in the Group refers mainly to products in the group of prioritised brands. This work primarily involves extension of the product range through modernisation of package designs and development of new size and taste varieties. This development constitutes a continuous process and the values of the individual activities are difficult to assess.

Other intangible assets

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenses incurred for internally generated goodwill and internally generated brands are recognised in the profit and loss account for the period in which they arise.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is recognised within assets in the balance sheet only when it is probable that this expenditure will enable an asset to generate future economic benefits in excess of its originally assessed standard of performance. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in the profit and loss account and is carried out on a straight-line basis over the estimated life of the asset, unless the useful life is indefinite. Goodwill and intangible assets with indefinite lives are tested for impairment at least annually, or more frequently if circumstances indicate a possible impairment. Amortisable intangible assets are amortised from the date on which they become available for use. The estimated useful life of licenses is 3–5 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Inventories are valued at cost calculated on a First-In, First-Out (FIFO) basis and include all costs of purchase, costs of conversion and other costs incurred in bringing the goods to their existing condition and location. Self-produced finished and semi-finished goods are valued at direct production cost including a reasonable share of indirect manufacturing overheads. Normal capacity utilisation is taken into account in the measurement of inventories.

Impairment

The carrying amounts of the Group's assets – with the exception of non-current assets held for sale and disposal groups reported according to IFRS 5, inventories and deferred tax assets – are reviewed at each balance sheet date to look for any indication that an asset may be impaired. If there is an indication of impairment, the asset's recoverable amount is calculated. IAS 36 is applied for impairment testing of assets other than financial assets tested according to IAS 39. For the excepted assets above, the carrying amount is reviewed according to the applicable standards.

For an asset that does not generate any cash flow independently from other assets, recoverable value is calculated for the smallest identifiable cash-generating unit to which the asset belongs. Where impairment is identified, a write-down of the carrying value to the recoverable amount is charged as an immediate expense in the profit and loss account. In the event of impairment, the carrying amount of any goodwill allocated to the cash-generating unit (group of units) is first reduced, and then the carrying amounts of the other assets of the unit (group of units) on a pro rata basis.

The recoverable amount is the higher of fair value less costs to sell and value in use. In measuring value in use, the discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment testing of financial assets refers to loans and receivables.

Reversal of impairment losses

Impairment losses are reversed when both an impairment test indicates that there has been a recovery of value and there has been a change in the estimates used to determine the asset's recoverable amount. Reversal of impairment losses on goodwill is prohibited. An impairment loss is reversed only when the increased carrying amount due to reversal is not more than what the depreciated historical cost would have been if the impairment had not been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is classified as a plan where the company's legal or constructive obligation is limited to the amount that it agrees to contribute. The amount of the post-employment benefits received by the employee is thus determined by the amount of contributions paid by the company to the pension plan or to an insurance company, together with investment returns arising from the contributions. Consequently, it is the employee who bears both the actuarial risk (that the amount of benefits will be lower than anticipated) and the investment risk (that the invested assets will not be adequate to provide the anticipated benefits). For defined contribution plans, the expense to be recognised in the profit loss account for the period is the contribution payable in exchange for service rendered by employees during the period.

Defined benefit plans

The Group's net obligation under defined benefit plans is determined separately for each plan through a reliable estimate of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Valuation is carried out by a qualified actuary using the Projected Unit Credit Method in order to establish the present value of obligations under each plan. These calculations are based on the assumptions established on the balance sheet date. The obligations are measured at the present value of expected future payments with consideration to inflation, the expected rate of salary increase and with the use of a discount rate corresponding to the market yield on high quality corporate or government bonds with a term to maturity corresponding to the pension obligations in question. For funded plans, the present value of the defined benefit pension obligation is reduced by the fair value of plan assets.

Actuarial gains and losses can arise when determining the present value of defined benefit obligations and the fair value of plan assets. These arise either due to experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) or the effects of changes in actuarial assumptions. That portion of unrecognised accumulated actuarial gains/losses at the previous year-end which exceeds 10% of the greater of the defined benefit obligation or the fair value of plan assets for each pension plan is recognised in the income statement over the expected average remaining working lives of the participating employees. In other case, actuarial gains and losses are not recognised.

When valuation leads to an asset for the Group, the recognised value of the asset is limited to the net total of unrealised actuarial losses and past service costs and the present value of any benefits available in the form of refunds or reductions in future employer contributions to the plan.

When the benefits of a plan are improved, that portion of increased benefits attributable to employee service in prior periods is recognised as an expense and is amortised on a straight-line basis over the average period until the amended benefits become vested. If the benefits are fully vested, past service cost is recognised immediately.

When there is a difference between how the pension expense is determined in a legal entity and in the Group, a provision or asset for special payroll tax is recognised on the basis of this difference. The provision or asset is not discounted. The net of interest on pension liabilities and the expected return on the related plan assets is recognised in net financial items. Other components are recognised in operating profit.

Defined benefit pension plans in Sweden refer mainly to the ITP plan for salaried employees, most of which is financed through allocation to an account (provision) that is secured through credit insurance in Försäkringsbolaget Pensionsgaranti (FPG) and is administered by Pensionsregistreringsinstitutet (PRI). A certain portion is administered by Alecta. This portion covers multiple employers and is reported as a defined contribution plan, since it is not possible to obtain sufficient information to calculate Cloetta's share of the plan.

Termination benefits

A provision is recognised on the termination of employees only if the company is demonstrably committed to terminate an employee or group of employees before the normal retirement date. When termination benefits are provided as a result of an offer made to encourage voluntary redundancy, the expense is recognised if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

Short-term employee benefits

For short-term employee benefits, the undiscounted amount of benefits expected to be paid in respect of service rendered by employees in a period is recognised in that period.

A provision is recognised for the anticipated cost of profit-sharing and bonus payments when the Group has a legal or constructive obligation to make such payments in respect of service rendered by employees and the obligation can be reliably estimated.

Provisions

A provision is recognised in the balance sheet when the Group has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. When the timing effect of payment is significant, provisions are measured at discounted present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Restructurings

Restructuring provisions are recognised when the Group has adopted a detailed and formal restructuring plan and the restructuring process has either been started or publicly announced. No provisions are made for future operating expenses.

Contingent liabilities

A contingent liability is recognised where there is a possible obligation depending on the occurrence of some uncertain future event, or whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or when an obligation is not recognised as a liability or provision because the possibility of an outflow of economic resources is remote.

NOTE 2 Accounting and valuations 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 2.1, Accounting for Legal Entities. The statements issued by the Board with respect to listed companies are also applied. RFR 2.1 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.

Changed accounting standards

The new IFRIC interpretations effective from 1 January 2008 and RFR 2.1 have not entailed any change of accounting standard.

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. The following accounting standards for the Parent Company have been applied consistently for all periods presented in the Parent Company financial statements.

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 presence of provisions as a separate item in the balance sheet.

Subsidiaries

In the Parent Company, participations in subsidiaries are accounted for in accordance with the cost method. Dividends received are recorded as revenue only on the condition that these derive from profits arising after the acquisition date. Dividends in excess of these profits are regarded as a repayment of the investment and reduce the carrying amount of the company's interest.

Group contributions for legal entities

The Parent Company reports Group contributions in accordance with a statement from the Swedish Financial Reporting Board. Group contributions are reported in accordance with their financial significance. This means that Group contributions paid to minimise the Group's overall tax burden are reported directly in retained earnings less the current tax effect.

Group contributions equated with dividends from subsidiaries are reported as dividends, whereby Group contributions received and their current tax effects are recognised through the profit and loss account. Group contributions equated with shareholder contributions to subsidiaries are reported by the recipient, with consideration to their current tax effects, directly against retained earnings. The Parent Company recognises the group contribution and its current tax effect as an investment in participations in group companies, to the extent that impairment is not indicated.

Employee benefits

The Parent Company has pension plans of two types:

- Defined contribution pension plans in which the Parent Company pays fixed premiums to different insurance companies.
- Defined benefit pension plans that refer primarily to the ITP plan for salaried employees. The company expenses the pension obligation, which is secured through credit insurance with FPG and is administered by PRI. Calculation of the defined benefit obligation differs from the assumptions used by the Group in accordance with IFRS mainly in the following ways:
  - The calculation does not take into account future salary increases
  - The applied discount rate is established by the Swedish Financial Supervisory Authority
  - Changes in the discount rate and other actuarial assumptions are recognised immediately in the balance sheet.

Anticipated dividends

Anticipated dividends from subsidiaries are recognised 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.

NOTE 3 Breakdown of operating income

	Group		Parent Company	
SEK M	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug
Net sales				
Sale of goods	1,184	838	–	–
Service contracts	–	–	39	–
Other operating income				
Other	37 [1]	6	0	–
Total operating income	1,221	844	39	–

[1] Refers to compensation of SEK 28 million from Fazer and the reversal of a SEK 9 million provision for additional purchase consideration relating to Karamellpojkarna.

NOTE 4 Amortisation/depreciation

	Group		Parent Company	
SEK M	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug
Intellectual property rights	1	1	–	–
Buildings	3	1	0	–
Machinery	40	25	–	–
Equipment	2	2	0	–
Total amortisation/depreciation	**46**	**29**	**0**	**–**
Impairment losses by asset type:				
Goodwill	–	90	–	–
Total impairment losses	**–**	**90**	**–**	**–**
Amortisation/depreciation has been allocated by function as follows:				
Cost of goods sold	43	27	–	–
Administrative expenses	3	2	0	–
Total	**46**	**29**	**0**	**–**
Impairment losses have been allocated by function as follows:				
Selling expenses	–	90	–	–
Total	**–**	**90**	**–**	**–**

NOTE 5 Operating expenses by cost type

	Group		Parent Company	
SEK M	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug
Raw materials and consumables [1]	551	462	–	–
Change in inventories of finished goods and work in progress	34	–37	–	–
Personnel expenses	291	166	27	–
Amortisation/depreciation	46	29	0	–
Impairment losses	–	90	–	–
Unspecified operating expenses	299	218	14	1
Total operating expenses	**1,221**	**928**	**41**	**1**
[1] Of which, government grants (cost reductions) consisting of export subsidies.	1	1	–	–

NOTE 6 Personnel expenses and number of employees

SEK M	Group 2009 1 Sep–31 Aug	Group 2008 1 Jan–31 Aug	Parent Company 2009 1 Sep–31 Aug	Parent Company 2008 1 Jan–31 Aug
Salaries and remuneration				
Senior executives				
– Sweden	15	7	11	–
Of which, bonuses	*2*	*1*	*1*	–
Other employees				
– Sweden	155	104	1	–
Total salaries and remuneration	**170**	**111**	**12**	**–**
Pension costs				
Senior executives				
– Defined contribution plans	8	1	8	–
– Defined benefit plans	1	1	1	–
Other employees				
– Defined contribution plans	22	8	0	–
– Defined benefit plans	2	3	–	–
Total pension costs	**33**	**13**	**9**	**–**
Other social security expenses, all	65	37	6	–
Total personnel expenses	**268**	**161**	**27**	**–**

	Group 2009	Group 2008	Parent Company 2009	Parent Company 2008
Average number of employees				
Sweden	464 (255)	503 (263)	7 (2)	– (–)

The figures in brackets refer to the average number of women.

Specification of gender distribution in company managements

	Group 2009	Group 2008	Parent Company 2009	Parent Company 2008
Percentage of women				
Boards of directors	46%	25%	50%	–
Other senior executives [1]	25%	20%	29%	–

[1] Refers to the Group Management Team and the local management teams.

NOTE 7 Remuneration to senior executives

Remuneration and benefits, 1 Sep 2008 – 31 Aug 2009 (SEK 000s)	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total	Pension obligations
Board Chairman							
Olof Svenfelt	131	–	–	–	15	146	–
Board members							
Mikael Svenfelt	143	–	–	–	15	158	–
Lennart Bohlin	143	–	–	–		143	–
Ulrika Stuart Hamilton	143	–	–	–		143	–
Johan Hjertonsson	143	–	–	–		143	–
Meg Tiveús	143	–	–	–	15	158	–
Managing Director							
Curt Petri	3,003	732	119	1,505 [1]	–	5,359	6,575
Former managing directors	–	–	–	–	–	–	–
Other senior executives (6 persons)	7,410	665	190	1,820	–	10,085	677
Total remuneration to the Board and Group Management Team	**11,259**	**1,397**	**309**	**3,325**	**45**	**16,335**	**7,252**
Of which, Parent Company	9,378	946	309	2,981	45	13,659	6,942

[1] Aside from these pension premiums, Curt Petri has the right to a lump sum premium of SEK 5.5 million, which has been granted due to the replacement of Curt Petri's previously contracted defined benefit pension benefit with a defined contribution pension benefit through a new Managing Director's contract. The lump sum amount was paid by Cloetta in the first quarter of the financial year to an endowment insurance owned by Cloetta pledged to Curt Petri, a so-called direct pension. The lump sum amount is tax-deductible in connection with disbursement of the pension.

Summary remuneration and benefits, 1 Jan 2008 – 31 Aug 2008 (SEK 000s)	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total	Pension obligations
Board Chairman	–	–	–	–	–	–	–
Other Board members	–	–	–	–	–	–	–
Managing Director, incl. former MDs	–	–	–	–	–	–	–
Other senior executives (8 persons)	5,770	859	139	965	–	7,733	601
Total remuneration to the Board and Group Management	**5,770**	**859**	**139**	**965**	**–**	**7,733**	**601**

Comments on the table for 2008/2009

- The figures in the table refer to costs for the financial year from 1 September 2008 to 31 August 2009.
- Variable remuneration refers to bonuses in connection with the demerger.
- Other benefits refer mainly to company car benefits.
- Other remuneration refers to compensation for work on the audit and remuneration committees.

Board of Directors

Remuneration to the Board of Directors is determined by decision of the Annual General Meeting (AGM). The AGM on 5 November 2008 resolved that fees of SEK 175,000 would be paid the Board Chairman and SEK 150,000 to each of the other Board members. Fees of SEK 20,000 would be paid to each of the employee representatives. The members of the audit committee would also receive fees of SEK 20,000 each. Aside from board fees, the Board is entitled to compensation for travel and accommodation.

Group Management Team

Remuneration to the Managing Director and other senior executives consists of basic salary, a variable salary component, other benefits and pension benefits. The total remuneration package should be market-based, competitive and proportionate to the individual's responsibilities and powers.

Managing Director and CEO

During the year, the Managing Director and CEO Curt Petri received salary of SEK 3,003,000 and other benefits of SEK 119,000. In addition, variable remuneration consisting of a bonus of SEK 732,000 was paid in connection with the demerger.

The retirement age is 60 years. Pension benefits consist of a defined contribution plan for which annual premiums up to the age of retirement are paid in an amount equivalent to 55% of pensionable salary, comprising fixed monthly salary. Bonuses and benefits are not pensionable. In addition to the above, the company has paid a lump sum premium to enable the intended contractual pension level of 60% of salary between the ages of 60 and 65 years and 55% lifelong from the age of 65 years, see note to the above table.

The mutual term of notice between the company and the Managing Director is 12 months. In the event of dismissal by the company, the Managing Director is also entitled to termination benefits corresponding to one year's salary and corresponding pension provisions.

Other senior executives

The other members of the Group Management Team include the CFO and individuals with responsibility for human resources, corporate communications, marketing, sales and production at the Group level. During the financial year these individuals received total salaries of SEK 7,410,000 and other benefits of SEK 190,000. In addition, variable remuneration consisting of bonuses of SEK 665,000 was paid in connection with the demerger.

The retirement age for other senior executives is 65 years, in accordance with the national pension plans. All pension benefits are vested, i.e. they are unconditional on future employment.

The terms of notice for other senior executives vary between six and 12 months on the part of both the employee and the company. In the event of dismissal by the company, these individuals are entitled to salary during the term of notice and termination benefits corresponding to up to six monthly salaries.

Preparatory and decision-making process

During the year, the remuneration committee has consisted of the entire Board of Directors. The remuneration committee has discussed recommendations regarding guidelines for remuneration to senior executives. These recommendations have included the proportional relationship between fixed and variable remuneration and the size of any salary increases. Furthermore, the remuneration committee has discussed pension terms and termination benefits.

Remuneration to the Managing Director for the financial year 2008/2009 has been determined by the Board. Remuneration to other senior executives has been decided by the Managing Director. Since the AGM on 5 November 2008, the remuneration committee has met on two occasions. The guidelines for remuneration to senior executives will be presented to the 2008/2009 AGM for approval.

NOTE 8 Audit fees

	Group		Parent Company	
SEK M	**2009** 1 Sep– 31 Aug	**2008** 1 Jan– 31 Aug	**2009** 1 Sep– 31 Aug	**2008** 1 Jan– 31 Aug
Auditing services				
KPMG	2	1	1	–
Non-auditing services				
KPMG	1	0	1	–

Auditing services refer to the auditing of the annual financial statements, the accounts and the company's administration by the Board of Directors and the Managing Director and advice or other assistance prompted by observations from such audits or the performance of other such tasks. All other services are non-auditing services.

NOTE 9 Comparative information

SEK M	Sep 2008 – Aug 2009			Jan – Aug 2008			Pro forma Sep 2007 – Aug 2008		
	Excl. items affecting compara-bility	Items affecting compara-bility	Incl. items affecting compara-bility	Excl. items affecting compara-bility	Items affecting compara-bility	Incl. items affecting compara-bility	Excl. items affecting compara-bility	Items affecting compara-bility	Incl. items affecting compara-bility
Net sales	1,184	–	1,184	838	–	838	1,387	–	1,387
Cost of goods sold	–841	–7[1]	–848	–598	–	–598	–975	–13	–988
Gross profit/loss	**343**	**–7**	**336**	**240**	**–**	**240**	**412**	**–13**	**399**
Other operating income	0	37[2]	37	6	–	6	6	–	6
Selling and administrative expenses	–321	–44[1]	–365	–238	–92	–330	–361	–101[4]	–462
Other operating expenses	–14	6[3]	–8	0	–	0	0	–	0
Operating profit/loss	**8**	**–8**	**0**	**8**	**–92**	**–84**	**57**	**–114**	**–57**
Financial items	–1	–	–1	3	–	3	5	–	5
Profit/loss before tax	**7**	**–8**	**–1**	**11**	**–92**	**–81**	**62**	**–114**	**–52**
Income taxes	2	5	7	–4	0	–4	–17	6	–11
Profit/loss for the period	**9**	**–3**	**6**	**7**	**–92**	**–85**	**45**	**–108**	**–63**

[1] Refers to restructuring charges. 2) SEK 28 million refers to compensation received from Fazer Confectionery for restructuring charges and SEK 9 million refers to the reversal of provisions for additional purchase consideration. 3) Refers to compensation received from Fazer Confectionery in respect of forward exchange contracts. 4) SEK 11 million refers to restructuring charges and SEK 90 million refers to goodwill impairment.

NOTE 10 Financial income and expense

SEK M	Group 2009 1 Sep – 31 Aug	2008 1 Jan – 31 Aug
Interest income on financial assets held for trading (incl. investments with a remaining maturity of < 3 months)	1	7
Net gain on financial assets/liabilities held for trading [1]	0	–
Interest income on bank balances	4	0
Financial income	**5**	**7**
Interest income on liabilities measured at amortised cost	–1	–1
Interest expenses on financial assets/liabilities held for trading	0	–
Net exchange gains/losses	–1	–
Interest expenses on defined benefit pension obligations	–4	–3
Other interest expenses	0	–
Financial expenses	**–6**	**–4**
Net financial items	**–1**	**3**

[1] The net gain is reported here in full including the interest component.

NOTE 11 Result from financial investments

SEK M	Parent Company 2009 1 Sep– 31 Aug	Parent Company 2008 1 Jan– 31 Aug
Result from participations in group companies		
Dividends from subsidiaries	80	–
Other interest income and similar profit/loss items		
Interest income, group companies	1	–
Interest income on financial assets held for trading (incl. investments with a remaining maturity of < 3 months)	–	–
Net gain on financial assets/liabilities held for trading [1]	–	–
Interest income on bank balances	0	–
Financial income	**81**	**–**
Interest expense and similar profit/loss items		
Interest expenses, group companies	–1	–
Interest expenses on financial assets/liabilities held for trading	–	–
Net exchange gains/losses	–	–
Interest expenses on defined benefit pension obligations	0	–
Interest expenses on financial liabilities measured at amortised cost	–1	–
Other interest expenses	0	–
Financial expenses	**–2**	**–**
Net financial items	**79**	**–**

[1] The net gain is reported here in full including the interest component

NOTE 12 Appropriations

SEK M	Parent Company 2009 1 Sep– 31 Aug	Parent Company 2008 1 Jan– 31 Aug
Change in tax allocation reserve	–1	–
Difference between planned depreciation and book depreciation	0	–
Total	**–1**	**–**

NOTE 13 Income taxes

SEK M	Group 2009 1 Sep– 31 Aug	Group 2008 1 Jan– 31 Aug	Parent Company 2009 1 Sep– 31 Aug	Parent Company 2008 1 Jan– 31 Aug
Tax on profit for the year is broken down as follows:				
Current tax				
Swedish income tax	–8	–10	–1	0
Deferred tax				
Sweden	15	6	2	–
Total	**7**	**–4**	**1**	**0**
The year's income tax expense corresponds to an effective tax rate of, %	440	–5	2	0
The difference between the effective tax rate and the statutory tax rate in Sweden, 28%, is attributable to the following items:				
Tax rate in Sweden, %	28	28	28	–
Impairment loss on goodwill, %	–	–31	–	–
Non-taxable income, %	200	1	0	–
Non-deductible expenses and other items, %	–228	–3	–26	–
Effect of changed tax rate in calculation of deferred tax on untaxed reserves	440	–	–	–
Reported effective tax rate, %	**440**	**–5**	**2**	**–**
Deferred tax liabilities (+)/assets (–) are broken down as follows:				
Intangible and tangible assets	74	77	0	0
Other untaxed reserves	35	47	–	–
Loss carryforwards	–1	–1	–	–
Other temporary differences	0	–1	–1	–
Closing balance at end of year	**108**	**122**	**–1**	**0**

Deferred tax pertaining to untaxed reserves in the Parent Company is reported only in the Group. See Note 35.

SEK M	Group 2009 31 Aug	Parent Company 2009 31 Aug
Deferred tax liabilities (+)/assets (–), change between years:		
Opening value at beginning of year	122	0
Change through profit and loss	–15	–2
Change through equity pertaining to convertible debenture loan	1	1
Closing balance at end of year	**108**	**–1**

NOTE 14 Intangible assets, Group

SEK M	Goodwill [1]	Brands [2]	Licenses [3]	Total
Historical cost				
Opening balance, 1 January 2008	181	50	20	251
Capital expenditure	–	–	1	1
Closing balance 31 August 2008	**181**	**50**	**21**	**252**
Accumulated amortisation and impairment				
Opening balance, 1 January 2008	–	–	–17	–17
The year's amortisation	–	–	–1	–1
The year's impairment losses	–90	–	–	–90
Closing balance, 31 August 2008	**–90**	**–**	**–18**	**–108**
Carrying amounts				
At 1 January 2008	181	50	3	234
At 31 August 2008	91	50	3	144
Historical cost				
Opening balance, 1 September 2008	181	50	21	252
Capital expenditure	–	–	0	0
Closing balance, 31 August 2009	**181**	**50**	**21**	**252**
Accumulated amortisation and impairment				
Opening balance, 1 September 2008	–90	–	–18	–108
The year's amortisation	–	–	–1	–1
The year's impairment losses	–	–	–	–
Closing balance, 31 August 2009	**–90**	**–**	**–19**	**–109**
Carrying amounts				
At 1 September 2008	91	50	3	144
At 31 August 2009	91	50	2	143

[1] Refers to consolidated goodwill attributable to the acquisition of Candelia AB in 1998.
[2] Refers to brands attributable to the acquisition of Candelia AB in 1998.
[3] Refers to capitalised expenses for software.

Impairment testing for cash-generating units containing goodwill and brands

Goodwill and brands attributable to the acquisition of Candelia AB in 1998 have been transferred and assigned to the Cloetta Group in connection with the formation of the sub-group "new Cloetta" prior to 31 August 2008. Through the acquisition in 1998, the then group gained a number of important brands and a wider range of products that strengthened the group's market share primarily in Sweden. The products are sold mainly in the Swedish and Norwegian markets, but also to a certain extent in Denmark. The goodwill that arose on the acquisition is attributable to the at that time expected value of future synergies, market position and enhanced competitiveness.

The lowest level (cash-generating unit) to which goodwill and brands can be attributed is the Group. The estimated recoverable amounts of brands and goodwill, which consist of value in use for the respective category, are based on a five-year cash flow forecast with an indefinite useful life.

At 31 August 2009, the recoverable amount of net assets in the Group was estimated to exceed the carrying amount, for which reason no impairment loss was recognised on goodwill. At 30 June 2008 the carrying amount of net assets in the Cloetta AB group was estimated to exceed the recoverable amount by SEK 90 million and a corresponding impairment loss has been recognised. The most important assumptions in the calculations are based on anticipated sales growth, profit margins and investment requirements. The assumptions are based on prior experience and external information sources. Historically, the industry's general growth in the geographical markets where Cloetta's products are sold has been around 2% annually. The assumed growth targets, which are somewhat higher, are in line with the Group's long-term goal for organic growth and management's judgement. The discount rate before tax has been set at 9.5%.

Intangible assets

Parent Company

Intangible assets in the Parent Company consist of brands acquired from Cloetta Fazer AB at 29 August 2008. The historical cost amounts to SEK 300.

NOTE 15 Tangible assets, Group

SEK M	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Historical cost					
Opening balance, 1 January 2008	35	538	18	46	637
Capital expenditure	37	4	3	41	85
Reclassification	–	23	–	–23	0
Write-ups	21	–	2	–	23
Sales and disposals	–	–	–2	–	–2
Closing balance, 31 August 2008	**93**	**565**	**21**	**64**	**743**
Accumulated depreciation and impairment					
Opening balance, 1 January 2008	–2	–307	–11	–	–320
The year's depreciation	–1	–25	–2	–	–28
Sales and disposals	–	–	2	–	2
Closing balance, 31 August 2008	**–3**	**–332**	**–11**	**–**	**–346**
Carrying amounts					
At 1 January 2008	33	231	7	46	317
At 31 August 2008	90	233	10	64	397
Historical cost					
Opening balance, 1 September 2008	93	565	21	64	743
Capital expenditure	31	2	2	76	111
Reclassification	–	28	–	–28	0
Sales and disposals	–	–8	–3	–	–11
Closing balance, 31 August 2009	**124**	**587**	**20**	**112**	**843**
Accumulated depreciation and impairment					
Opening balance, 1 September 2008	–3	–332	–11	–	–346
The year's depreciation	–3	–40	–2	–	–45
Sales and disposals	–	7	2	–	9
Closing balance, 31 August 2009	**–6**	**–365**	**–11**	**–**	**–382**
Carrying amounts					
At 1 September 2008	90	233	10	64	397
At 31 August 2009	118	222	9	112	461

SEK M	**2009** 31 Aug	**2008** 31 Aug
Tax assessment values		
Tax assessment values, buildings (in Sweden)	73	72
Tax assessment values, land (in Sweden)	24	24
Total	**97**	**96**

NOTE 15 Tangible assets, Parent Company

SEK M	Buildings and land	Equipment, tools, fixtures and fittings	Total
Historical cost			
Opening balance, 1 January 2008	–	–	–
Capital expenditure	4	0	4
Acquisition of companies	–	–	–
Reclassification	–	–	–
Write-ups	0	–	0
Sales and disposals	–	–	–
Closing balance, 31 August 2008	**4**	**0**	**4**
Accumulated depreciation and impairment			
Opening balance, 1 January 2008	–	–	–
The year's depreciation	–	–	–
Sales and disposals	–	–	–
Closing balance, 31 August 2008	**–**	**–**	**–**
Carrying amounts			
At 1 January 2008	–	–	–
At 31 August 2008	4	0	4
Historical cost			
Opening balance, 1 September 2008	4	0	4
Capital expenditure	0	0	0
Reclassification	–	–	–
Write-ups	–	–	–
Sales and disposals	–	–	–
Closing balance, 31 August 2009	**4**	**0**	**4**
Accumulated depreciation and impairment			
Opening balance, 1 September 2008	–	–	–
The year's depreciation	0	0	0
Sales and disposals	–	–	–
Closing balance, 31 August 2009	**0**	**0**	**0**
Carrying amounts			
At 1 September 2008	4	0	4
At 31 August 2009	4	0	4

SEK M	**2009** 31 Aug	**2008** 31 Aug
Tax assessment values		
Tax assessment values, buildings (in Sweden)	3	3
Tax assessment values, land (in Sweden)	3	3
Total	**6**	**6**

NOTE 16 Financial investments

SEK M	Group 2009 31 Aug	Group 2008 31 Aug	Parent Company 2009 31 Aug	Parent Company 2008 31 Aug
Financial assets at fair value through profit or loss				
Endowment insurances	2	4	–	–
Closing balance at end of year	**2**	**4**	**–**	**–**
Financial assets at fair value through profit or loss				
Fixed-income securities	21	–	–	–
Closing balance at end of year	**21**	**0**	**–**	**–**

NOTE 17 Shares and participations in subsidiaries

SEK M	Corp. ID no.	Domicile	No. of shares	% of capital 2009	% of capital 2008	Carrying amount 2009	Carrying amount 2008
Cloetta Sverige AB	556226-4514	1)	267,200	100	100	528	528
Cloetta International AB	556189-9641	1)		100	100	–	–
Candelia Polly AB	556282-6957	1)		100	100	–	–
Gig AB	556373-6130	1)		100	100	–	–
Cloetta International AS	911167271	3)		100	100	–	–
AB Karamellpojkarna	556063-3223	2)	15,000	100	100	4	13
Karamellpojkarna Sälj AB	556238-0609	2)		100	100		
Cloetta Development AB	556377-3182	1)	1,000	100	100	2	2
Albisol Education & Conference Ltd	–	4)		100	100		
Cloetta Invest AB	556010-3839	1)	42,000	100	100	3	3
Prosilio AB	556243-2103	1)		100	100	–	–
Kavalleristen AB	556185-7110	1)	5,000	100	100	1	1
Choklad-Thule AB	556308-8193	1)	1,000	100	100	0	0
AB Jaeger Peps Candy Co	556369-5146	1)	2,000	100	100	0	0
						538	**547**

[1] Linköping [2] Alingsås [3] Askim/Norway [4] Gibraltar/Spain

NOTE 18 Inventories

SEK M	Group 2009 31 Aug	Group 2008 31 Aug
Raw materials and consumables	28	29
Work in progress	8	9
Finished goods and goods for resale	81	115
Closing balance at end of year	**117**	**153**

NOTE 19 Prepaid expenses and accrued income

SEK M	Group 2009 31 Aug	Group 2008 31 Aug	Parent Company 2009 31 Aug	Parent Company 2008 31 Aug
Prepaid personnel-related expenses	2	1	1	–
Prepaid rents, insurance and lease charges	1	3	0	–
Other prepaid expenses	5	5	0	–
Accrued interest	0	–	0	–
Other accrued income	1	1	–	–
Closing balance at end of year	**9**	**10**	**1**	**–**

NOTE 20 Cash and cash equivalents

	Group		Parent Company	
SEK M	2009 31 Aug	2008 31 Aug	2009 31 Aug	2008 31 Aug
Specification of group receivables				
Other group receivables	–	28	41	33
Total	**0**	**28**	**41**	**33**
Specification of cash and cash equivalents				
Cash and bank balances	191	279	56	–
Short-term investments, equated with cash and cash equivalents	65	–	–	–
Total	**256**	**279**	**56**	**–**

NOTE 21 Equity

Equity in the Group is broken down as follows:

	Group	
SEK M	2009 31 Aug	2008 31 Aug
Equity	711	707
Profit/loss for the year	6	–85
Equity/assets ratio, %	64	61
Cash flow from operating activities	127	–35
Cash flow after investments	–2	–115

The Group's long-term targets
Equity/assets ratio
The equity/assets ratio should be at least 35%. A lower ratio can be accepted temporarily in connection with acquisitions.

Dividend
Cloetta strives to maintain an even dividend payout ratio. The target is to distribute at least 40% of the Group's net profit.

Parent Company
Share capital
The number of shares on 31 August 2009 amounted to 24,119,196, consisting of 2,360,000 class A shares and 21,759,196 class B shares. All shares grant equal entitlement to participate in the company's assets and profits. The quota value of the share is SEK 5.00.

The Annual General Meeting on 5 November 2008 resolved to increase the share capital, via a bonus issue with an unchanged number of shares, by SEK 20,595,980 to SEK 120,595,980. Funds have been transferred from the share premium reserve.

Non-restricted equity
Share premium reserve
The acquisition of the subsidiary Cloetta Sverige AB was carried out through a non-cash issue on 25 July 2008. The share premium reserve refers to the premium on the newly issued shares. The previous year's dividend has reduced the share premium reserve.

Retained earnings
Non-restricted equity comprises the sum of profit for the year and retained earnings from previous years. Retained earnings represent the amount of equity available for distribution to the shareholders.

Dividend
The Board has proposed that no dividend be paid. The dividend will be approved by the Annual General Meeting on 18 December 2009.

	Parent Company	
SEK M	2009 31 Aug	2008 31 Aug
Reported dividend	4 [1]	–
Dividend per share, SEK	0.18	–

[1] A dividend was paid to settle the net receivable according to the Separation Agreement, see also page 54 in the administration report.

Group
Other contributed capital
The acquisition of the subsidiary Cloetta Sverige AB was carried out through a non-cash issue on 25 July 2008. Other contributed capital refers to the premium on the newly issued shares. The previous year's dividend has reduced other contributed capital.

Reserves
Consist of all exchange gain/losses arising on translation of the financial statements of foreign operations which present their financial statements in a currency other than that used by the Group. The amounts on the balance sheet dates in 2008–2009 have been insignificant.

Changes in equity
For disclosures about changes in equity in the Group, see report on page 64.

NOTE 22 Earnings per share

The number of shares at both the beginning and end of each year has been calculated at 24,119,196, which is equal to the number of shares Cloetta AB at 31 August 2009.

	Group	
SEK M	2009 31 Aug	2008 31 Aug
Basic earnings per share		
Profit/loss for the year	6	–85
Number of ordinary shares outstanding	24,119,196	24,119,196
Basic earnings per share	0.23	–3.50
Diluted earnings per share		
Profit/loss for the year	6	–85
Interest expense on convertible notes	1	–
Tax attributable to interest expense	0	–
Adjusted profit/loss	7	–85
Weighted average number of ordinary shares during the year after dilution	24,412,624	24,119,196
Diluted earnings per share	0.23	–3.50

NOTE 23 Provisions for pensions and similar commitments

The employees in the Group are covered by both defined contribution and defined benefit pension plans. Defined benefit pension plans in Sweden refer mainly to the ITP plan for salaried employees, most of which is financed through allocation to an account (provision) that is secured mainly through credit insurance in Försäkringsbolaget Pensionsgaranti (FPG) and is administered by Pensionsregistreringsinstitutet (PRI). A certain portion is administered by Alecta. This portion covers multiple employers and is reported as a defined contribution plan, since it is not possible to obtain sufficient information to calculate Cloetta's share of the plan.

	Group	
SEK M	2009 31 Aug	2008 31 Aug
Defined benefit pension plans	69	65
The amounts recognised on the following lines of the balance sheet have been calculated as follows		
Present value of unfunded obligations	85	78
Unrecognised actuarial gains (+) and losses (–)	–16	–14
Total	**69**	**64**
Amounts are recognised on the following lines of the balance sheet		
Provisions for pensions and similar commitments	69	64
Pensions not regulated by the Occupational Pension Act	0	1
Total	**69**	**65**
The amounts recognised in the profit and loss account for defined benefit pensions plans are as follows		
Current service costs	2	1
Interest expenses	4	3
Net actuarial losses (+) and gains (–) recognised for the year	0	0
Total	**6**	**4**
The net expense with respect to defined benefit pension plans is recognised on the following lines in the profit and loss account		
Cost of goods sold	1	0
Selling expenses	1	1
Administrative expenses	0	0
Financial expenses	4	3
Total	**6**	**4**
Specification of changes in the net liability recognised in the balance sheet		
Net liability at beginning of year according to the adopted balance sheet	64	62
Net expense in the profit and loss account	6	4
Benefits paid	–1	–2
Net liability at end of year	**69**	**64**

	Group	
SEK M	2009 31 Aug	2008 31 Aug
Unrecognised actuarial losses		
Opening unrecognised actuarial loss	–14	–11
The year's actuarial gain/loss	–2	–3
Less the year's recognised loss	0	0
Total	**–16**	**–14**

Key actuarial assumptions on the balance sheet date

The actuarial computation of pension obligations and pension expenses is based on the following assumptions:

The discount rate reflects the risk-free interest rate for the period covered by the obligation. The average remaining maturity is 29.0 years. The discount rate is based on the yield for a 30-year government bond, which is the most long-term government bond available on the market, as well as extrapolation of the yield curve for the remaining period.

Annual long-term rate of salary increase reflects the anticipated percentage increase in average salary based on historical data and expectations for future inflation, age at retirement, and promotion.

Long-term increase in income base amount reflects wage/salary growth across the entire labour market.

The income base amount is established yearly by the Swedish government and is used, among other things, to determine the pensionable salary in the national pension system.

Long-term inflationary assumptions reflect development in recent years and the Swedish central bank's (Riksbanken) long-term expectations.

The employee turnover rate reflects average long-term employee turnover.

	Group	
Expressed as a weighted average, %	2009 31 Aug	2008 31 Aug
Discount rate	4.0	4.7
Annual long-term rate of salary increase	3.0	3.0
Long-term increase in income base amount	3.0	3.0
Long-term inflationary assumptions	1.5	2.0
Employee turnover rate	5.0	5.0

Historical information	**2009**	**2008**
Defined benefit pension plans		
Present value of obligations	85	78
Present value of net obligation	85	78
Unrecognised actuarial gains (+) and losses (–)	–16	–14
Net liability in the balance sheet	**69**	**64**

NOTE 24 Other provisions

SEK M	Group 2009 31 Aug	Group 2008 31 Aug	Parent Company 2009 31 Aug	Parent Company 2008 31 Aug
Provisions that are non-current liabilities				
Special wage tax	0	0	–	–
Estimated additional purchase price for acquisition of subsidiary	–	9	–	9
Termination benefits, layoff benefits and other personnel-related costs	4	2	–	–
Total	**4**	**11**	**–**	**9**
Provisions that are current liabilities				
Termination benefits, layoff benefits and other personnel-related costs	16	2	–	–
Total	**16**	**2**	**–**	**–**
Cost arising from staff reductions				
Reported value at beginning of period	4	7	–	–
Provisions made during the period	51	0	–	–
Amount utilised during the period	–35	–3	–	–
Closing balance at end of year	**20**	**4**	**–**	**–**
Payments				
Amount by which the provision is expected to be settled after more than 12 months	4	11	–	9

NOTE 25 Convertible debenture loan

SEK M	Group/Parent Company 2009 31 Aug	Group/Parent Company 2008 31 Aug
Value after issue of convertible notes	30	–
Transaction costs	–1	–
Net proceeds	29	–
Amount classified as equity	–2	–
Deferred tax liability	–1	–
Capitalised interest	0	–
Closing balance at end of year	**26**	**–**

The equity component of the convertible debenture loan amounts to SEK 2.1 million. The amount is recognised after deduction of transaction costs of SEK 0.1 million that are attributable to the equity component. At 25 February 2011, the holders have the right to exercise their option to receive one share in exchange for each convertible note. The convertible notes that are not converted to ordinary shares may be redeemed at the nominal amount before 25 February 2012. The convertible notes carry an interest rate of 3.90% for the period from 14 May 2009 to 10 November 2009.

NOTE 26 Other current liabilities

SEK M	Group 2009 31 Aug	Group 2008 31 Aug	Parent Company 2009 31 Aug	Parent Company 2008 31 Aug
Liabilities to other related parties	–	–	–	–
Derivatives	1	–	–	–
Value added tax	0	1	1	–
Employee withholding taxes	5	6	0	–
Other	1	0	0	–
Closing balance at end of year	**7**	**7**	**1**	**–**

NOTE 27 Accrued expenses and deferred income

SEK M	Group 2009 31 Aug	Group 2008 31 Aug	Parent Company 2009 31 Aug	Parent Company 2008 31 Aug
Accrued personnel-related expenses	56	44	5	–
Accrued bonuses and discounts	22	24	–	–
Other accrued expenses	12	13	2	0
Deferred income	4	28	0	–
Closing balance at end of year	**94**	**109**	**7**	**0**

NOTE 28 Cash flow statement

SEK M	Group 2009 31 Aug	Group 2008 31 Aug
Specification of non-cash items		
Amortisation/depreciation and impairment of assets	46	119
Capital gains/losses on the sale of non-current assets	1	0
Unrealised foreign exchange gains/losses	1	–
Provisions for pensions	5	3
Other provisions	5	0
Other non-cash items	1	–8
Total	**59**	**114**

NOTE 29 Financial risks and financial risk management

Cloetta's finance operations are responsible for supporting the Group's commercial activities, and are conducted in Cloetta Sverige AB's finance function. The objective is to identify the Group's risk exposure and, with a certain degree of foresight, to attain predictability in the financial outcome. Financial risks are managed in accordance with the financial policy adopted by the Board of Directors. The Board has also adopted a policy for purchasing of raw materials within the framework of the central purchasing function. The Group is particularly sensitive to price fluctuations for cocoa-based products, since these make up a significant portion of total raw material costs.

The primary risks to which the Group is exposed are financing risk, interest rate risk, currency risk, credit risk and raw material risk.

Financing risk

Financing risk is the risk that the Group will be unable to obtain financing, or only at a significantly higher cost. According to the established finance policy, the Group must always maintain adequate cash and committed credits to cover one month's payments. At present, financing risk is limited due to the Group's high liquidity. Added to this are unutilised overdraft facilities which amounted to SEK 50 million (–) at the end of the year.

Cash and cash equivalents and short-term investments at year-end totalled SEK 277 million (279).

The maturity structure and information about effective interest on these investments are provided in a table under the heading "Interest rate risk". The maturity structure of the company's financial liabilities is shown in the table below.

SEK M	Within 1 mth	1–3 mths	3 mths –1 yr	1–5 yrs	Total
Convertible notes	–	–	–	30	30
Trade payables	78	0	–	–	78
Total	**78**	**0**	**–**	**30**	**108**

Interest rate risk

The Group's profit is affected by movements in market interest rates, just as the underlying values of financial instruments are affected by interest rate fluctuations. The Group's interest-bearing financial assets consist mainly of short-term investments and cash and cash equivalents. Net financial items have also been affected by discounting effects arising on present value calculation of outstanding pension obligations and other long-term employee benefits.

According to the Board's established finance policy, the interest rate risk to which cash and cash equivalents and short-term investments are exposed may not exceed the forecasted net financial items for the current financial year.

This risk expresses the impact of a 1% upward shift in the yield curve (corresponding to a 1% increase in market interest rates across all maturities) on the underlying value of the interest-bearing assets in question. Forecasted future cash flows must always be weighed into the internal bank's decisions regarding the maturities and amounts of interest-bearing investments.

The mandatory liquidity buffer stipulated in the finance policy may not be invested in instruments with remaining maturities of longer than three months at the date of purchase. Interest rate risk on cash and cash equivalents and short-term investments at year-end was estimated at approximately SEK 0.3 million (–) and the average fixed duration at the same date was approximately 4 months (–).

SEK M	Fair value	Average-interest rate, %	Within 3 mths	3 mths –1 yr	1–5 yrs	Total
Assets						
Cash and cash equivalents	256	0.4	256	–	–	256
Short-term investments	21	3.6	–	21	–	21
Total assets	**277**		**256**	**21**	**–**	**277**
Liabilities						
Convertible debenture loan	30	3.9	–	–	30	30
Total liabilities	**30**	**–**	**–**	**–**	**30**	**30**

Currency risk

The Group is exposed to different types of currency risk. The most significant exposure refers to purchases and sales in foreign currencies, where the risks are related to exchange rate fluctuations in the currency of the financial instrument or customer/supplier invoice, as well as currency risk in anticipated or contracted payment flows. These risks are known as transaction exposure. Exchange rate fluctuations also have an impact on translation of the assets and liabilities of foreign subsidiaries to the functional currency of the Parent Company, so-called translation exposure. For the financial year 2008/2009, transaction exposure amounted to SEK 0 (0).

According to the established finance policy, derivatives such as forward contracts, options and swaps may be used to limit the risks to which the Group is exposed. The Group does not apply hedge accounting (according to IAS 39) and all derivatives are stated at fair value with value changes through the profit and loss account.

Exchange differences affected operating profit by SEK –14 million (6) and net financial items by SEK 0.4 million (–).

Transaction exposure

The Group's transaction exposure arises in that income is primarily generated in the Swedish home market, while certain raw materials, finished products are equipment purchased from other countries and in foreign currencies. However, this outflow is offset to a certain degree by exports to the other Nordic countries and markets outside the Nordic region. In order to reduce the risk for exchange effects, the forecasted net flows in the respective currencies are hedged for a maximum period of 12 months forward. The hedged portion – according to the finance policy – should amount to between 50% and 100% of the total net flow at any given time.

The Group's currency inflow consists mainly of NOK and EUR, whereas the currency outflow consists mainly of EUR, DKK, PLN and GBP. For 2008/2009 these currency flows were as shown in the table below. Forward contracts are stated at fair value in compliance with IAS 39. Fair value on the balance sheet date was SEK –0.9 million (–).

Transaction exposure and exposure hedges

Currency	Actual 2008/2009	Forecast 2009/2010*	Hedged share of 2010 forecast, %
EUR M	–24	–15	62
NOK M	54	57	34
DKK M	–7	–12	14
PLN M	–1	–1	100
GBP M	–1	–1	1

* A negative figure represents a net outflow and a positive figure a net inflow to the Group.

Sensitivity analysis, transaction exposure

Currency	Net exposure forecast 2009/2010	1% change in SEK value, SEK M
EUR M	–15	+/–2
NOK M	57	+/–1
DKK M	–12	+/–0
PLN M	–1	+/–0
GBP M	–1	+/–0
Total		**+/–3**

Credit risks

Credit risks in finance operations

These credit risks consist primarily of counterparty risk in connection with receivables arising on the purchase of fixed-income instruments. The finance policy contains special counterparty rules stating the maximum credit exposure for different counterparties. At present, investments in fixed-income securities may not be transacted with counterparties having rating of at less than BBB- from Standard & Poor's or an equivalent rating agency.

Credit risks in trade receivables

Distribution in the Nordic countries is conducted through the major grocery retail chains, which account for a large share of invoiced sales. Credit risks attributable to the Group's trade receivables in Sweden are therefore spread between relatively few but large customers. The Group's established credit policy for managing customer credits includes decision-making levels for granting of credit limits. Risk assessments are carried out for individual customers, customer groups and markets. In order to minimise risk, credit insurance has been taken out for sales outside the Nordic region.

Trade receivable losses have been low for both the financial year 2008/2009 and in a historical perspective, and at each monthly closing the Group reviews overdue trade payables to assess these for evidence of impairment.

Specification of credit risks

	Group	
SEK M	**2009** 31 Aug	**2008** 31 Aug
Credit risk exposure		
Cash and cash equivalents	256	279
Fixed-income securities	21	–
Trade receivables	88	136
Total	**365**	**415**
Geographic spread of credit risk exposure		
Sweden	93	112
Other Nordic countries	16	21
Other markets	0	3
Total	**109**	**136**
Age analysis, overdue trade receivables not written down		
Trade receivables not yet due	89	126
Overdue trade receivables, 0–30 days	0	8
Overdue trade receivables, 31–60 days	–1	2
Overdue trade receivables, 61–90 days	0	0
Overdue trade receivables, > 90 days	0	0
Total	**88**	**136**

On the balance sheet date, credit insurance had been taken out for the majority of receivables attributable to markets outside Sweden.

Raw material risk

Cocoa products account for a significant portion of the Group's total raw material costs. Prices for cocoa-based products are determined by market prices for cocoa beans. These vary over time, and thus have a corresponding effect on the Group's profit. The central purchasing function is responsible for identifying the Group's risk exposure in this area and, with a certain degree of foresight, attaining predictability in the financial outcome.

In order to minimise the effect of price fluctuations, contracts for future delivery are signed continuously in accordance with the Board's established policy.

Sensitivity analysis

In order to manage interest rate and currency risks, the Group strives to reduce the impact of short-term fluctuations in consolidated profit. In a longer perspective, however, consolidated profit will be affected by more lasting changes in currency and interest rates. At 31 August 2009, a general increase of 1 percentage point in market interest rates calculated at an unchanged net receivable was estimated to affect the Group's profit before tax by approximately SEK 2 million. A general increase of 1% in the value of the Swedish krona against other foreign currencies would have an effect of approximately SEK 3 million based on the Group's forecasted transaction exposure for 2009/2010.

Equity is affected by translation gains/losses from foreign subsidaries which for the past financial year amounted to SEK 0 (0). With a 1% change in foreign exchange rates, these would still amount to SEK 0.

Risk management

Risk management in the Group is carried out through claims prevention measures and the establishment of group-wide insurance solutions, making it possible to achieve synergies and minimise the Group's total claims risks.

Measurement of financial assets and liabilities at fair value

	2009 31 August		2008 31 August	
SEK M	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets held for trading measured at fair value through profit or loss				
Endowment insurances	2	2	4	4
Fixed-income securities	21	21	–	–
Cash and cash equivalents	256	256	279	279
Loans and receivables				
Trade receivables	88	88	136	136
Other current receivables	–	–	39	39
Total	**367**	**367**	**458**	**458**
Financial liabilities measured at fair value through profit or loss				
Derivatives	1	1	–	–
Financial liabilities measured at amortised cost				
Liabilities to credit institutions	–	–	47	47
Convertible debenture loan	26	26	–	–
Trade payables	77	77	72	72
Other liabilities	–	–	27	27
Total	**104**	**104**	**146**	**146**

Fixed-income securities and derivatives refer to items for the entire Group. The following is a summary of the methods and assumptions used to determine the fair value of the financial instruments reported in the table above.

Endowment insurances

Fair value is measured as the surrender value.

Securities

Fair value is based on the quoted market price of a security on the balance sheet date without any deduction for transaction costs. Unlisted securities consist of items of lesser value for which changes in value during the year are deemed insignificant.

Derivatives

Forward exchange contracts are stated at fair value measured according to quoted market prices.

Trade receivables and payables

A trade receivables and payables have a remaining maturity of less than one year. The carrying amount thus corresponds to fair value.

Convertible debenture loan

The fair value of the liability component of the convertible notes is calculated through discounting of future amounts, cash flows of the principal amount and interest discounted by a market rate of interest for similar liabilities without conversion rights.

NOTE 30 Pledged assets

	Group		Parent Company	
SEK M	2009 31 Aug	2008 31 Aug	2009 31 Aug	2008 31 Aug
Assets pledged to secure pension obligations				
Endowment insurances	2	4	–	–
Total	**2**	**4**	**–**	**–**
Contingent liabilities				
Guarantees on behalf of subsidiaries	–	–	71	7
Guarantees, FPG/PRI	1	1	–	–
Other guarantee commitments	1	6	–	–
Total	**2**	**7**	**71**	**7**

A lawsuit has been filed against Aktiebolaget Karamellpojkarna by the Alingsås district court regarding copyright to certain illustrations. In light of the circumstances referred to thus far, the company's opinion is that these claims lack substance and do not represent any risk for negative effects on the company's earnings.

NOTE 31 Related party transactions

Group

The definition of related party transactions has changed as a result of the separation from the Fazer group. After the demerger, Cloetta AB is a separate and autonomous company. The principal shareholder is AB Malfors Promotor and transactions between Cloetta and the principal shareholder are considered related party transactions. No such transactions took place during the period.

The sale of goods to companies in the Cloetta Fazer group (which was considered a related party to Cloetta during the period from September to November 2008) accounted for 4.0% (3.5) of total sales during the first quarter. Of other operating income for the same period, 0% (0) was attributable to services sold to related parties. Purchases from related parties for the same period totalled SEK 106 million (89). The prices of goods and services sold to and purchased from related parties are set on market-based terms.

Transactions with key management personnel

For information about salaries and remuneration to the Board of Directors and other senior executives, see Note 7. The Group has no receivables from key management personnel. Liabilities to key management personnel consist of customary personnel-related liabilities.

Parent Company

The Parent Company's holdings of shares and participations in subsidiaries are specified in Note 17. Receivables from and liabilities to subsidiaries are broken down as follows:

	Parent Company	
SEK M	2009	2008
Current Interest-bearing receivables	34	33
Current interest-free receivables [1]	7	0
Total	**41**	**33**
[1] Of which, group contributions not received	–	1

For the Parent Company, SEK 39 million (–), equal to 100% (–) of the year's sales, and SEK 1 million (–), equal to 4% (–) of the year's purchases, refer to subsidiaries in the Cloetta Group.

NOTE 32 Operating leases

Recognised expenses for operating leases amount to:

	Group	
SEK M	2009 1 Sep– 31 Aug	2008 1 Jan– 31 Aug
Lease charges	16	7
Future annual payment obligations for leased assets in the Group are broken down as follows		
Within one year	10	10
Between one and five years	3	12
Total	**13**	**22**

Operating leases refer primarily to rents for a storage facility. No lease has a term of more than five years.

NOTE 33 Critical accounting estimates and judgements

The company's management 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

Note 14 provides a more detailed description of the assumptions applied in determining the recoverable amount of goodwill. Changed assumptions about the discount rate or future sales development can lead to additional impairment.

Pension assumptions

Key actuarial assumptions are described in Note 23. Large negative differences (experience adjustments) can lead to the recognition of actuarial losses.

NOTE 34 Events after the balance sheet date

In September 2009 Cloetta announced that it had entered into a partnership with SIA Glass. At the beginning of 2010, a number of new ice cream products will be launched with flavours and consistencies based on well known Cloetta products.

In October 2009 Cloetta announced that it had changed distributor in Denmark. Cloetta's new distributor in Denmark will be A/S Beauvais, which will take over responsibility for distribution and marketing of Cloetta's brands and products in the Danish market as of 1 April 2010.

Otherwise, no significant events with a potential effect on the company's operations have taken place after the end of the reporting period.

NOTE 35 Untaxed reserves

Accumulated excess depreciation	Parent Company	
SEK M	2009 31 Aug	2008 31 Aug
Equipment		
Opening balance, 1 January/1 September	–	–
The year's excess depreciation	0	–
Sales and disposals	–	–
Closing balance at end of year	**0**	**–**
Tax allocation reserves		
Provision for 2010 tax assessment	1	–
Closing balance at end of year	**1**	**–**
Total	**1**	**–**

Audit report

To the Annual General Meeting of Cloetta AB (publ)
Corporate identification number 556308-8144

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of Cloetta AB (publ) for the financial year from 1 September 2008 to 31 August 2009. The company's annual accounts and the consolidated accounts are included in the printed version of this document on pages 51–91. The Board of Directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director and significant estimates made by the Board of Directors and the Managing Director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Ljungsbro, 20 November 2009
KPMG AB

Helene Willberg
Authorised Public Accountant

Five-year overview

			Pro forma			
SEK M	Sep 2008 – Aug 2009	2008 Jan–Aug	Sep 2007 – Aug 2008	2007 [1]	2006 [1]	2005 [1]
Profit and loss account in summary						
Net sales	**1,184**	838	1,387	1,368	1,362	1,418
Operating expenses	**–1,213**	–928	–1,450	–1,310	–1,226	–1,277
Other operating income	**37**	6	6	0	3	0
Other operating expenses	**–8**	0	0	0	–4	–1
Operating profit/loss	**0**	–84	–57	58	135	140
Financial items	**–1**	3	5	4	0	0
Profit/loss before tax	**–1**	–81	–52	62	135	140
Income tax expense	**7**	–4	–11	–18	–40	–41
Profit/loss for the year	**6**	**–85**	**–63**	**44**	**95**	**99**
Attributable to						
Equity holders of the Parent Company	**6**	–85	–63	44	95	99
Balance sheet in summary						
Intangible assets	**143**	144	144	234	235	236
Tangible assets	**461**	397	397	317	269	255
Financial assets	**2**	4	4	11	7	10
Inventories	**117**	153	153	118	118	105
Current receivables	**113**	185	185	511	530	528
Cash and cash equivalents	**277**	279	279	1	1	1
Total assets	**1,113**	**1,162**	**1,162**	**1,192**	**1,160**	**1,135**
Equity	**711**	707	707	778	774	719
Non-current liabilities						
Interest-bearing liabilities	**26**	–	–	–	–	–
Interest-bearing provisions	**69**	65	65	62	55	53
Interest-free provisions	**112**	133	133	136	124	113
Current liabilities						
Interest-bearing liabilities	**–**	47	47	–	–	–
Interest-free liabilities	**195**	210	210	216	207	250
Total equity and liabilities	**1,113**	**1,162**	**1,162**	**1,192**	**1,160**	**1,135**
KEY RATIOS						
Items affecting comparability	**–8**	–92	–114	–22	–2	–22
Operating profit excl. items affecting comparability	**8**	8	57	80	137	162
Operating margin excl. items affecting comparability, %	**0.7**	1.0	4.1	5.9	10.0	11.5
Profit margin, %	**neg**	neg	neg	4.6	9.9	9.9
Net receivable	**183**	171	171	286	322	317
Capital employed	**806**	819	819	840	829	772
Equity/assets ratio, %	**63.9**	60.9	60.9	65.3	66.8	63.3
Return on capital employed excl. items affecting comparability, % [2]	**1.2**	3.8	3.8	10.6	17.7	21.2
Return on equity after tax excl. items affecting comparability, % [2]	**1.3**	5.9	5.9	8.5	13.0	16.9
Cash flow from operating activities	**127**	–35	25	82	124	257
Cash flow after investments in property, plant and equipment	**16**	–121	–72	41	81	221
Cash flow after investing activities excl. units acquired/sold	**–2**	–115	–71	38	82	218
Gross expenditure on tangible assets	**111**	85	97	41	41	38
Average number of employees	**464**	503	512	517	534	616
Payroll expenses	**170**	111	151	160	171	178

[1] Refers to January–December
[2] Refers to rolling 12-month period

Key ratios per share

				Pro forma			
		Sep 2008 – Aug 2009	**2008 Jan–Aug**	**Sep 2007 – Aug 2008**	**2007 [1]**	**2006 [1]**	**2005 [1]**
Earnings per share, basic and diluted	SEK	**0.23**	–3.50	–2.63	1.84	3.92	4.11
Earnings per share, basic and diluted, excl. items affecting comparability	SEK	**0.35**	0.31	1.84	2.49	4.02	4.77
Cash flow from operating activities	SEK	**5.27**	–1.45	1.04	3.37	5.15	10.65
Equity, basic and diluted	SEK	**29.47**	29.34	29.34	32.28	32.09	29.83
Dividend	SEK	**–**	–	–	–	–	–
Share price at 31 August	SEK	**28.50**	–	–	–	–	–
P/E ratio	Times	**124**	–	–	–	–	–
Price/equity ratio	%	**97**	–	–	–	–	–
Dividend yield	%	**–**	–	–	–	–	–
Average weighted number of shares, basic [2]		**24,119,196**	24,119,196	24,119,196	24,119,196	24,119,196	24,119,196
Average weighted number of shares, diluted [2]		**24,412,624**	24,119,196	24,119,196	24,119,196	24,119,196	24,119,196
Basic number of shares at end of period, basic [2]		**24,119,196**	24,119,196	24,119,196	24,119,196	24,119,196	24,119,196
Diluted number of shares at end of period, diluted [2]		**25,124,085**	24,119,196	24,119,196	24,119,196	24,119,196	24,119,196

[1] Refers to January–December
[2] Dilution in 2009 refers to the convertible note programme.

Definitions

Gross margin
Net sales minus the cost of goods sold as a percentage of net sales.

Operating margin
Operating profit as a percentage of net sales.

Profit margin
Profit before tax as a percentage of net sales.

Net receivable
Cash and cash equivalents and other interest-bearing assets minus interest-bearing liabilities.

Capital employed
Total assets minus interest-free liabilities (including deferred tax).

Equity/assets ratio
Shareholders' equity (including minority interest) at year-end as a percentage of total assets.

Return on capital employed
Operating profit plus financial income as a percentage of average capital employed.

Return on equity
Profit for the year divided by average shareholders' equity.

Disclosures about items affecting comparability
Significant one-time items (affecting comparability) that are reported separately in order to achieve comparability between the period under review and other periods.

Cash flow after investing activities
Cash flow from operating activities after deduction of net investments.

Key ratios per share

Earnings per share
Profit for the year divided the average number of shares outstanding during the financial year.

Earnings per share excluding items affecting comparability
In calculating earnings per share, one-time items that have been charged to profit, net of tax, are added back.

Equity per share
Shareholders' equity divided by the number of shares on the balance sheet date.

P/E ratio
Share price at year-end divided by the year's earnings per share.

Dividend yield
Dividend as a percentage of the share price at year-end.

Earnings per share after dilution
In calculating earnings per share after dilution, interest on the convertible debenture loan that has been charged to profit, net of tax, is added back. The number of shares comprises the maximum number of shares after conversion of outstanding convertible notes.

History

Cloetta is the Nordic region's oldest chocolate producer, with traditions extending all the way back to 1862 when three Swiss brothers, Bernard, Christoffer and Nutin Cloëtta, founded their company "Brødrene Cloëtta" for manufacturing of chocolate and confectionery in Copenhagen. In 1872 the brothers also opened a factory in Malmö and were first to introduce industrial production of chocolate in Sweden.

- **1901** Manufacturing was moved to a new factory at Malfors in the parish of Ljung. The community was named Ljungsbro, and Cloetta has had its production facility in this location since that time.
- **1917** The newly formed Svenska Chokladfabriks AB took over the majority shareholding in Cloetta from the Cloetta family. The company was owned by the Svenfelt family, which still has major shareholdings in Cloetta.
- **1921** Cloetta's well known slogan "Choose right – choose Cloetta" was created. Many of today's well known brands were also launched in the first half of the 1900s.
- **1980s onwards** Cloetta acquired a number of food product companies and among other things owned a business area for starch products and another for trading operations during these years. As a result, Cloetta was one of the Nordic region's leading trading houses for fast-moving consumer goods at the end of the 1990s.
- **1994** Cloetta's class B share was listed on the Stockholm Stock Exchange.
- **1998** Cloetta acquired Candelia, including the brands Polly and Bridge.
- **2000** Cloetta merged with the Fazer Group's confectionery division to form Cloetta Fazer. Cloetta and the Fazer group had previously collaborated in both production and sales since 1990.
- **2001** The Group's trading operations were divested.
- **2007** AB Karamellpojkarna was acquired in Alingsås, with the brands Extra Starka, Hemkola, Fruktklubbor and Fünf Kräuter.
- **1 July 2008** The shareholders in Cloetta Fazer passed a decision in principal to approve the demerger of Cloetta Fazer. The operations in Cloetta Fazer were thus divided into two companies; Fazer Confectionery, which has become a division of the Fazer group, and Cloetta.
- **2009** Cloetta's class B share was once again listed on NASDAQ OMX Stockholm.

Annual General Meeting

The Annual General Meeting (AGM) will be held on Friday, 18 December 2009, 2:00 p.m., at Collegium in Linköping, Sweden.

Right to participate

In order to participate in the AGM, shareholders must be entered in the share register maintained by Euroclear Sweden AB no later than Friday, 11 December 2009 (the record date is Saturday, 12 December 2009), and must notify the company of their intention to participate as specified below. Shareholders whose shares are held in the name of a trustee must temporarily re-register the shares in their own names in order to participate in the AGM in person or through a proxy. Such registration must be completed by Friday, 11 December 2009.

Dividend

The Board proposes that no dividend be paid.

Registration

Registration to participate in the AGM must be received by the company no later than Monday, 14 December 2009. Shareholders can register as follows:

Post:
Cloetta AB
Susanne Beijar
SE-590 69 Ljungsbro, Sweden

Tel: +46 13-28 51 11 or +46 13-28 51 02
Fax: +46 13-28 51 12
Website: www.cloetta.se

Financial calendar

Interim report Q1, September – November 2009	18 December 2009
Interim report Q2, September 2009 – February 2010	23 March 2010
Interim report Q3, September 2009 – May 2010	22 June 2010
Year-end report, September 2009 – August 2010	19 October 2010
Annual General Meeting 2009/2010	15 December 2010

Addresses

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