Annual report 2010

Cloetta

Contents

Annual report
and sustainability report

* Global Reporting Initiative (GRI) is a network-based organisation whose founders include the UN. GRI has pioneered the development of a framework for the structure and content of sustainability reporting.

Highlights of the year

- **Consolidated net sales** for the financial year from 1 September 2009 to 31 August 2010 reached SEK 1,061 million (1,184), of which Cloetta's products accounted for SEK 914 million (850).
- **Operating profit** was SEK 35 million (0). One-time items affecting comparability with the prior year were charged to profit in an amount of SEK 0 million (–8). Excluding these items, operating profit was SEK 35 million (8), equal to an operating margin of 3.3% (0.7).
- **Earnings per share** basic and diluted, were SEK 0.90 (0.23).
- **Cloetta's class B share** has been traded on NASDAQ OMX Stockholm since 16 February 2009.
- **Dividend** – the Board proposes a dividend of SEK 0.75 per share (–).

Founded in 1862, Cloetta is the oldest confectionery company in the Nordic region. The company's the most important brands are Kexchoklad, Center, Plopp, Polly, Tarragona, Guldnougat, Bridge, Juleskum, Sportlunch, Extra Starka and the Good chocolate bar series. Cloetta has two production units in Sweden, one in Ljungsbro and one in Alingsås.

Quarterly data

	2009/2010 Sep 2009–Aug 2010	Q4 2010 Jun–Aug	Q3 2010 Mar–May	Q2 Dec 2009 –Feb 2010	Q1 2009 Sep–Nov	2008/2009 Sep 2008–Aug 2009	Q4 2009 Jun–Aug	Q3 2009 Mar–May	Q2 Dec 2008 –Feb 2009	Q1 2008 Sep–Nov
Net sales, SEK M	**1,061**	213	267	249	332	**1,184**[2]	212	237	278[2]	457[2]
Of which, Cloetta products	**914**	185	230	212	287	**850**	181	204	199	268
Operating profit/loss, SEK M	**35**	–6	4	–7	44	**0**	–22	–8	–8	38
Operating margin, %	**3.3**	neg	1.5	neg	13.3	**0**	neg	neg	neg	8.3
Operating profit/loss, SEK M[1]	**35**	–6	4	–7	44	**8**	–19	2	–8	33
Operating margin, %[1]	**3.3**	neg	1.5	neg	13.3	**0.7**	neg	0.8	neg	7.2
Earnings per share, SEK	**0.90**	–0.24	0.09	–0.25	1.30	**0.23**	–0.80	–0.32	–0.18	1.53

[1] Excluding items affecting comparability [2] Including sales of Fazer's products during the period September–December 2008.

Good combinations

Strong product brands together with Cloetta's employees is a winning combination. Our rebirth as an independent company, now with two financial years behind us, has led to growth in market shares and earnings, successful product launches and powerful confidence in the future.

Our active efforts to launch exciting and attractive new products in combination with effective and targeted marketing investments have been successful, and sales of Cloetta's products rose by 8% during the financial year. Profit has improved, not only as a result of higher sales and changes in the product mix but also thanks to greater efficiency in production. However, earnings have been impacted by higher manufacturing costs as a result of escalating raw material prices, which have been partly offset by a stronger Swedish krona rate.

A MORE EFFICIENT ORGANISATION

As a means to boost efficiency, we have introduced a flatter organisation in which the company's functions have been brought closer together and given opportunities to actively participate in our common objective to optimise the product range. This will promote the widest possible support and understanding of Cloetta's goals, strategies and future direction. We have also gathered all functions at our head office in Ljungsbro, which has among other things led to shorter information paths and faster lead times between decision and action. The positive effects of this have been clearly visible in all of the projects carried out during the financial year.

INTENSIVE BRAND BUILDING

Cloetta is a brand company whose success depends on our employees. It is the sum of their activities that shapes our brands, our image and the qualities associated with Cloetta, as well as the offerings we together deliver to customers and consumers. The past year's brand building efforts have given us a more explicit framework to guide us in our ongoing development of the product range. The common approach that we have established to our present situation, future challenges and product development have provided a consistent basis for guidance and enabled us to mobilise our combined strength for forward momentum.

Our new Cloetta symbol will be visible on products, in stores and in places where we interact with consumers. The symbol protects the Cloetta logotype and highlights the family feeling we strive to create in and between our products.

POPULAR NEW PRODUCT LAUNCHES

The results of our product development work were manifested during the year in the many new products we launched, and I am very pleased with the positive response we have received from consumers and customers. The Pressbyrån convenience store chain named Cloetta "Supplier of the Year 2009" and Tarragona "Product of the Year 2010", and Cloetta was also one of three candidates nominated as "Supplier of the Year 2010" by the Swedish grocery trade. The Official Wedding Series, developed by Cloetta together with 16 other suppliers in connection with the wedding between HRH Crown Princess Victoria and Mr. Daniel Westling, was nominated as "Rookie of the Year 2010" among grocery products.

Through The Official Wedding Series we increased our fourth quarter sales of filled chocolates, a segment where we have previously had a limited offering. The new products, featuring ingredients like Swedish lingonberries and blueberries, were appreciated by both customers and consumers and we increased our share of the filled chocolates market.

Chocolate bars are another segment where we have widened our offering. In the first quarter we relaunched Tarragona in three taste combinations with chocolate and nuts and in the second quarter we launched Good, a Fairtrade-labelled milk chocolate bar in four taste varieties. During the autumn of 2010 we extended the Tarragona series with large-sized chocolate bars in the grocery trade and with an additional nut flavour.

The new seasonal products that were launched in the summer and gained rapid popularity among consumers were a limited edition Kexchoklad Snacks Hallon and Polly Summer Berries.

CORPORATE RESPONSIBILITY

Since Cloetta was founded 148 years ago, issues related to the company's responsibility to society have been high on the agenda. Our decisions are influenced by our desire to act in a responsible and ethical manner in all of the markets where we operate, both locally and globally. Cloetta strives to produce good confectionery and to be a good corporate citizen – to combine profitability with responsibility.

Our commitment to corporate responsibility extends across large areas, and includes everything from environmental issues in the factory to the working conditions of cocoa growers. In order to motivate and engage all employees, in the past year we conducted these activities through the Council for Corporate Responsibility. The Council, in which many employees are involved, has held a number of work meetings to discuss what corporate responsibility means to Cloetta, what we can do on both a large and small scale and what our priorities should be.

As part of this initiative and our development of the product range, we launched the Fairtrade-labelled Good series of milk chocolate bars during the year. Other launches that represent a commitment beyond the products themselves are found in The Official Wedding Series, where a portion of the proceeds for each product sold go to The Crown Princess Couple's Wedding Foundation, whose mission to combat exclusion and promote good health among children and young people in Sweden.

Read more about Cloetta's corporate responsibility in our sustainability report on pages 34–46, which is presented this year for the first time according to the Global Reporting Initiative (GRI) guidelines.

Bite-sized chocolate pieces featuring a taste of milk chocolate with lingonberries and dark chocolate with blueberries.

EMPLOYEES THE KEY TO SUCCESS

I think that we have accomplished a great deal in a short span of time. After only two years as an independent company, I am happy to say that our performance has surpassed expectations. We have delivered attractive new product launches at a rapid pace, secured positions in segments where we previously had virtually no presence at all, updated our visual expression in order to more clearly define Cloetta's identity, restructured and streamlined the organisation and developed brand platforms for key brands. We have also established exciting and rewarding collaborations with new partners such as SIA Glass, whose ice cream products in combination with our Tarragona, Plopp and Guldnougat brands have all earned a spot among the top ten on SIA Glass' sales list. The customers shown their appreciation, productivity in the factory has been increased, new sponsorship agreements have been signed and the sales force has been enlarged. The list goes on and on.

We naturally owe these fine achievements and our ability to perform beyond the ordinary to our outstanding employees, whose dedication and invaluable contributions create Cloetta and make us unique.

GOOD GROWTH POTENTIAL

Thanks to the solid foundation that has now been laid, Cloetta has excellent conditions for sustained growth. We will utilise and enhance our dynamic brand portfolio in different segments and categories in order to continue expanding and capturing market shares. The success we have achieved with chocolate bars and filled chocolates is ample proof that we are on the right path. We will use the same concept to grow and strengthen our position in other segments such as bags, seasonal products and countlines, where we will present exciting new products in the future. Our ambition is also to grow through acquisitions or partnerships.

By utilising the strength of Cloetta's brands, which are borne up by the employees, I am convinced that we can continue to deliver product innovations that appeal to both customers and consumers throughout the Nordic region.

Ljungsbro, November 2010

Curt Petri
Managing Director and CEO

Bridge – a classic mix that offers something for everyone.

Key events during the year

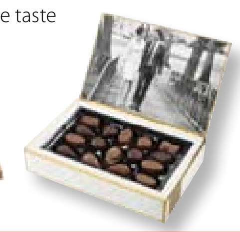
First quarter

- In the autumn of 2009, Cloetta's Center family is expanded with a new roll, Center Nougat.
- Sweden's top-selling throat lozenge, Extra Starka Original, is given a new package. Cloetta also launches a refreshing new product, Extra Starka – Extra Effektiv. The sugar-free throat lozenges now contain Xylitol.
- Cloetta decides to change its distributor in Denmark to A/S Beauvais, which takes over responsibility for distribution and marketing of Cloetta's brands and products in the Danish market as of 1 April 2010.
- Tarragona is relaunched in Pressbyrån and 7-Eleven stores as a chocolate bar in three taste varieties: Tarragona Hazelnut, Tarragona Almond and Tarragona Cashew.
- Ahead of the Christmas season, Cloetta launches a new chocolate box with a mix of thirty-two light and dark filled chocolates in nine different flavours.

Second quarter

- Cloetta and SIA Glass together present three new ice cream favourites – Plopp, Tarragona and Guldnougat.
- Cloetta signs an agreement with A Swedish Classic (En Svensk Klassiker) to become head sponsor of sporting Sweden's crowning achievement. A Swedish Classic consists of five well known and long-distance races in cycling, cross-country skiing, swimming and running.
- Cloetta Good, a new brand for a series of Fairtrade-labelled milk chocolate bars, is launched in four taste varieties. An excellent example of good combinations – chocolate and Fairtrade.
- Cloetta is one of 17 approved purveyors to The Official Wedding Series to commemorate the wedding of HRH Crown Princess Victoria and Mr. Daniel Westling. Part of the net proceeds from Cloetta's sales of the products go to The Crown Princess Couple's Wedding Foundation.
- Cloetta is named "Supplier of the Year 2009" by the Pressbyrån convenience store chain.
- The successful relaunch of Tarragona in three taste varieties is expanded to the entire service trade.

EN SVENSK KLASSIKER



Third quarter

- Cloetta and marshmallows are a classic combination for Easter. Ahead of the Easter holiday, Påskeskum is launched with a new design in four different flavours and colours.
- Cloetta's Wedding Series is launched in the retail trade. The series consists of three different filled chocolate boxes to suit various tastes and occasions, a box with bite-sized chocolate pieces and two Tarragona chocolate bars with different nut combinations.
- Kexchoklad Snacks Hallon is launched as a limited edition. Crispy, bite-sized squares with a taste of raspberry.
- Polly Summer Berries is launched as a limited edition with a flavour of dark and milk chocolate with strawberry and white chocolate with wild strawberry.
- Center Nougat is launched as a double and single countline.

Fourth quarter

- Cloetta is the main partner for Love Stockholm 2010 and takes part in Stockholm during the festivities. In this context, Cloetta also included in Brands of Sweden, a brand platform for international profiling of Swedish companies.
- Tarragona is launched as large sized 155-gram bars in three taste varieties for passionate nut lovers. As an exciting new combination, Cloetta launches 70-gram Tarragona bars with pistachio and almond.
- Cloetta is one of three candidates nominated as "Supplier of the Year" at the Swedish grocery trade's annual gala.
- Tarragona is named "Product of the Year 2010" by the Pressbyrån convenience store chain.
- Cloetta hosts the Citizenship Ceremony at City Hall in Stockholm.
- Cloetta holds a concert in connection with Stockholm Love 2010 and participates in the celebration surrounding the wedding of Crown Princess Victoria and Mr. Daniel Westling. In connection with the festivities, Plopp is given a new wrapper with the messages Kiss, Hug, Joy and Love.
- Cloetta spreads joy throughout Sweden with its summer campaign featuring Kexchoklad Snacks Hallon and Polly Summer Berries.
- Kexchoklad takes part in the Vätternrundan long-distance bicycle race and the Vansbrosimningen open water swimming competition in collaboration with A Swedish Classic.

LOVE 2010
Stockholm
The Capital of Scandinavia

About Cloetta

Vision, goals and strategies

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

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.

Sales of Cloetta products during the financial year rose by 8% (6). The total market in Sweden grew by just under 4% in value*, which means that Cloetta increased its market share.

OPERATING MARGIN

The long-term operating margin should amount to at least 8%. During the financial year, the operating margin was 3.3% (0.7).

EQUITY/ASSETS RATIO

The equity/assets ratio should be at least 35%. A lower ratio can be accepted temporarily in connection with acquisitions. At 31 August 2010, the equity/assets ratio was 66% (64).

DIVIDEND

Cloetta strives to maintain an even dividend payout ratio. The target is to distribute at least 40% of the Group's net profit. The Board of Directors proposes to the Annual General Meeting a dividend of SEK 0.75 per share (–), which is equal to 83% of the Group's net profit.

Business model driven by the brands

During the financial year, Cloetta carried out a far-reaching and intensive initiative to define the company's business model. A solid foundation has been laid in the form of distinct identities and platforms for both the overall Cloetta brand and the various product brands. This work has included formulation of core values for the different product brands, both original and product variants, the contexts in which a brand should be profiled and appear – marketing and communication – and the different categories and sales solutions in which a brand should be found. The product range has also been gathered in offerings that are adapted to different customers, consumers and points of sale.

Both customers and consumers prefer strong and well defined brands that live up to their expectations, and the framework created by this work has provided the conditions for the company to meet and even surpass these expectations in a cost-effective manner.

**Nielsen, total grocery trade + service trade, full year.*

Strategies and activities

OPTIMISE OUR SALES OPPORTUNITIES IN THE SWEDISH MARKET

Use the Cloetta brand in new product segments.	• New focus on chocolate bars in the form of Tarragona and the Good series. • Focus on filled chocolates through a new Christmas box and the Wedding Series featuring filled chocolates and combinations of chocolate and Swedish berries (blueberry and lingonberry). • Collaboration with SIA Glass utilising the Tarragona, Plopp and Guldnougat brands.
Improve the retail potential of our brands together with the customers.	• A refined channel strategy has been drawn up. • Cooperation with the retail trade has been continuously improved. Cloetta was named "Supplier of the Year" by the Pressbyrån convenience store chain and nominated as "Supplier of the Year" by the Swedish grocery trade. • In-store activities have been given higher priority. • Recruitment of new sales representatives.
Complement our own product portfolio with suitable sales agencies.	• Liquorice products from Panda are now included in the product range for the retail trade. • Ongoing evaluation of interesting sales agencies.

EXPAND IN THE NORDIC MARKET, PARTLY THROUGH ACQUISITIONS AND PARTNERSHIPS

Expand the existing product range in the Nordic market through partnerships with distributors and agents.	• Panda is the new distributor in Finland and A/S Beauvais is the new distributor in Denmark. • Renewed involvement in the Travel Trade. • New products and designs in the Travel Trade range. • Improved cooperation with distributors in Denmark, Norway and Finland. • Ongoing product launches under the brands that are strongest in each market.
Expand through acquisitions and partnerships that complement the existing product range.	• Continuous evaluation of potential acquisitions and partnerships.

DEVELOP ATTRACTIVE PRODUCT INNOVATIONS WITH A FOCUS ON OUR CUSTOMERS AND CONSUMERS

Innovative product launches and new sales channels for greater impact among both customers and consumers.	• Launch of Extra Starka – Extra Effektiv, Center Nougat, Tarragona chocolate bars, Polly Summer Berries, Kexchoklad Hallon Snacks, Good, the Christmas chocolate box, Påskeskum and the Wedding Series. • A number of innovative new concepts are currently under development in different product groups.
Trend and market monitoring combined with in-depth knowledge of consumer preferences are prioritised.	• Cloetta regularly gathers information about trends and market developments in the confectionery industry but also in other areas through the use of tools, external partners, market statistics, studies, customers, suppliers, the Internet, direct observations, trade fairs and seminars.

ENHANCE OUR COMPETITIVENESS BY RECRUITING, DEVELOPING AND RETAINING COMPETENT EMPLOYEES

Cloetta strives to offer its employees an attractive workplace with opportunities for involvement and participation.	• In 2009 all employees were offered the chance to take part in a convertible note programme. • A large-scale competence mapping project is underway. • A flatter organisation was introduced during the financial year in order to promote participation and to improve and accelerate the approval and decision-making process. • Cloetta's management and leadership training programme was completed by 40 individuals in the past financial year. • All employees in production have attended scheduled courses on personal health. • The results of the 2009 EQUALIX equal opportunity index show that Cloetta has improved its equality performance compared to the previous year. • Working groups for corporate responsibility and sustainability are aimed among other things at strengthening the Cloetta brand among the company's employees. • Workshops on product range development have been carried out with participants from the company's various functions.

OPTIMISE OPERATING EFFICIENCY

Through better capacity utilisation, we will optimise our production economy.	• The factories in both Ljungsbro and Alingsås have increased their productivity for several years at the same time that the number of returns has decreased. • Continuous improvements in production are leading to higher efficiency and a better working environment.
Shorter lead times in product development and a high level of customer service are decisive in raising cost-efficiency throughout the value chain.	• The new, flatter organisation facilitates more efficient processes. • Established process for continuous development of product concepts, forum for development of ideas, clear cut rules for when an idea advances to a project with well defined activities and timetables. • Cooperation with the retail trade has been further prioritised. • A project for lean product development has been started.

Share and shareholders

Cloetta's class B share has been listed on NASDAQ OMX Stockholm, Nordic List, since 16 February 2009. The share is traded under the ticker symbol CLA B with ISIN code SE0002626861.

SHAREHOLDERS

At 31 August 2010 Cloetta AB had 4,432 shareholders, of whom 241 were institutional and 4,191 were private investors. Institutional investors held 87.3% of the votes and 76.1% of the share capital. There were 124 foreign shareholders, who accounted for 7.2% of the votes and 13.6% of the share capital. AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). AB Malfors Promotor is wholly owned by the Hjalmar Svenfelt Foundation. The ten largest shareholders held 88.5% of the votes and 78.5% of the share capital, see table on next page.

SHARE PRICE AND TRADING

Between 1 September 2009 and 31 August 2010, Cloetta's share price rose by 37% from SEK 28.50 to SEK 39.10. The OMX Stockholm PI index rallied by around 15% over the same period. The highest quoted bid price for the Cloetta share during the period was SEK 43.80 and the lowest was SEK 27.60. A total of 5,201,404 class B shares were traded during the period from 1 September 2009 to 31 August 2010, for a combined value of SEK 167 million.

SHARE CAPITAL AND CAPITAL STRUCTURE

Cloetta's share capital at 31 August 2010 amounted to SEK 120,595,980. The total number of shares is 24,119,196, consisting of 2,360,000 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 63.

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 10-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.

CAPITAL MARKET DAY AND INVESTOR MEETINGS

During the financial year, Cloetta held a capital market day and a number of lunch meetings for analysts and investors. Cloetta has also taken part in a number of share investor meetings at several locations in Sweden.

Ten largest shareholders at 31 August 2010

Name	No. of class A share	No. of class B shares	Total no. of shares	Total no. of votes	% of share capital	% of votes
AB Malfors Promotor	2,358,864	10,253,848	12,612,712	33,842,488	52.3	74.6
Nordea Investment Funds		2,372,236	2,372 236	2,372 236	9.8	5.2
Ulla Håkanson		1,000,000	1,000,000	1,000,000	4.2	2.2
Prior & Nilsson Fond- och Kapitalförvaltning AB		882,399	882,399	882,399	3.7	2.0
Novitus AB		425,000	425,000	425,000	1.8	0.9
Olof Svenfelt	10	408,020	408,030	408,120	1.7	0.9
Marianne Sjövall		346,045	346,045	346,045	1.4	0.8
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
Lena Lundin		241,200	241,200	241,200	1.0	0.5
Others	1,118	5,198,416	5,199 534	5,209 596	21.5	11.5
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 2010

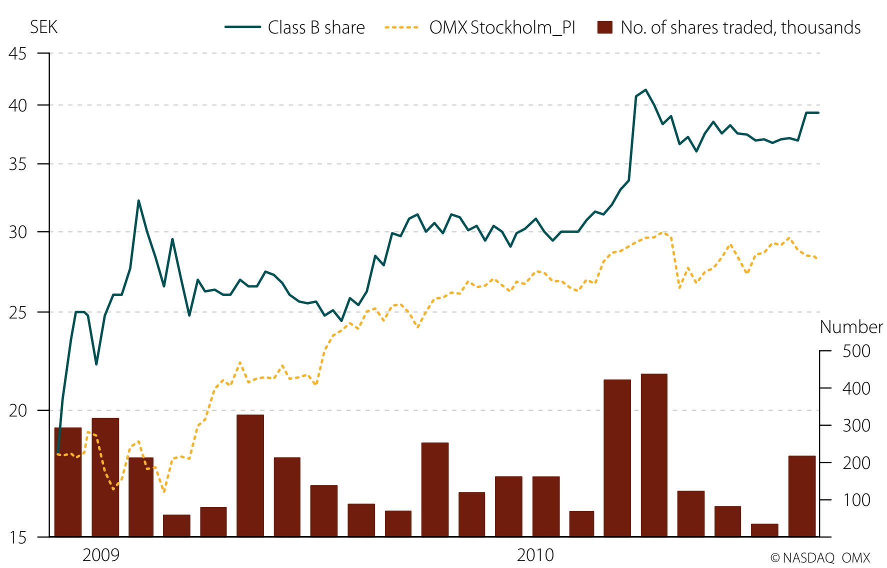
CONVERTIBLE NOTE PROGRAMME

During the period from 27 March to 8 April 2009, all employees in Cloetta were offered the opportunity to subscribe for convertible notes in Cloetta. 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 Cloetta's website www.cloetta.se.

DIVIDEND

The dividend is resolved on by the Annual General Meeting (AGM) 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 AGM that a dividend of SEK 0.75 per share be paid for the financial year 2009/2010. The proposed record date for dividends is 20 December 2010. If the AGM approves the proposal, the dividends are expected to be disbursed by Euroclear Sweden AB on 23 December 2010.

Cloetta's share price development



Shareholder statistics at 31 August 2010

	Shareholder		Holding	
No. of shares	**Number**	**%**	**Number**	**%**
1–1,000	4,012	90.5	899,798	3.7
1,001–5,000	307	6.9	698,392	2.9
5,001–50,000	78	1.8	1,158,185	4.8
50,001–	35	0.8	21,362,821	88.6
Total	**4,432**	**100.0**	**24,119,196**	**100.0**

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2010

Shareholder categories at 31 August 2010

No. of shares	No. of shareholders	% of capital	% of votes
Swedish institutions	148	62.5	80.1
Swedish private investors	4,160	23.9	12.7
Foreign institutions	93	13.6	7.2
Foreign private investors	31	0.0	0.0
Total	**4,432**	**100.0**	**100.0**

Source: Euroclear Sweden AB – Register of direct and trustee-registered shares at 31 August 2010

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 share 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 share changed from SEK 100 to SEK 4	–	100,000,000	23,119,196	24,119,196
2008	Bonus issue, quota value of share changed from SEK 4 to SEK 5	20,595,980	120,595,980	–	24,119,196

Brands

Strong brands

The sum of all activities carried out by Cloetta's employees contribute to creating Cloetta's greatest asset; a portfolio of strong brands that are well established in the consumer consciousness. The entire company works with a continuous focus on fostering and developing the brands.

BRANDS

In the past year Cloetta carried an intensive process to review both the umbrella brands and the company's product brands and give them a distinctive identity. The review has resulted in stable and well defined brand platforms that provide a basis for the ongoing formulation of short- and long-term plans for each brand.

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 an enduring relationship with consumers. Cloetta can offer a wide product range, strong brands and attractive 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. The Cloetta brand also stands for good combinations. By this we mean not only good taste combinations in our confectionery but also in other respects, such as the way we combine profitability with responsibility and our focus on health. 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 associate Cloetta with spontaneity, togetherness and an outgoing personality. In the Nordic Brand Academy 2010, Cloetta was ranked sixth among 50 selected companies that were chosen by asking consumers to spontaneously name companies with a good reputation.

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. For the most important brands, Cloetta draws up short- and long-term plans that deal with aspects like product innovation, package development and marketing. By continuously developing the product range and brands, Cloetta can strengthen its competitiveness. Good product innovations create interest, which is essential for growth in an impulse-driven category like confectionery. Read more about our brands on pages 16–19.

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

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.

The stores are one of the most important marketing channels and other marketing tools are typically combined with high-impact in-store sales promotion. The marketing activities for Tarragona in association with the service trade are an example of a successful campaign.

Kexchoklad and A Swedish Classic carried out the Vätternrundan long-distance bicycle race in June 2010.

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

During the financial year Cloetta and Kexchoklad were head sponsors of A Swedish Classic, a series of five well known and legendary long-distance races in cycling, cross-country skiing, swimming and running. Cloetta also collaborates with SkiStar and showcases Kexchoklad at Swedish ski resorts throughout the winter season through advertisements and activities.

LICENCING

In the autumn of 2009, SIA Glass and Cloetta signed a partnership agreement under which a number of new ice cream products with flavours and consistencies inspired by well known Cloetta products were introduced at the beginning of 2010. Cloetta is optimistic about the potential for similar future partnerships.

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.

Marketing campaign in collaboration with the retail trade.

Our new bite-sized pieces

In the late winter of 2010 the products were launched in the retail trade and were very well received. The first finished products reached the stores in April 2010, less than six months after the Royal Court's inquiry. The bite-sized pieces have been so popular that Cloetta has decided to continue producing them. As earlier, a share of the proceeds will go to the Crown Princess Couple's Wedding Foundation, whose mission is to combat exclusion and promote good health among children and young people in Sweden.

2010
Den Officiella Bröllopsserien
The Official Wedding Series

In the late spring of 2009, the Royal Court of Sweden invited Cloetta to develop products for The Official Wedding Series. Cloetta's contribution consisted of a total of six products, including a whole new box of bite-sized chocolate pieces.

We wanted our chocolate pieces to have a strong Nordic feeling and decided at an early stage to use lingonberries and blueberries in combination with chocolate – milk chocolate with lingonberries and dark chocolate with blueberries.

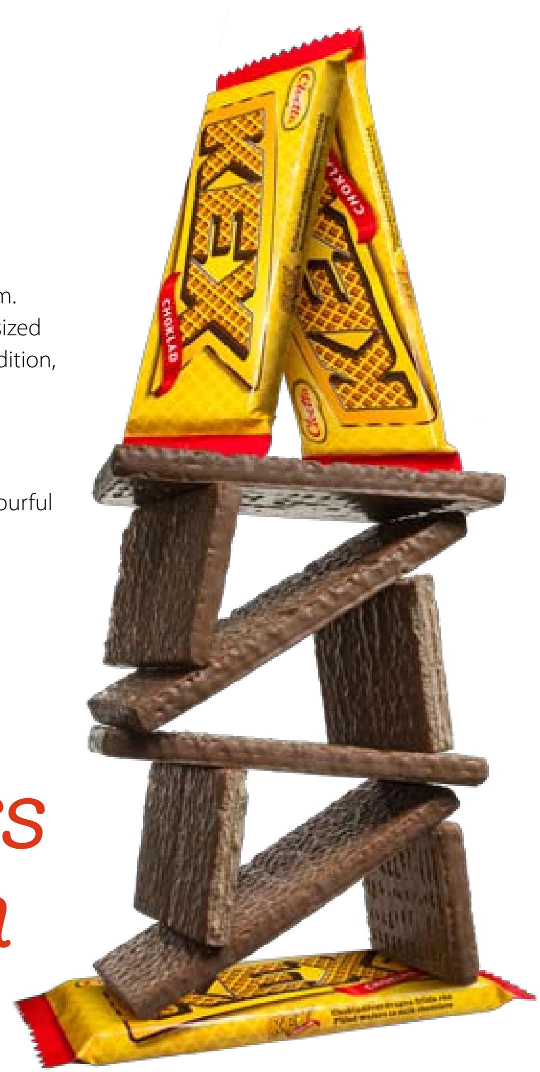
Cloetta's favourites

Kexchoklad

Kexchoklad is our active Swedish classic and has a special place in the heart of many Swedes. It was launched as early as 1938 and is Sweden's most sold confectionery item. Kexchoklad is available in formats for many occasions, as countlines or bags of snack-sized bars. In the summer of 2009 Kexchoklad was launched as Snacks Hallon in a limited edition, a combination that proved very popular.

Kexchoklad is head sponsor of A Swedish Classic, a popular series of sporting events. Two strong and active brands were joined in a good combination.

Now we are building further on the Kexchoklad brand with a modern, happy and colourful new design. Kexchoklad is staying active and involved throughout Sweden!



We eat an average of two Kexchoklad bars per second in Sweden

Center

Center has been around since 1941 when the roll was first launched. The roll is the soul of the brand – just unroll a piece and enjoy! It's easy to share Center in the dark at the cinema, at the sports arena or during a match. The original version is a delicious blend of milk chocolate and a soft and creamy caramel filling.

Center is now also available in a new combination with nougat, a taste sensation that appeals to most people.

Plopp

A tiny treat when you want to give yourself a moment of enjoyment. Originally introduced in 1949, Plopp is personified by the little mini bar that stands for nostalgia and tradition.

Plopp is mischievous and playful, the perfect way to show your appreciation to someone special. Love and chocolate belong together. In connection with Love Stockholm 2010, Plopp was given a new wrapper with the words Kiss, Hug, Joy and Love, and we will be seeing more of these specially designed packages in the future. Plopp has now also been launched as an ice cream cone in collaboration with SIA Glass.

Polly

Polly Blue and Polly Red are the most popular. In the company of good friends or for solitary enjoyment, Polly has been a Swedish favourite since 1965.

Polly was originally created by the confectionery company Svea Choklad. To develop a dragéed product, they tried covering something they were already good at, namely flavoured foam. Their trials with chocolate covered foam drops were successful, tasted great and had a wonderful chewy consistency – and Polly was born.

Polly is the market-leading chocolate dragée in Sweden and Finland. In the summer the range was temporarily expanded with Polly Summer Berries, featuring a taste of strawberry and wild strawberry.

Sportlunch

Sportlunch is a delightfully crispy wafer, generously coated with pure milk chocolate in easy-to-break pieces. In was first launched in 1936, at that time as "Mellanmål", and changed name to the well known Sportlunch in 1996.

Sportlunch and Norway are a strong combination. In the winter of 2009/2010 Cloetta and Sportlunch took part in popular Big Air competitions in the Norwegian ski resort of Trysil.

Tarragona

Tarragona is a chocolate bar for the passionate nut lover, a celebration of taste with a timeless flavour. The name Tarragona comes from the city in Spain, which has been known for its hazelnut groves for centuries. It was from here that the hazelnuts were imported when Tarragona was introduced in 1928.

In the autumn of 2009 Tarragona was relaunched as a chocolate bar in three delicious combinations: hazelnut, almond and cashew. The launch continued and Tarragona hazelnut and almond became part of The Official Wedding Series in the summer. SIA Glass also introduced Tarragona as an ice cream bar. In autumn 2010 Tarragona was launched in a new nut combination med pistachio and almond for the service trade. Tarragona was named "Product of the Year 2010" by the Pressbyrån convenience store chain.

Guldnougat

Guldnougat is the original that has endured since 1913. With a unique flavour of creamy, soft and rich hazelnut nougat that melts in your mouth, Guldnougat is a luxurious indulgence in the shape of a gold brick. In the summer, SIA Glass launched our Guldnougat as an ice cream cone.

Bridge

Bridge is a candy mix that was introduced on the market already in 1966. The story is that Bridge was created when some employees at Nordchoklad were playing bridge during their lunch break. They ate a mixture of the different tasty products made at the factory and someone came up with the idea of launching the mix as a bag. And just like that, Bridge Original came into being. The original version is a generous blend of ten delightful personalities. Bridge is a classic candy experience, so varied and rich in flavours that you never get tired of it. Everyone can find their favourite.

Extra Starka

The Extra Starka Original brand that was launched in 1965 is one of Sweden's top-selling volume products in the throat lozenge segment. Extra Starka Original is a refreshing hard throat lozenge with a taste of menthol, eucalyptus and peppermint. It is also available in lemon-flavoured and sugar-free versions.

In the autumn of 2009 Cloetta launched Extra Starka – Extra effektiv, which has the same good flavour as Original but is significantly stronger. At the same time the brand was given a modern, new retro-inspired design. The lozenge remains a Swedish classic in a modern package that is equally suitable as a breath mint or cough drop.

Juleskum

Cloetta's Juleskum is the original and Christmas spirit in its purest form. Cloetta started making marshmallow Santas as early as the 1930s, but the real predecessor to today's Juleskum was not introduced until the 1960s.

The past decade has seen unparalleled market growth for Juleskum, a popular Santa that has become a cherished Swedish Christmas tradition. This year the entire Juleskum family has been given a new package design, but the bag still contains the same soft and fluffy two-coloured marshmallow Santa with a taste of strawberry as in earlier years.

A year's production of Juleskum placed in a long line would reach one fourth of the way around the earth.

Good

Cloetta's Good is an exciting new series of Fairtrade-labelled milk chocolate bars. In February 2010 the brand was launched in the grocery trade in four delicious taste varieties – milk chocolate, hazelnut, mint crisp and cashew & cranberry. The Fairtrade certification in combination with milk chocolate makes these products unique in the market. More and more conscious consumers are seeking products that take greater responsibility. Good makes it easier to enjoy – good flavour for a good cause.

In the autumn of 2010 Good was awarded third prize for its attractive design in the international Pentawards packaging design competition. The series has also been launched in Norway, where it has been very well received.

Product development

Product innovations are a key driver and a decisive success factor in the confectionery industry. Cloetta's innovation work and streamlining of the product development process is creating the conditions for profitable growth.

Flavour and consistency are the natural basis for product development.

PLATFORMS FOR THE PRODUCT BRANDS

Efforts to develop solid platforms for Cloetta's product brands have permeated the entire organisation and are also influencing the company's product development, where the brand platforms are contributing to greater clarity in the product development process. All new ideas must be consistent with Cloetta's overall strategies and compatible with a brand platform. In order to encourage and maintain spontaneity and the generation of ideas from throughout the organisation, special inspiration and innovation activities are arranged. In a structured idea bank that is continuously updated and filled, Cloetta stores proposals, tests and results.

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, increases consumer knowledge of and demand for Cloetta's products.

TREND MONITORING

Market analysis and trend monitoring provide valuable input for the marketing department. 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. Because Cloetta does not have the resources to exploit all trends, it is important to be able to identify 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. Its packaging and distribution must also be adapted to the various sales channels and markets.

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.

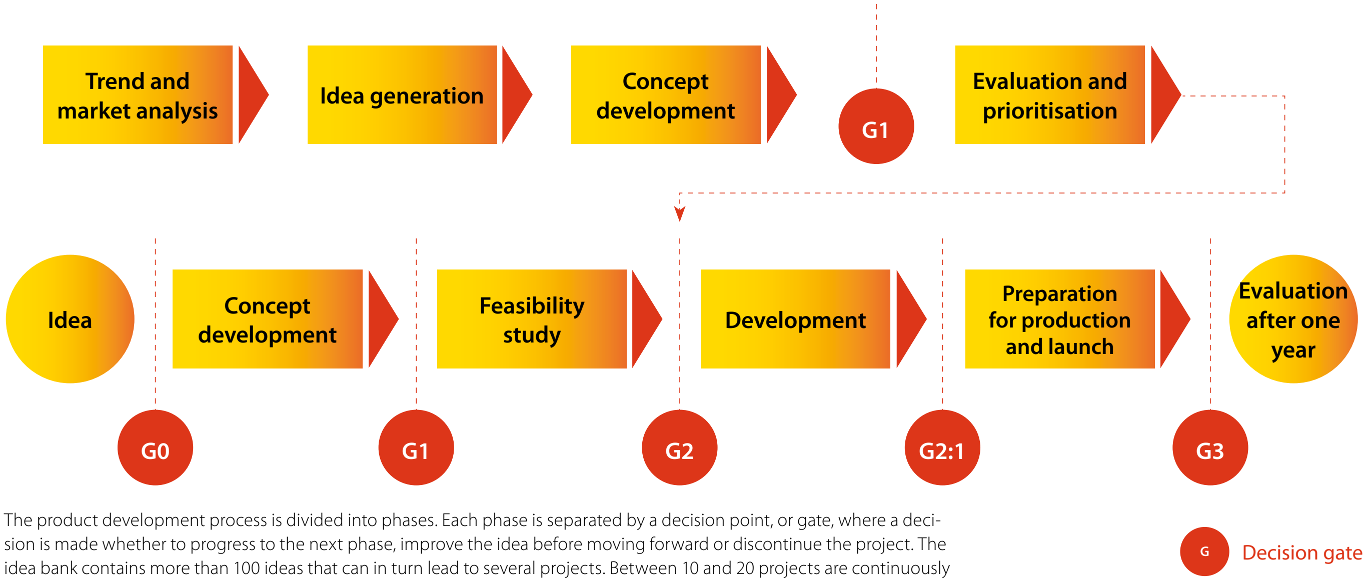
In order to appeal to consumers, the brands must be modern, adapted to market trends and distinctively profiled. Both the product contents and packages are continuously developed and all innovations that are launched must be of a consistent high quality.

Through line extension, i.e. new packages, sizes or taste varieties of a brand, it is possible to maintain modernity and satisfy changing consumer needs. Examples of this include Polly Summer Berries 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.

AN EFFICIENT PROCESS

The new chocolate moulding line in Ljungsbro that was successively deployed in the autumn of 2009 has increased the capacity for efficient production of exciting and high quality innovations. In the autumn of 2009, nut chocolate bars were relaunched under the Tarragona brand. The idea to relaunch Tarragona was hatched early in the autumn of 2008. Just over a year later, Tarragona was reintroduced as chocolate bars in combina-

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 can be shortened with focused resources.

tion with hazelnuts, cashews and chopped almonds. In the autumn of 2010 Tarragona was also launched with pistachio and almond.

The new chocolate moulding line is also used to produce the Good series of Fairtrade-labelled milk chocolate bars in four taste varieties, which were launched in February 2010.

The development and launch of the products in The Official Wedding Series put the entire company's skills to the test. The initial discussions began early in the summer of 2009 and product development commenced in August/September. The first products were delivered already in April 2010. The result was six different items, all of which were very well received by the market. The entire product development project was characterised by a high level of expertise and professionalism.

To further streamline the product development process, Cloetta started a lean project in the autumn of 2010 in which the aim is simplify the process and shorten lead times from product idea to market launch.

A focus on flavour

Packages and marketing can tempt 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 strong 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 adapting only the packaging size and design to each market, but essentially offering the same product, it is possible to exploit scale economies in production.

A new product must have a natural place in Cloetta's brand platform.

The confectionery market

The Nordic region accounts for around 2% of total global confectionery consumption. Per capita consumption of chocolate is higher in Central Europe than in the Nordic countries, which indicates that there is potential for growth in the Nordic chocolate segment.

The confectionery market is traditionally divided into chocolate and sugar confectionery. Cloetta is primarily focused on chocolate confectionery but also manufactures and sells sugar confectionery such as tablets, liquorice, marshmallows and jellies. The chocolate segment is largest in terms of value.

The Nordic confectionery market is relatively mature, and volume growth has averaged at around or just above zero for several years. The confectionery market is comparatively insensitive to economic trends, which means that consumption is not directly affected by financial crises and economic recessions. Per capita consumption is roughly equal in all Nordic countries. However, growth in the various product segments varies from year to year and from market to market.

CONSUMPTION PATTERNS

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 stations, newspaper kiosks, etc. The number of filling stations in Sweden has declined in recent years and the remaining stations have significantly widened their offering of goods, which means that the exposure space for confectionery has decreased. One effect of this is that parts of confectionery sales have shifted from the service trade to the grocery trade.

Confectionery is one of the most impulse-driven categories in the retail trade, with over 80% of purchasing decisions made at the point of sale[1)]. 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. One growing sales channel with high potential consists of chains like ÖoB and K-rauta.

MARKET DRIVERS

Consumers

The Nordic market is defined by low growth and high consumer loyalty to strong local brands. Studies show that taste preferences for confectionery are often established in the teen years. Although per capita consumption is relatively stable, a growing population is contributing to slight growth in the market. 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.

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.

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 the grocery trade industry is also moving toward larger units at the expense of smaller shops.

To stand out as an 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 discount retailers, which include foreign players, has also contributed to a higher share of private labels, which now account for between 10% and 30% of total confectionery in most Western European countries. In the Nordic market, the share of private labels in the confectionery segment has stabilised at around 10%. Current surveys show that consumers are prepared to pay a little more for well known brands.

1) Source: Movement BSI report 2008

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 confectionery is dominated by multinationals like Nestlé, Mars and Kraft Foods. 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 a dominant position in all 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.

Suppliers

There is a high degree of consolidation among suppliers, and just a few major suppliers of products such as milk. To a large extent, both the supply and prices of raw materials are determined by agropolitical decisions.

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. However, there is a trend towards shrinking sizes, where megamuffins have been replaced by smaller baked goods or confectionery of a premium quality.

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.

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 business ethics. 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 consumption patterns. Convenience and small package sizes are typical features of single-person household demand for confectionery.

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

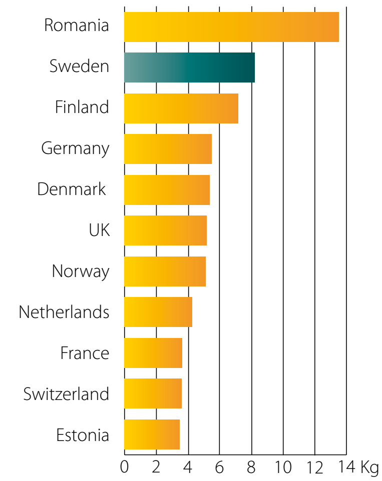
Interest in chocolate

When it comes to chocolate, consumers have become more quality-conscious and for many years this led to a rising demand for chocolate with a high cocoa content. And although the previously so strong growth has now slowed somewhat, the level of demand nonetheless remains relatively high. 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. Good combinations are a longstanding tradition at Cloetta, and mixing chocolate with ingredients like wafers, nuts, berries, toffee or liquorice is a Cloetta trademark. Cloetta will continue to introduce new and exciting combinations in the future. 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

Per capita consumption of sugar confectionery in Europe

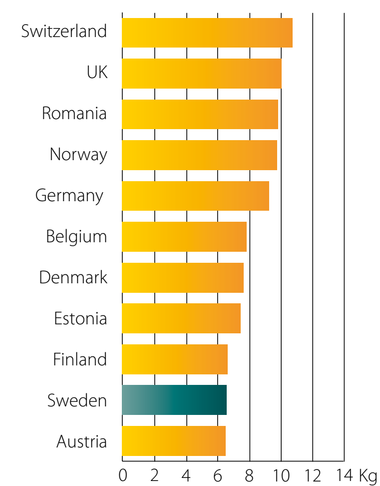
e.g. tablets, liquorice, marshmallows, jellies and chewing gum



Source: Caobisco

Per capita consumption of chocolate confectionery in Europe

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



Source: Caobisco

Hemkola
Individually wrapped toffees according to the original recipe

Sockerbitar Lyx
Cloetta's classic marshmallow "sugar cubes" with a chocolate covering

Sockerbitar Original
Cloetta's classic marshmallow "sugar cubes"

Center
Milk chocolate with a soft and creamy caramel filling

Vaniljtoppar
Chocolate bonbons with a vanilla flavour

Peps Mintkulor
Candy-coated mint flavoured dragées

Bridge
The classic mix of 10 different flavours

Cloetta's pick-and-mix favourites

Sockerbitar Jordgubb
Cloetta's classic "sugar cubes" with strawberry flavour

Polly
Chocolate-covered foam drops

Lyckebär
Fruit-flavoured jellies on a foam base

Lys Melk
Thin discs of pure milk chocolate – one of the most popular items in the pick-and-mix category

Punsch Punsch
Arrack-flavoured buttons topped with sprinkles

Limpor
Chocolate-covered marshmallow "loaves" topped with sprinkles

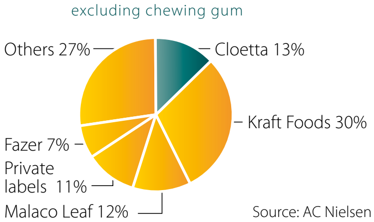
Customers and sales

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 mainly of sales at airports and on ferries.

Sweden

Population:	approx. 9.4 million
Market size:	consumer sales of approx. EUR 1,270 million**
Largest customers:	Axfood, Bergendahls, Coop and ICA
Top-selling brands:	Kexchoklad, Polly, Center and Plopp
Cloetta's sales by weight:	approx. 14,900 tonnes (14,500)

Confectionery market, Sweden – Volume share
excluding chewing gum



Source: AC Nielsen

Cloetta's sales for the period from 1 September 2009 to 31 August 2010 showed positive development and rose by 8% in value. 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, excluding chewing gum, via the grocery trade and service outlets amounts to around SEK 6.7 billion annually, or 55,400 tonnes*. The total market, i.e. including the pick-and-mix and chewing gum segments and sales through channels other than the grocery and service trades, amounts to approximately EUR 1,270 million, or around 129,400 tonnes**. 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 third of the total market. Easter is an especially important time for these sales. In recent years the market share for pick-and-mix has increased by 7%***.

During the period from 1 August 2009 to 31 July 2010, the Swedish confectionery market* including pastilles and boxed tablets, i.e. throat lozenges, grew by 1.4% in volume and 3.7% in value. Volume sales of chocolate confectionery rose by 1.8% and sugar confectionery by 1.9%, while pastilles declined by 7.0%. Sweden is Cloetta's largest market, with a volume share of 13.3%. The foremost competitors are Kraft Foods and Malaco Leaf, with volume shares of 30.2% and 11.8%, respectively. The retail chains' private labels have stabilised at a volume share just over 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.

Cloetta advanced its position in the Swedish confectionery market during the financial year and increased its market share in terms of both volume and value. Cloetta's goal is to further strengthen this position through a sustained focus on good combinations and high quality products, appealing product innovations, strong and well known brands, wide accessibility, high consumer recognition and effective cooperation with the retail trade. Through the acquisition of AB Karamellpojkarna in 2007, Cloetta diversified into product areas where the company previously had a weak position or none at all.

The partnership forged with Finland-based Oy Panda Ab in 2009 has further broadened Cloetta's product portfolio, among other things with a variety of liquorice products. The collaboration is successful and Cloetta has strengthened its position as an attractive partner to the trade with a wide and attractive offering.

Strong brands the greatest asset

Cloetta has market-leading brands in segments such as countlines (Center, Plopp, Sportlunch and Tarragona) and chocolate bags (Polly and Bridge). Kexchoklad is Cloetta's top-selling brand and is represented in several segments. Karamellpojkarna's fruit lollipops are market-leaders in the lollipop segment and Extra Starka has a good position in throat lozenges.

Cloetta's greatest competitive advantage is the ability to build brands and deliver attractive product innovations. Because confectionery brands are predominantly local in nature and consumers in mature markets tend to be relatively loyal, expansion and sales are achieved largely by capitalising on the strength of already well known brands. New brands often demand a whole new concept.

With the launch of the Good series Cloetta also secured a leading position in Fairtrade-labelled milk chocolate bars during the year. In the chocolate bar segment, Cloetta successfully relaunched Tarragona in several taste varieties in the autumn of 2009. The bars were first introduced in the service trade, where they were well

*Sources: * Nielsen, total grocery retail trade + service trade, rolling full year JJ 2010 (Aug 2009 – July 2010).*
*** Datamonitor, full year 2009 (total market excl. chewing gum) *** Delfi, full year 2009*

received by consumers, and in the autumn of 2010 were also launched in the grocery trade. Other new launches during the financial year were Extra Starka – Extra effektiv, a new chocolate box, Center Nougat, Kexchoklad Snacks Hallon and Polly Summer Berries. In addition, Cloetta presented six new chocolate products as part of The Official Wedding Series to commemorate the wedding between HRH Crown Princess Victoria and Mr. Daniel Westling. The successful launch led to a dramatically increased market share in the filled chocolates segment and confirmed the strength of the Cloetta brand.

Price increases due to rising raw material costs

Consolidation in the grocery retail industry and the spread of discount grocery chains has been exerting powerful price pressure on suppliers for a number of years. In this climate, strong brands and sales offerings combined with continuous efforts to optimise efficiency at every level and seek new approaches and solutions lead to lower costs are vital. Due to a sharp rise in raw material prices and weakening of the Swedish krona, Cloetta was forced to raise its prices at the beginning of the financial year. Although raw material prices have continued to escalate during 2010, this upward trend has been somewhat offset by a stronger Swedish krona.

Collaboration with the trade a success factor

The ability to cooperate closely and flexibly with both the grocery and service trades based on the specific needs of individual customers is a key success factor. Among other things, close partnerships with customers make it possible to set mutual priorities. 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 in the Swedish market showed positive development during the financial year, with growth in volumes. The increase is explained partly by a number of successful new products launches.

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.

During the financial year, Cloetta reinforced and expanded its nationwide sales force in which the sales reps serve both the grocery and service trades and are specialised in meeting the needs of their specific customer groups. 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. To increase the visibility of Cloetta's products, the sales reps also work actively to increase the number of exposure points in the stores. Furthermore, the sales force supports the retailers via advice aimed at maximising sales and profitability in the confectionery category.

OTHER MARKETS

At present, Cloetta does not offer its entire product range on the export market. One explicit ambition is to increase the number of articles in all export markets. Explicit plans for Cloetta's ongoing expansion are being formulated for each market. These plans are based on the platforms that have been developed for Cloetta's prioritised brands. 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 somewhat during the financial year.

Annual consumer sales in the Norwegian confectionery market, excluding chewing gum, amount to approximately EUR 730 million, or 63,400 tonnes*. Kraft Foods Freja has long held a dominant position in the market with a volume share of approximately 35%. The number two player is Nidar, with a volume share of around 24%. Next in order comes Galleberg, with a volume share of around 11%. Galleberg has been responsible for distribution of Cloetta's products in Norway since 2005. As in the other Nordic countries, the grocery trade is dominated by major chains. NorgesGruppen, Coop, ICA, and Reitan together control around 70% of the trade. Decisions about the product range are made a central level and effective cultivation by the sales force is critical in ensuring that centrally decided product listings are implemented in the stores. The Fairtrade-labelled milk chocolate bar Good, which has gained rapid popularity in Sweden, was also launched in Norway in the late summer of 2010. Future product innovations on the Norwegian market will also consist predominantly of products that have proven successful in Sweden. Brands that are strong locally, such as Pops and Sportlunch, will be further developed. During the year Cloetta invested in event marketing in Norway according to the same model that has been effective in the Swedish market.

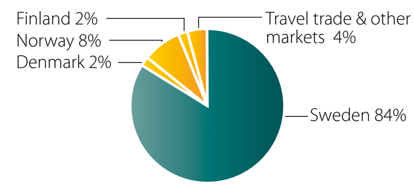
*Sources: * Datamonitor, full year 2009 (total market excl. chewing gum)*

Swedish confectionery market
volume excluding chewing gum

Segment %	%
Chocolate bars	26.7
Chocolate countlines	16.7
Jellies and wine gums	11.4
Filled chocolates	11.2
Marshmallows/foam	6.7
Chocolate dragées	6.2
Pastilles/throat lozenges	4.1
Other	17.0

Source: Nielsen, total grocery retail trade + service trade, rolling full year JJ 2010 (Aug 2009 – July 2010).

Cloetta's sales volume by country



Norway

Population:	approx. 4.9 million
Market size:	consumer sales of approx. EUR 730 million*
Largest customers:	Coop, ICA, NorgesGruppen and Reitan
Top-selling brands:	Pops, Bridge, Center, Sportlunch and Juleskum
Cloetta's sales by weight:	approx. 1,400 tonnes (1,400)

Denmark

Population:	approx. 5.5 million
Market size:	consumer sales of approx. EUR 920 million*
Largest customers:	Coop, Dansk Supermarked and SuperGros
Top-selling brands:	Center, Juleskum and Bridge
Cloetta's sales by weight:	approx. 400 tonnes (400)

Finland

Population:	approx. 5.3 million
Market size:	consumer sales of approx. EUR 790 million*
Largest customers:	Kesko, S-Gruppen, Tokmanni and Tradera
Top-selling brands:	Polly and Center
Cloetta's sales by weight:	approx. 300 tonnes (200)

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. 600 tonnes (500)

Denmark

Consumer sales in the Danish confectionery market, excluding chewing gum, amount to approximately EUR 920 million, or 81,900 tonnes*. The total Danish confectionery market, excluding chewing gum, shrank by around 3.8% in volume during 2009. Since the spring of 2010, A/S Beauvais is the new distributor of Cloetta's brands and products in the Danish market. The change of distributor has led to certain adjustments that have impacted sales development for Cloetta's brands. In the future there is good potential for growth.

The market-leader in Denmark is Toms and the next largest player is Haribo, followed by Leaf and Kraft Foods. Price pressure in Denmark is severe and size adaptations to various price groups are therefore crucial for success in the market.

The grocery trade in Denmark 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 are Coop, Dansk Supermarked and SuperGros.

Cloetta will increase its marketing activities in the country and product innovations in 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, amount to approximately EUR 790 million, or 82,800 tonnes*. Although Finland has shown the highest growth of all the Nordic markets for several years, volume growth in 2010 is estimated at just over 1%. Fazer Confectionery is the leading player in Finland, followed by Leaf and Panda.

Cloetta's sales in Finland showed positive development during the financial year. Polly Red and Center Nougat were launched successfully. The same applies to the launch of a new specially adapted distribution unit for Polly, which has provided access to the entire Finnish market.

Sales of Cloetta's brands were significantly higher before the merger with the Fazer group's confectionery division than after the demerger, and part of this volume shrinkage has now been recovered. However, there is still considerable scope to further increase sales of Cloetta's brands. The sales partnership with Oy Panda Ab that was started in December 2008 has shown excellent development and has strengthened Cloetta's opportunities for continued growth in Finland. Intensified marketing is another contributing factor behind the favourable sales growth.

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 purchasing is the potential for wide distribution of new products and fast access to consumers. In the near future, several products will be launched under a few of Cloetta's brands that are already strong in Finland.

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.

Sales of in the Travel Trade were significantly higher before the merger with the Fazer group's confectionery division than after the demerger. Part of the decrease was recovered during the financial year, when Cloetta's sales in the Travel Trade showed favourable development. Cloetta's products were previously sold via distributors, but as of May 2010 are handled exclusively under Cloetta's own management.

The year's successes in this sales channel include the launch of new bagged packages that were well received and the fact that Cloetta's brands are once again sold on Tallink Silja Line's ferries and as pre-ordered items on charter air tours. Continued strong potential to increase sales of Cloetta's products is seen.

IKEA, with its stores around the world, sells certain of Cloetta's products and remains an important partner for the company.

*Sources: * Datamonitor, full year 2009 (total market excl. chewing gum)*

Production

During the financial year from 1 September 2009 to 31 August 2010, Cloetta produced a total of approximately 20,300 tonnes of confectionery. Cloetta's confectionery products are manufactured in the Group's own factories in Ljungsbro and Alingsås. Efficiency in production showed positive development during the year.

Production in Ljungsbro is mainly focused on chocolate confectionery, while the factory in Alingsås produces sugar confectionery in the form of throat lozenges, toffee and lollipops.

A LEARNING CULTURE

Two key success factors for the production process are the pursuit of continuous improvements and a learning culture. Improvement activities continued to develop well during the year and are a natural part of day-to-day operations, which is the result of a long-term and systematic effort to continuously enhance and refine the company's working methods and processes.

A new working method for improvement activities was implemented during the year. One effect of the new method is that a greater number of employees have been involved in the process, which has also contributed to a more holistic approach.

Another important component for success is ongoing and relevant competence development that is scheduled for all production staff. Training courses have been held on subjects like ergonomics, personal health, product safety and changeover efficiency. A large-scale competence mapping project was started during the year to increase flexibility and define the competency requirements for the employees on each line. Read more in the "Employees" section on page 41.

MANAGEMENT SYSTEM

Cloetta's overall business plan also contains three-year plans for production. The plans are based on analyses in which strengths and weaknesses are identified and clear and measurable action programmes are drawn up. The basis for the management system is a systematised meeting structure and frequency. 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 situation. Action is taken immediately in the event of deviations and systematic follow-up creates scope for proactive improvements.

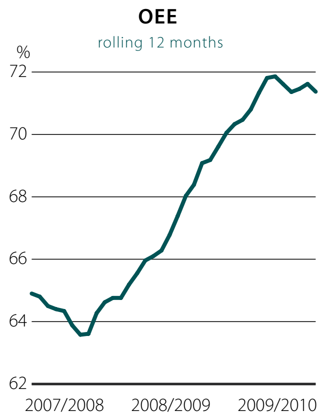
Incidents and accidents are continuously followed up in the factory's daily meetings and lead to corrective measures. A greater awareness of the potential causes of accidents results in more effective preventative measures and both sickness absence and the number of accidents are low.

In the development of new products Cloetta uses the Product Development Tool (PDT) system, which functions as a checklist in which every function involved in the product development process can monitor how a new product is progressing.

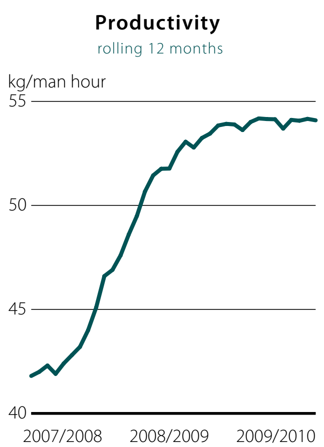
EFFICIENCY

Preventative measures, optimised shift schedules and development of the employees' job content contributed to continued improvement in productivity measured in kilos per employee at Cloetta's factories in both Ljungsbro and Alingsås during the financial year. In day-to-day operations Cloetta strives for efficiency improvements and thereby cost savings mainly by improving process quality, which among other things reduces the number of rejects and the related costs for labour, input materials and energy.

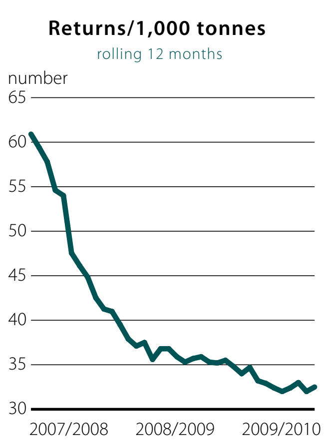
Continuous efforts are made to raise efficiency in production and optimise machine capacity utilisation. One of most important performance metrics for measuring efficiency is OEE (Overall Equipment Effectiveness), a set of basic indicators that measure equipment performance in relation to stoppages caused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



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



Productivity improved dramatically for a number of years, but was stable at 54 kg/man hour in the past financial year.



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

Equipment maintenance in Ljungsbro was previously outsourced, but all equipment maintenance is now handled internally by Cloetta since 1 January 2010. The decision to insource maintenance has led to greater cost-efficiency and made it possible to better integrate maintenance with other operations. As a result of this, a new and more customised maintenance system was implemented during the financial year.

SUPPLY CHAIN

On-time delivery to the customers is one of the retail trade's most critical requirements. A project for detailed mapping of the planning process and its interfaces in production and delivery was carried out during the financial year. The project is a natural continuation of an earlier project aimed at improving the sales forecasts.

Through better forecasts, production planning has been facilitated and made more accurate. This can now be used to streamline the entire production chain, from purchasing to production, on to the finished goods warehouse in Norrköping and finally to the customer. The goal for mapping production planning and continuously strengthening its parts is to create a more efficient flow and reduce capital tied up in inventories of both raw materials and finished products – with a maintained or increased level of service.

INVESTMENTS IN PRODUCTION

A new chocolate moulding line that has dramatically increased manufacturing capacity for chocolate products was successively deployed in Ljungsbro during the autumn of 2009. The line has been essential for Cloetta's launch of new chocolate bars in the form of Tarragona and Good. In the summer of 2010 Cloetta was also able to take an older chocolate moulding machine out of operation.

A three-year project is underway to replace the switchgears at the Ljungsbro factory in order to modernise the factory's electrical system and save energy. At the Alingsås factory, the electrical and water supply systems have been renovated. Other notable investments during the year were a new conching unit* and a more efficient packaging machine for Polly, both of which have resulted in decreased energy usage. Investments have also been made to improve functionality for marshmallow/foam production.

Projects are continuously underway to improve the working environment and reduce the number of labour-intensive production steps. One such project was the automation of Mums-Mums picking, which was made possible thanks to innovative efforts by the technical department.

** Conching is a process in which the chocolate liquor is heated and mixed mechanically to achieve the right texture and flavour.*

PRODUCT SAFETY

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 private label products. Cloetta's factories in Ljungsbro and Alingsås received BRC certification in 2004 and 2007, respectively. In the past year the Alingsås factory was upgraded to level A, the highest level, at which the factory in Ljungsbro was already certified.

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

Chemical, physical and microbiological tests are performed as part of day-to-day activities. To ensure that they are free from metal particles, all products are examined with a metal detector.

Declarations of contents for Cloetta's products can be found at www.cloetta.se. 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.

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

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.

FLAVOUR AND QUALITY ASSURANCE

Cloetta sets rigorous quality standards for its operations. High quality products and delivery reliability are key success factors. For each product there is a quality specification describing the required flavour, aroma, appearance, consistency, etc. On the production lines, regular measurements and sensory assessments are performed to ensure that the products in question meet the specified criteria.

CONSUMER AND CUSTOMER FEEDBACK

Consumer feedback is vital to Cloetta. A project has been started to more effectively channel consumer and customer input into development and improvement initiatives.

EXTERNAL PRODUCTION

Cloetta's product range includes products that are made by other manufacturers, such as certain filled chocolates. External production is outsourced only to manufacturers with the same high quality standards in production as Cloetta, and these undergo regular audits. Cloetta also manufactures products on behalf of other players.

PURCHASING OF RAW MATERIALS

The prices of many of Cloetta's raw materials are affected by agropolitical decisions regarding government support, subsidies, trade barriers, etc. The EU is currently drafting a new agricultural policy reform that will go into force in 2014 and will most likely change the market conditions for commodities like sugar, milk powder and grain in the EU. Alongside political decisions, the prices of agricultural commodities are affected by supply and demand, i.e. the size of the harvest and consumption of food products. In recent years, speculative trading of agricultural commodities has increased dramatically. Commodities in general are seen as an interesting investment alternative and a means for diversifying risks. One effect of this increased speculation surrounding important raw materials is greater price volatility.

Cloetta's purchasing unit is of central importance in optimising the Group's costs for purchased goods and services. The purchasing unit continuously monitors risk exposure in the raw material area to attain predictability in the financial outcome with a certain degree of foresight.

All of Cloetta's suppliers are subject to an approval process before they are permitted to supply materials to the factories. The process varies depending on the type of supplier and the type of material delivered. Certain suppliers are physically audited at regular intervals by Cloetta's employees. In an audit, Cloetta and the supplier together review the supplier's sustainability performance; what challenges and problems exist and how the supplier addresses them. In connection with this, raw material suppliers are also assessed for their application of a code of conduct that is consistent with Cloetta's rules. The aspects that are covered in an audit include product safety, quality, environmental and sustainability issues.

Cloetta collaborates closely with its largest suppliers, among other things through automated order and delivery processes that are adapted to raw material consumption in production.

Ljungsbro

Production volume in 2009/2010:	18,900 tonnes (18,500)
Number of factory operatives:	235
Certifications:	BRC Global Standard, level A, and ISO 14001 since 2004
Number of production lines:	13
Largest products:	Kexchoklad, Center, Polly, Plopp and Bridge

Alingsås

Production volume in 2009/2010:	1,400 tonnes (1,400)
Number of factory operatives:	24
Certifications:	BRC Global Standard since 2007, level A since 2010
Number of production lines:	8
Largest products:	Extra Starka, Fruktklubbor, Hemkola, Fünf Kräuter and Kungen av Danmark

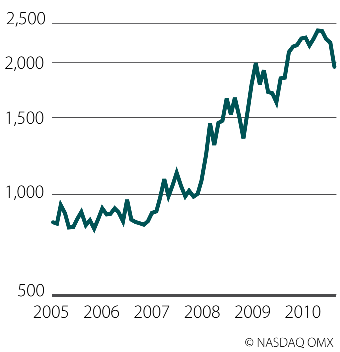
COST TREND FOR RAW MATERIALS DURING THE FINANCIAL YEAR

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, milk products and sugar.

The prices of some of the raw materials purchased by Cloetta's rose during the financial year compared to the 2008/2009. To a certain extent, the Swedish krona's strengthening against the euro has compensated for the higher prices.

Cocoa price development

£/tonne



Cocoa

The price of cocoa beans, which account for a significant share of the Group's raw material costs, has more than doubled in the past five years. The bean price rose at the beginning of the financial year from level of around £1,900/tonne to the highest level in over 30 years at around £2,400/tonne in mid-July 2010. In the last one and a half months of the financial year, the price fell back to level of around £1,900/tonne but remains very high in a historical perspective.

The sharp price fluctuations are partly explained by the fact that the cocoa exchange is comparatively small and therefore of interest for speculation. The cocoa price is naturally also dependent on the level of supply, i.e. the harvest. The reason for the falling price in the summer/autumn of 2010 is that the 2010/2011 harvest is deemed good after a number of comparatively poor years. The supply, and therefore the price, are also affected by the relatively unstable political situation in Côte d'Ivoire (Ivory Coast), which is the world's largest cocoa producer with over 40% of total global production.

To counter the effects of price fluctuations, Cloetta continuously signs delivery contracts for cocoa within the framework of the Board's established policy.

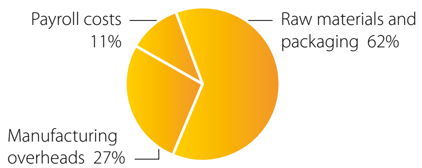
Other raw materials

The price of milk powder has risen during the year. At the beginning of the financial year the market was defined by low demand and the price was steered by the intervention prices guaranteed by the EU. In the second half of 2009, demand picked up again and the price has since then climbed by around 25%.

The price of sugar did not change markedly during the financial year. The price of wheat-based raw materials more than doubled in the second half of the financial year, mainly due to the drought in Russia during the summer of 2010.

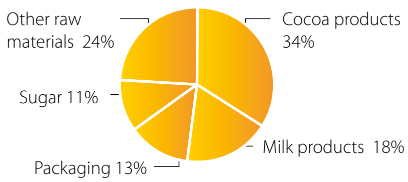
Production costs in 2009/2010

share of costs



Raw materials and packaging in 2009/2010

share of costs



Sustainability report

Sustainability report

Cloetta's vision is to be one of the Nordic region's leading confectionery companies. This is the driver for Cloetta's commitment to corporate responsibility. The goal is to act as a good and responsible corporate citizen both in the local environment where Cloetta operates and throughout the entire value chain.

GRI REPORT SELF DECLARED

REPORTING PERIOD AND REPORTING GUIDELINES

This is Cloetta's first sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines, G3. The report meets the criteria in level C and has not been externally assured. The contents refer to the financial year from 1 September 2009 to 31 August 2010 and include all of Cloetta's activities unless otherwise specified. Cloetta's ambition is to report on its sustainability performance every year.

The sustainability report and corporate governance report are part of the annual report for the financial year 2009/2010. To avoid redundancy, references are sometimes made to these two reports including the section with the Managing Director's comments. On page 46 Cloetta presents a summarised table that shows where in the annual report the different GRI performance indicators can be found. A detailed table of contents and more formal disclosures can be viewed at www.cloetta.se

The sustainability report is designed to reflect the company's economic, environmental and social impacts. The performance indicators and metrics that Cloetta has chosen to present have been selected in view of their materiality and relevance for the company's operations. Cloetta's website provides additional sustainability information that is primarily directed to consumers.

BOUNDARIES

The sustainability report covers Cloetta's own operations, meaning Cloetta's direct impact on the environment and people. All of Cloetta's production and virtually all sales take place in Europe and all of Cloetta's direct suppliers, with a few exceptions, are found in Europe, where there are laws that regulate human rights. Product responsibility and product safety are an integral part of Cloetta's production process and are described on page 31.

However, Cloetta has a certain responsibility for the entire life cycle of its products, from raw material supplier to recycling of the product packages. All of Cloetta's suppliers undergo an approval process in which sustainability requirements are a natural part. This process is described under "Purchasing of raw materials" on page 31. For raw material suppliers with which Cloetta has no direct supplier relationship, such as growers and dairy farmers, Cloetta is responsible for promoting development toward better environmental and working conditions. Read more about Cloetta's involvement in international initiatives on page 46.

ORGANISATION FOR SUSTAINABILITY WORK

Cloetta's sustainability work is overseen by the Corporate Responsibility Council, which is made up of representatives from most of Cloetta's functions. The Council functions as a conduit for issues related to corporate responsibility and is charged with identifying prioritised areas, acting as a link between the company's stakeholders and management and implementing the strategy for Cloetta's corporate responsibility in each area of operations.

Cloetta's environmental activities are led by an Environmental Council. Cloetta's Work Environment Council is responsible for the company's occupational health and safety activities and works systematically with monitoring of issues related to OHS.

AWARDS DURING THE FINANCIAL YEAR

Cloetta was named "Supplier of the Year 2009" and Tarragona was named "Product of the Year 2010" by the Pressbyrån chain of convenience stores. In addition, Cloetta was one of three suppliers nominated as "Supplier of the Year" at the Swedish grocery trade's annual gala in the autumn of 2010. Cloetta was also one of 17 approved purveyors to The Official Wedding Series that was presented in connection with the wedding between HRH Crown Princess Victoria and Mr. Daniel Westling. The Wedding Series as a whole was one of three candidates nominated as "Rookie of the Year" at the grocery trade's annual gala in 2010. Cloetta's new Good chocolate bar series won third prize for its attractive design in the international Pentawards packaging design competition.

STAKEHOLDERS

Cloetta's stakeholders and target groups include customers, consumers, employees, shareholders, business partners/suppliers and the public/society. These groups are crucial for Cloetta's long-term survival. Cloetta has a continuous open dialogue with the most important stakeholders based on the expectations and requirements of each stakeholder group.

Stakeholders	Examples of action
Customers/consumers	Personal customer and sales meetings, customer surveys and collaborative initiatives for eco-friendly transports from the finished goods warehouse to customers and consumers.
Employees	Daily meetings to discuss occupational health and safety in the factories, annual performance reviews with all employees, systematic competence development activities, up-to-date information via the intranet and union representatives.
Shareholders	Annual report, corporate website, analyst and investor meetings, interim reports and the annual general meeting.
Suppliers and other business partners	Supplier evaluations, FTI (REPA, Swedish Packaging and News-paper Collection), sponsorship evaluations and discussions about development.
The public/society	The Municipalities of Linköping and Alingsås regarding the local environment, public authorities in areas related to occupational health and safety, environmental and product responsibility, the Swedish Food Federation (LI), schools and universities, certifica-tion bodies for ISO and BRC and key opinion leaders.

International sustainability initiatives, stakeholders

Cloetta participates extensively in non-profit/non-governmental organisations that are working to promote more sustainable raw material production, above all cocoa but also palm oil and other raw materials. Read more about these in the section "Responsibility to raw material producers" on page 45.

Economic impact

Production and sales of Cloetta's products generate economic values that benefit stakeholders such as customers, suppliers/business partners, employees, society and shareholders.

Direct economic value generated and distributed (SEK M)	Stakeholders	2009/2010	2008/2009
Revenues	Customers	**1,061**	1,184
Other operating income	Business partners	**6**	37
Financial income	Business partners	**3**	5
Total generated value		**1,070**	1,226
Distributed as			
Costs excluding wages/salaries	Suppliers/business partners	**–799**	–953
Wages/salaries and other compensation	Employees	**–233**	–268
Financial expenses	Business partners	**–7**	–6
Dividends *	Shareholders	**–18**	–
Income tax	Society	**–9**	7
Retained earnings		**4**	6

** The Board of Directors proposes to the Annual General Meeting a dividend SEK 0.75 per share, for a total of approximately SEK 18 million.*

Cloetta has not received any financial support from the public sector during the financial year.

Cloetta in society

Throughout its long history with a dominant position in Ljungsbro, Cloetta has consistently striven to act in a responsible manner. The organisation has always been permeated by a commitment to, and interest in, the company's operations and it is a natural part of the corporate culture and tradition to safeguard people, society and the environment.

Cloetta and Ljungsbro

Cloetta moved to Ljungsbro in 1901 and has been the largest employer in Ljungsbro for many generations, which has given the company a natural 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 for many years, including road maintenance and the supply of water and electricity.

Employee housing was built as early as 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 developed by Cloetta.

In the 1940s there was a vision for Ljungsbro to become Sweden's "chocolate city". The company had its own architectural office that designed and built employee housing, medical and dental clinics and opened Sweden's first daycare centre (preschool).

Today Cloetta collaborates with local associations in Ljungsbro and supports activities in the community during the year.

Cloetta is proud to have succeeded in preserving the positive aspects of the early factory community and combining this legacy with a modern entrepreneurial spirit.

LOCAL COMMITMENT

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 sustainability perspective. This commitment to sustainable development at the local and global level is aimed at strengthening Cloetta's brand both within and outside the company. Cloetta's sustainable development efforts are linked the company's core values: Expertise, Responsibility, Innovation and Enjoyment.

Today, Cloetta's local activities are mainly focused on consideration to the local environment. But as the largest private employer in Ljungsbro, Cloetta has a wider responsibility and has chosen to become involved in the local community, for example by supporting sports associations in Ljungsbro, Linköping Fairtrade City and Twin Cities of Sweden. Cloetta is also providing funding to project in association with Vreta kloster Tourism, the Municipality of Linköping and the County Administrative Board of Östergötland to restore a long dry stream bed behind the factory in Ljungsbro. The stream bed will be filled with water to recreate a large and varied fish population that can migrate and spawn between Lakes Roxen and Vättern. As a natural part of its local commitment, Cloetta is a longstanding sponsor of Linköping Hockey Club (LHC) and has also sponsored the Åtvidaberg Football Club during the year.

Cloetta has an ongoing dialogue with local authorities, but also with schools and universities and with the nationwide and local media.

To create a well defined and stable platform for its ongoing activities, Cloetta has identified areas of importance to the company and its operations where it is possible for Cloetta to exert an influence.

CLOETTA'S CODE OF CONDUCT

Cloetta is dedicated to manufacturing and marketing its products in a manner that generates added value for the company's consumers, customers, shareholders and employees. 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, which is available on the corporate intranet. New employees are provided with information about the company's principles and core values.

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.

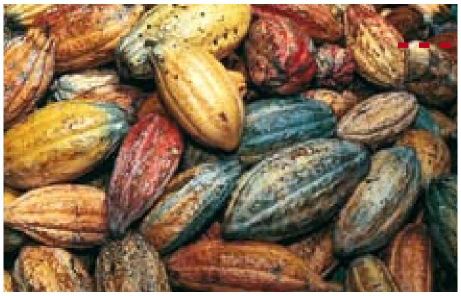
To ensure compliance with these general principles, Cloetta has adopted a number of basic standards:

- 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.



Suppliers

- All suppliers of raw materials and other manufacturing materials undergo an approval process in which both environmental and ethical aspects are taken into account.
- Cloetta promotes sustainable production of raw materials like cocoa and palm oil.
- When possible, Cloetta uses domestic raw materials such as sugar and milk.
- All packaging can be pre-sorted.
- Cloetta strives to avoid unnecessary transport packaging and thereby reduce emissions of CO^2.

Transport

- Transport to retail outlets is handled mainly by our customers.
- Cloetta's sales representatives drive eco-friendly cars.
- Products for customers like ÖoB are delivered to a central warehouse rather than to a large number of stores.
- "Empty" transports are minimised through cooperation with the customers.

Production

Environment

- Heating, around 50% of energy requirement. When possible, Cloetta uses energy types with lower environmental impact, such as district heating.
- Electricity, close to 50% of energy requirement. All electricity used at the facilities in Ljungsbro and Alingsås is wind power certified.
- Development of more energy-efficient processes.
- Waste is sent to material recycling and energy recovery.
- All water used for cooling comes for Cloetta's own wells and is not contaminated.
- Better sewage systems reduce the level of fats and organic effluents in the wastewater.

Occupational health and safety

- OHS activities with systematic monitoring and follow-up.

Product safety

- Product safety system

Customers

- Recyclable packaging waste.
- ICA and Axfood require BRC certification.

Consumers

- Recyclable packaging.
- Cloetta is a member of REPA (Swedish Packaging and Newspaper Collection).

Comment: Customers and consumers can read about Cloetta's values, which are described on the corporate website and in publications such as the annual report. In the past year both the service trade and the grocery trade recognised Cloetta as a good supplier. Read more about our cooperation with the retail trade on page 27.

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).

Comment: All employees are covered by collective agreements and no case of discrimination has been identified. Read more about Cloetta's employees on pages 41–44.

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.

Comment: There has been no case of corruption leading to legal action during Cloetta's history. Likewise, there has been no reason to evaluate suppliers with regard to corruption since there have been no such suspicions.

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.

Comment: The authorities' external requirements for the local environment include the level of BOD_7 (organic effluents), fats and the pH level of the wastewater, as well as noise from the factories. The limit for fats in the wastewater was exceeded slightly during the financial year, although this has not resulted in any fines or other sanctions. The other requirements were met by a wide margin. Read more about Cloetta's environmental work on pages 38–40.

The stream bed by Motala River behind Cloetta's factory in Ljungsbro.

Environmental responsibility

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.

Environmental policy

Cloetta's environmental policy is founded on the principle that all employees should know how Cloetta affects the environment and how each individual can contribute to sustainable environmental development.

Cloetta develops and uses resource-efficient methods and production processes. In doing so, we take quality, economic and environmental aspects into account.

Information and communication – everyone should have an influence

Cloetta provides open and honest information about its environmental performance, both within and outside the company. By educating the employees about the environmental effects of the company's activities and allocating responsibility for environmental aspects, Cloetta provides the knowledge and understanding needed to make the right decisions in day-to-day operations.

Legislation – everyone should be aware of Cloetta's obligations

Cloetta conducts its operations in compliance with the applicable laws and environmental standards and cooperates with public authorities and organisations to ensure that the company's environmental activities are in harmony with society's environmental objectives

Continuous improvements – everyone can contribute to a better environment

Cloetta creates a climate in which it is possible for all employees to pursue continuous environmental improvements. Every year, Cloetta formulates concrete environmental targets and action plans.

Environmental management system

- The production unit in Ljungsbro has been certified according to the global ISO 14001 standard for environmental management systems and BRC level A since 2004.
- The production unit in Alingsås has been certified according to BRC since 2007, at level A since 2010.

The certificates are revised and renewed continuously. Cloetta is classified in the C category, which means that the company is required to submit reports to the regulatory authorities.

ENVIRONMENTAL WORK

Cloetta works continuously to minimise the environmental impact of its operations through systematic environmental and quality management. Cloetta complies with the statutory environmental requirements 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.

Cloetta's environmental initiatives are an integral part of the company's operations. Environmental and quality aspects are always taken into account when making decisions. Frequent evaluation and follow-up of measures increases awareness about the effects of different working methods on the environment and quality.

Environmental Council

Practical handling of environmental issues is supervised by an Environmental Council that is led by Cloetta's Quality Controller. Every year, Cloetta carries out a risk analysis to identify significant environmental aspects. The risk analysis includes the existence and extent of environmental impact, the probability of an event occurring, the legal and stakeholder requirements and the opportunities for Cloetta to exert an influence. For each significant environmental aspect, clearly defined goals are set on an annual basis. Cloetta has an action plan that defines and governs the activities to be carried out to reduce the company's environmental impact. Efforts to meet these goals are conducted in the form of projects for which a responsible person is appointed. The action plan is evaluated and revised by the Environmental Council in monthly meetings.

COMMITMENT AND RESPONSIBILITY

An awareness of, and commitment to, the environment and quality are promoted through education and communication. Regular training courses on environment, hygiene and quality are provided at the production units. Cloetta's participation in numerous international organisations is aimed partly at accelerating development towards sustainable production of raw materials such as cocoa and palm oil. Read more on page 46.

During the year Cloetta adopted a new company car policy requiring the use of eco-friendly cars by the sales force.

ENVIRONMENTAL INVESTMENTS

To minimise Cloetta's environmental impact, ongoing investments are made to reduce the Group's consumption of energy, water and raw materials. Read more about investments in production on page 30.

RAW MATERIALS AND PACKAGING

All of Cloetta's suppliers undergo an approval process before they are permitted to deliver material to the company's factories. In selection of suppliers and in the audits, a supplier's environmental performance is always taken into account.

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).

Cloetta places rigorous environmental demands on its suppliers of packaging materials.

ENVIRONMENTAL IMPACT

The priorities for Cloetta's environmental work have been set based on how and to what extent our operations impact the environment, the probability of unplanned environmental events occurring, the requirements of public authorities and other stakeholders and, finally, the extent to which we can influence development. Environmental impact in the confectionery industry arises among other things through water and energy consumption, wastewater emissions, raw material and packaging waste, production waste and transports. Certain environmental effects are also caused by coolants, other chemicals, noise and particles. The greatest environmental impact comes from emissions of nutrients and fats into the water and wastewater network. The prioritised areas for Cloetta's environmental work are:

- energy consumption
- volume and attributes of wastewater
- waste volume, quality and recycling

Energy

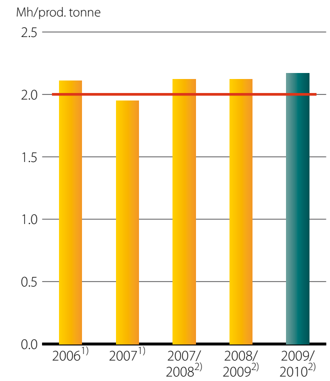
The Group's aggregate energy consumption during the financial year was around 44 GWh (42), where the entire increase is due to the cold winter of 2009/2010. Approximately half of the total energy usage is fixed, i.e. related to heating and cooling of properties, while the other half is directly linked to production. Heat is produced mainly with non-fossil fuels. In order to minimise energy consumption 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.

An energy mapping project was carried out during the financial year to identify the opportunities to save energy. The project indicated a savings potential of 4 MWh, equal to 10% of Cloetta's total energy consumption. Based on this potential, an action plan has been drawn up.

Cloetta's goal is to develop more energy-efficient processes and choose energy types with a lower environmental impact. Since 1 June 2009, all electricity used in the Ljungsbro and Alingsås factories is wind power-certified. By changing to wind power, Cloetta has reduced its annual CO_2 emissions by around 2,400 tonnes.

The target for energy consumption per produced tonne has not been met due to the cold winter of 2009/2010. Additional measures to achieve this target in the future are being taken continuously.

Energy consumption



Target, maximum energy usage = 2.0 kWh/prod. tonne

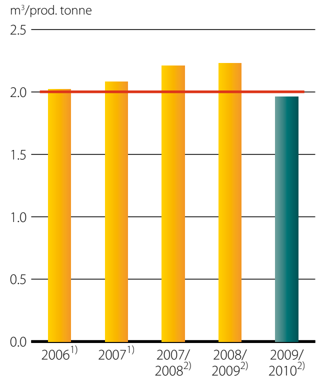
1) Refers to the full year Jan–Dec
2) Refers to the financial year Sep–Aug

Examples of measures

A few examples of measures taken in the past three financial years are heat recovery from two production lines, conversion to district heating, pre-heating of drying air and optimisation of washing on the production line for Mums-Mums. In addition, in the past financial year Cloetta invested in a new energy-efficient conching unit*.

** Conching is a process in which the chocolate liquor is heated and mixed mechanically to achieve the right texture and flavour.*

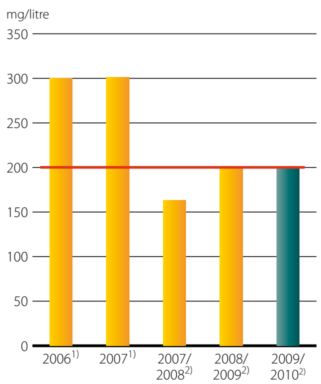
Wastewater



Target, maximum emissions = 2.0 m3/prod. tonne

1) Refers to the full year Jan–Dec
2) Refers to the financial year Sep–Aug

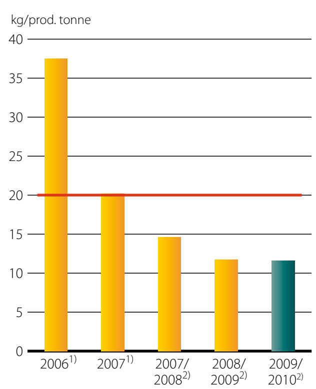
Fats in wastewater



Target, maximum emissions = 200 mg/litre wastewater

1) Refers to the full year Jan–Dec
2) Refers to the financial year Sep–Aug

Organic waste

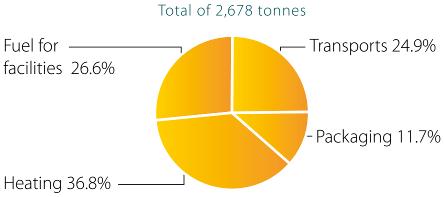


Target, maximum organic waste=20 kg/prod. tonne

1) Refers to the full year Jan–Dec
2) Refers to the financial year Sep–Aug

Sources of CO_2 emissions

Total of 2,678 tonnes



Plans for the coming financial year include rebuilding of a dragée line to achieve a more efficient RPM and replacement of a switchgear at the Ljungsbro factory, which will result in decreased idling. There are also plans to install new air locks in entrances and insulation of pipes and roofs.

Water and wastewater

The Group's combined fresh water consumption between 1 September 2009 and 31 August 2010 was approximately 71,400 m³. 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 36,900 m³ during the financial year.

The target to reduce the volume of wastewater to a maximum of 2.0 m³ per tonne was met during the financial year.

Examples of measures

Several of the measures taken in recent years have contributed to meeting this target. Pressure washers have been used more effectively and several new ones have been installed, as have covering systems on the production line for Mums-Mums. The washing process has been studied, after which steps are now being taken to optimise washing on certain lines. Studies are also underway as a basis for lowering peaks in water consumption.

Fats in wastewater

The target for the concentration of fats in wastewater is a maximum of 200 mg per litre for the financial year 2010/2011. For the financial year 2009/2010, this target was exceeded marginally.

Examples of measures

The measures taken to reduce the concentration of fats in wastewater include training in effective use of pressure washers, information about fats in washing water and renovation of the fat separators with new nozzles that inject air for better separation. To find additional scope for efficiency improvements, a review of the fat separators is in progress.

Waste management

Both 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 the total volume of waste. A decrease in raw material wastage has a positive impact on both the environment and the Group's total costs. At present, 50% of the waste is recycled and the remaining 50% is used for energy production. The factory in Alingsås carried out a project during the year to improve the routines for handling rejects and recycling.

Examples of measures

Training courses have been held to optimise production in connection with starts and stops, among other things to reduce raw material wastage.

	Jan–Dec 2006	Jan–Dec 2007	Sep 2007–Aug 2008	Sep 2008–Aug 2009	Sep 2009–Aug 2010
Total production, tonnes	19,803	19,803	20,368	19,887	20,293
Total energy consumption, GWh	41.8	38.5	43.1	42.1	44.0
of which fossil fuels	9.9	9.7	11.0	10.5	3.9
Energy consumption per produced tonne, kWh	2.1	1.9	2.1	2.1	2.2
Water consumption per produced tonne, m³	3.9	3.7	3.5	3.4	3.5
Wastewater per produced tonne, m³	2.0	2.1	2.0	2.1	2.0
Fats in the wastewater, mg/litre wastewater	300	301	163	200	200
Degree of contamination in wastewater, BOD_7 mg/litre wastewater	5,970	4,900	3,917	4,272	4,062
Material recycling, tonnes	751	459	346	463	354
Energy recovery, tonnes	351	378	410	457	474
Organic waste, kg per produced tonne	37.5	20.2	14.6	11.7	11.6
Raw material purchasing, tonnes	21,191	19,706	21,941	21,152	21,844
Packaging purchasing, tonnes	2,810	2,810	1 973	1 864	1,935

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.

Core values

Cloetta has established four core values that guide our way of working and acting, both within and outside the company. These core values are Expertise, Responsibility, Innovation and Enjoyment.

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. Learning from each other and working together are of central importance.

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 areas responsibility, working for the good of the company at every level and being a good representative for Cloetta.

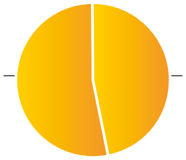
Innovation

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 are success factors that we strive to utilise to the full extent.

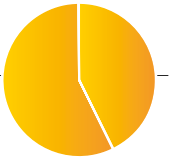
Enjoyment

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.

Gender distribution
31 August 2010



Employee categories
31 August 2010



COMPETENCE DEVELOPMENT

Cloetta is characterised by a commitment to continuously renewing the company's aggregate expertise. Competent employees that are given scope to realise their full potential create the conditions to maintain Cloetta's position as an attractive and innovative partner not only for the employees but also for the customers, suppliers and business partners.

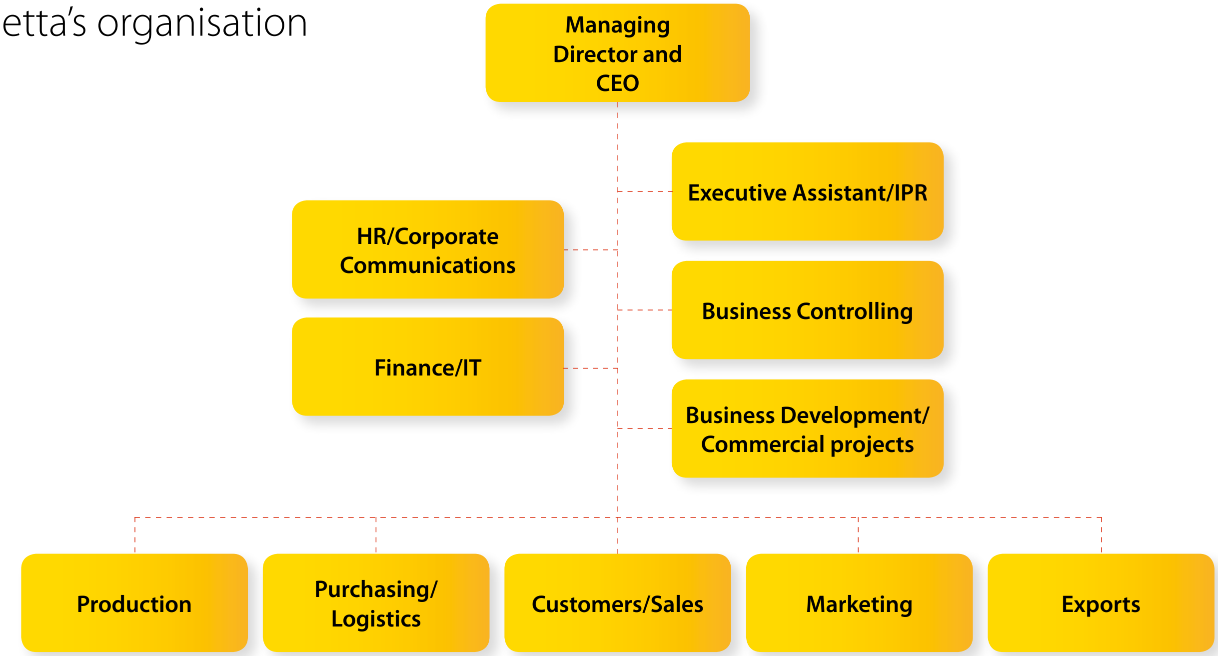
A learning organisation that works in project form and the use of interdisciplinary teamwork in day-to-day activities are important components of Cloetta's competence development.

The company has a management and leadership training programme that is aimed at maximising the personal potential of managers and leaders in relation to 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. So far, 40 people have completed the programme.

Another focus area for competence development has been Cloetta's participation in a competence mapping project under the supervision of the Swedish Food Federation (LI). The project was started in April 2009 with involvement from companies across the entire food industry. The project continued during the financial year and on 1 January 2011 Cloetta will carry out a first test on one of the company's production lines in Ljungsbro. The plan is to then move forward with competence mapping of all production lines in both Ljungsbro and Alingsås during 2011. This mapping also gives the employees an indication of which competencies are needed

Some of Cloetta's employees outside the production and office complex in Ljungsbro.

Cloetta's organisation



among all of Cloetta's more than 200 employees in production. In addition, it contributes to greater flexibility and identifies each employee's personal development opportunities as a generalist, specialist or perhaps a leader. By defining the competencies that exist, it is possible to use these in the right way and at the right time.

A similar mapping that resulted in a joint competence development programme has been carried out in the sales force. The programme has been underway since 2008 and is still in progress.

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 2009 Cloetta carried out a health course for shift workers that was highly appreciated. The course has continued in 2010 and has provided shift workers with tools for ensuring that they are able to meet their needs for sleep, nutrition and social interaction when working shift.

By linking the competence development system to the systems for salaries/wages and working hours, Cloetta can offer interesting solutions that appeal to both potential and existing employees. Cloetta's intensive competence development efforts contribute to creating an effective organisation and making the company an attractive employer.

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 therefore a risk for long-term absence. Through a wide contact network of company health services, health and fitness providers and other health-related disciplines, health issues can be addressed quickly.

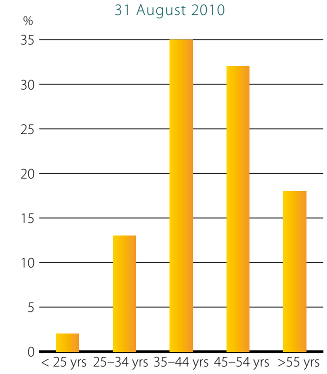
The Human Resources department is further developing the offering of multi-faceted health and fitness services so that all employees can receive support in efforts to invest proactively in their personal health.

ORGANISATION

In order to reduce hierarchy and shorten decision-making paths, Cloetta restructured its organisation in the past year by eliminating a middle management level. This has created the conditions for faster decisions and a more efficient organisation. Another consequence is that a wider spectrum of issues is now handled at the top management level, thereby ensuring development in line with the established strategies and plans. The larger management team resulting from the reorganisation also means that more functions are directly represented in the management. This, in turn, contributes to greater consensus and therefore also faster implementation of decisions.

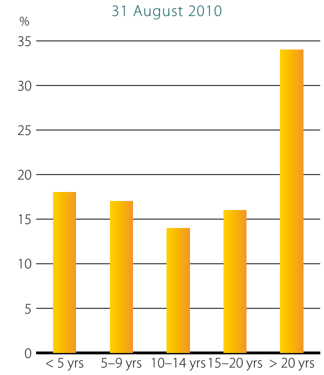
Age distribution

31 August 2010



Average term of employment

31 August 2010



Employees	Sep 2009– Aug 2010	Sep 2008– Aug 2009
Average number of employees	452	464
- of whom, women	228	255
Employee turnover, %	14	2
Hiring rate, %	9	6
Job rotation, %	4	5
Sickness absence		
- salaried employees, %	3	3
- employees under collective agreements, %	5	7
Number of accidents [1)]	1	2

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

On 1 January 2010 Cloetta took over responsibility for all equipment maintenance, which was previously outsourced to ABB.

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 2009 to 31 August 2010 was 452 (464). The decrease is mainly attributable to the previous year's staff reductions in response to redundancies arising in connection with the demerger and the workforce reductions carried out at the Alingsås factory.

Of the total number of employees, 57% are employed under collective agreements and 43% are salaried employees. After the end of the financial year, Cloetta has given notice and cut 17 jobs at the factory in Ljungsbro. The redundancies have affected employees in production and are due to lower volumes from the production collaboration with Fazer and the effects of completed equipment investments.

GROUP MANAGEMENT TEAM

The Group Management Team is made up of competencies that represent all of the company's functions. More information about the Group Management Team's working methods is provided in the corporate governance report on pages 48–53.

Responsibility to raw material producers

In its Code of Conduct, shown on page 36, Cloetta has gathered all of the general principles that govern the company's commitments in areas such as raw materials. Cloetta requires all of its raw material suppliers to comply with the company's principles in these issues and expects them to demand the same of their own suppliers, see page 31.

COCOA

Every year, Cloetta buys approximately 3,300 ton tonnes of cocoa in the form of cocoa liquor, cocoa butter and cocoa powder that are manufactured in Europe. The cocoa comes from West Africa, mainly Côte d'Ivoire. The majority of cocoa farms are very small and there are some 700,000 growers in Côte d'Ivoire alone. Local intermediaries then distribute the raw materials to international cocoa distributors, after which the cocoa is sent to Europe for processing into cocoa liquor, cocoa butter and cocoa powder.

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, but for Cloetta it is important to play an active role in driving these issues. For that reason, Cloetta collaborates with other major players in the chocolate industry to promote better conditions in the cocoa plantations and communities. The goal is to achieve environmentally, socially and economically sustainable development in cocoa growing.

PALM OIL

Cloetta has made a decision to buy certificates for sustainably produced palm oil as of 2011. The expansion of palm oil cultivation has led to exploitation of rain forest, primarily in Malaysia and Indonesia. Certified palm oil comes only from plantations with sustainable production.

FAIRTRADE

Cloetta launched the Good series of chocolate bars during the financial year. The objective behind Good, which is available in milk chocolate, hazelnut, mint crisp and cashew & cranberry varieties, is to offer the market a Fairtrade-labelled milk chocolate bar at an attractive price. Good has quickly secured a position as the leading Fairtrade-labelled milk chocolate bar in the Swedish market.

The cocoa used in Good is Fairtrade-certified and comes from the Kuapa Kokoo (www.kuapakokoo.com) cooperative in Ghana. Through Fairtrade, the producers are guaranteed a minimum price. In addition, Cloetta pays a Fairtrade premium of USD 150 per tonne for investments in the local community.

Cocoa

Cocoa trees are grown in a belt around the equator. Each tree producers around three to four kilos of beans per year. The fruits, also called pods, must be harvested by hand since the trees often bear buds and fruit at the same time.

The beans and pulp are removed from the pods and fermented, after which the cocoa bean can be separated and dried. After this, the beans are sent to cacao industries to be roasted, shelled and ground. The beans, now called nibs, are then milled to produce cocoa liquor from which cocoa butter and cocoa powder are extracted.

The cocoa used in the Good chocolate bars is Fairtrade-labelled.
Read more about Fairtrade at www.fairtrade.se

Cocoa growers at Farmer Field School, one of the initiatives managed by the World Cocoa Foundation.

INTERNATIONAL INITIATIVES

Cloetta is active in a number of collaborative initiatives aimed at promoting more sustainable extraction and distribution of raw materials and improving the conditions for growers in developing countries. The following are the most important of these.

World Cocoa Foundation (WCF) manages a range of programmes aimed at increasing the cocoa farmers' yields and incomes and promoting sustainable cultivation. Examples of initiatives include teacher training programmes, training in cocoa processing, micro loans for cocoa growers and health-related issues.

Caobisco (Chocolate, Biscuit & Confectionery Industries of the EU) supports International Cocoa Initiatives, for example through the development of control and certification systems for cocoa production.

Chokofa is a Swedish industry association that contributes contacts, expertise and projects in which Cloetta takes part, such as a project in which 5,000 cocoa farmers in Ghana and Côte d'Ivoire are being given practical training in ways to increase their profitability while at the same time preventing accidents.

ECHOES (Empowering Cocoa Households with Educational Solutions) is an organisation through which Cloetta has previously supported its own sponsor village, called Biéby, in Côte d'Ivoire. The aim of the programme is to give young people a vocational education in cocoa growing alongside their traditional schooling.

Round Table on Sustainable Palm Oil (RSPO) is committed to promoting the growth and use of sustainable palm oil worldwide.

Fairtrade is an independent product certification body that contributes to better working and living conditions for producers and workers in developing countries. Fairtrade Sweden is the Swedish representative to Fairtrade Labelling Organisations International (FLO).

FN Global Compact where Cloetta is a member of the Swedish Ministry of Foreign Affairs' network.

Table of contents, GRI*

1) A detailed table of contents can be found at www.cloetta.se.

The parts intended to describe changes compared to the previous year's report, namely 3.2 and 3.10, are not applicable since this is Cloetta's first sustainability report in accordance with GRI.

* Global Reporting Initiative (GRI) is a network-based organisation whose founders include the UN. GRI has pioneered the development of a framework for the structure and content of sustainability reporting.

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 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 deviates from a rule in the Code must explain the reason for doing so.

Cloetta complies with the provisions in the Code with the sole exception of simultaneous interpretation at general shareholder meetings, which is neither motivated by the ownership structure nor financially justifiable.

Complete information about Cloetta's application of the Code can be found at www.cloetta.se.

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 no later than one week before the earliest date on which the notice of meeting may be published (e.g. the request must be received no later than seven weeks before the AGM).

For more information about the composition and work of the nominating committee, see under "Committees" on page 50.

2008/2009 Annual General Meeting

The latest AGM was held on 18 December 2009 in Linköping. The AGM re-elected Board members 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. The AGM resolved that Board fees would be paid in a total amount of not more than SEK 1,005,000, of which SEK 175,000 would be paid to the Board Chairman. The AGM resolved that fees for committee work would be paid in a total amount of SEK 100,000. The AGM adopted the balance sheets and profit and loss accounts for the financial year 2008/2009 and, in accordance with the Board's proposal, resolved that no dividend would be paid. The AGM also discharged the members of the Board of Directors and the Managing Director from liability for the financial year 2008/2009. The AGM approved the Board's proposed amendment to the Articles of Association's provisions for notice to attend general meetings, conditional on the entry into force of the new law. Furthermore, the AGM adopted the proposed rules for the nominating committee and the Board's proposed guidelines for remuneration to senior executives.

2009/2010 Annual General Meeting

The 2009/2010 AGM will be held at 2:00 p.m. on Wednesday, 15 December 2010, at Collegium in Linköping. Notice to attend the AGM was published in mid-November 2010 and also included a description of the Board's proposed appropriation of earnings and other proposals. For additional information, see page 103 of the annual report and the company's website www.cloetta.

ARTICLES OF ASSOCIATION

The Articles of Association are adopted by the general geeting 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.sese.

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. The Board's powers and duties are regulated by the Swedish Companies Act and the Articles of Association.

In addition, the activities of the Board are governed by a work plan and instructions, as adopted by the Board, pertaining to the separation of responsibilities between the Board, the Managing Director and those company bodies set up 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 in the Board
- Minutes from Board meetings
- Disqualification due to impartiality, etc.
- Liability of Board members, etc.

Instructions and policies

Furthermore, the Board issues instructions and policies for issues such as:

- 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 purchasing report is also drawn up for the most significant raw materials, a review of the Group's liquidity position and development and an overview of budgeted, decided and implemented investments. For every financial year, a profit, balance sheet and investment budget is prepared for the Group and is adopted at the scheduled Board meeting in August.

Board meetings

The Board meets according to the following.

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, the publication dates for the coming year's financial reports to the market (see "Financial calendar" on page 103) and the dates and times of the coming year's scheduled Board meetings.

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.

From the date of the AGM on 18 December 2009 until the publication of this corporate governance report, and aside from the statutory meeting, the Board has held five scheduled meetings. At these meetings the Board has 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, four extra meetings were held, of which one by telephone. During these meetings, the Board dealt with matters related to the brands, investments and other strategic business decisions.

BOARD OF DIRECTORS

	Year elected	Fees, SEK[1)]	Independent from the company	Independent from shareholders	Attendance, total no. of meetings: 10[4)]	Of which, scheduled and statutory meetings: 6[4)]	Of which, extra meetings: 4[4)]	Audit committee [2)]	Remuneration committee [3)]
Elected by the AGM:									
Chairman									
Olof Svenfelt	2008	175,000	●		10	6	4	●	
Members									
Lennart Bohlin	2008	150,000	●	●	9	5	4		●
Ulrika Stuart Hamilton	2008	150,000	●	●	9	6	3		●
Johan Hjertonsson	2008	150,000	●	●	10	6	4		
Mikael Svenfelt	2008	150,000	●		10	6	4	●	
Meg Tivéus	2008	150,000	●	●	10	6	4	●	

1) The AGM on 18 December 2009 resolved that Board fees would be paid in an amount of no more than SEK 1,005,000, that fees to the members of the audit committee would be paid in an amount of no more than SEK 60,000 and that fees to the members of the remuneration committee would be paid in an amount of no more than SEK 40,000. Of 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 four meetings since the previous AGM. For attendance, see information about the audit committee on page 51.

3) The remuneration committee has held one meeting since the previous AGM. For attendance, see information about the remuneration committee on page 51.

4) Attendance at Board meetings since the AGM on 18 December 2009.

Board members

The current Board of Directors was re-elected at the AGM on 18 December 2009 and consists of six non-executive members: Olof Svenfelt (Chairman), Lennart Bohlin, Johan Hjertonsson, Ulrika Stuart Hamilton, Mikael Svenfelt and Meg Tivéus. For information about the Board members' significant assignments outside the Group and shareholdings in the company, see pages 54–55.

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 Board Secretary during the year.

According to the decision of the AGM on 18 December 2009, 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 and remuneration 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 18 December 2009 re-elected Olof Svenfelt as Board Chairman.

The Chairman oversees the effective implementation of the Board's decisions and is responsible for ensuring that the work of the Board's is evaluated yearly and that the nominating committee is informed about the results of this evaluation. The purpose of this evaluation is to gather the Board members' opinions about the Board's performance and what measures can be taken to improve the efficiency of the Board's work.

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 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 56.

EXECUTIVE MANAGEMENT

The Executive Management consists of the Managing Director, who is also the CEO, and the CFO.

GROUP MANAGEMENT TEAM

The Managing Director of Cloetta AB heads the Group Management Team. The Group Management Team 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

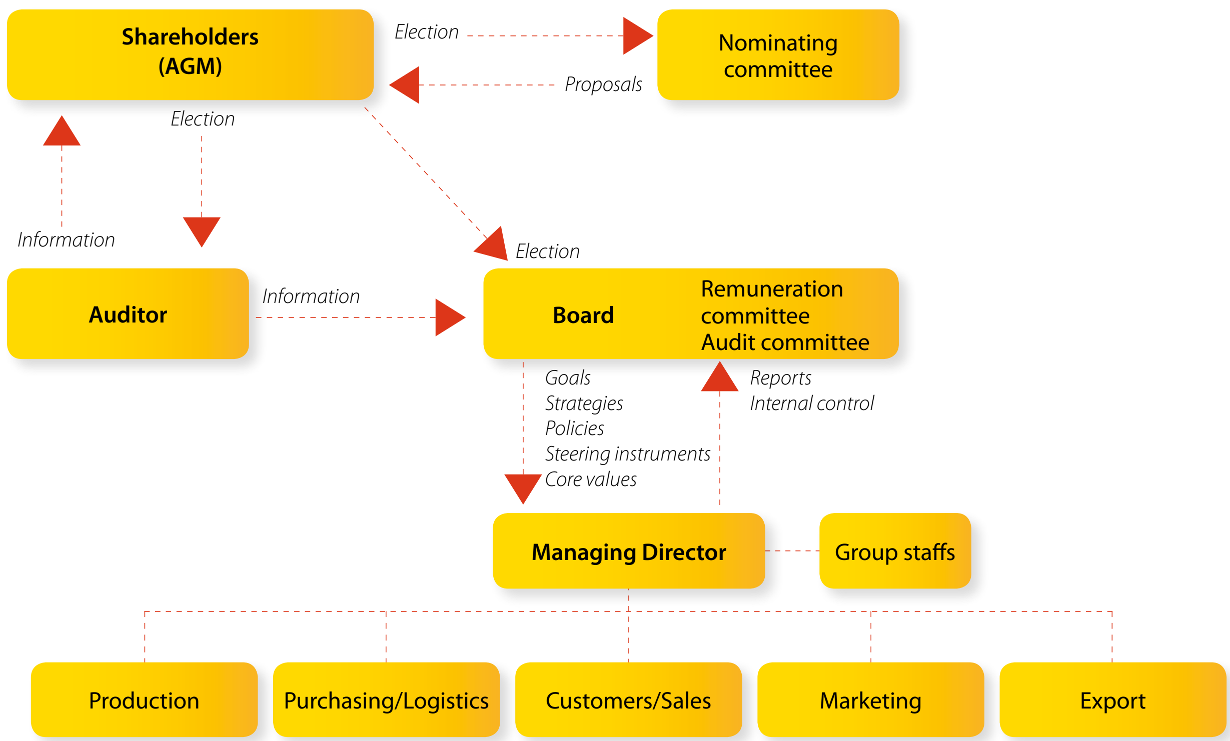
The Board of Directors is responsible for ensuring that the company's organisation is structured in such a way that the company's financial circumstances can be controlled satisfactorily and that external financial information such as interim reports and annual reports to the market are prepared in accordance 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 49).

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.

Governance structure



Nominating committee

The AGM of Cloetta on 18 December 2009 adopted rules for the nominating committee essentially according to the following. The nominating committee shall consist of at least four and at most six members. Of these, one shall be a representative of the Board, appointed by the Board, and three shall be members representing the major shareholders. The members thus appointed shall themselves appoint one additional member. The major shareholders are based on the ownership statistics provided to the company by Euroclear Sweden AB at 31 March of each year. In the event of changes in the ownership structure after 31 March, but before the date occurring 12 weeks before the upcoming AGM, the number of members may amount to six. The member appointed by the largest shareholder in terms of voting power shall be the chairman of the nominating committee.

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. Complete rules regarding Cloetta's nominating committee can be found at www.cloetta.se

The nominating committee ahead of the AGM on 15 December 2010 has the following composition:

- Lennart Bylock, chairman of the nominating committee, appointed by AB Malfors Promotor
- Thomas Ehlin, appointed by Nordea Fonder
- Eva Törnqvist, appointed by Ulla Håkanson
- Johan Hjertonsson, appointed by the Board of Cloetta AB

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, to handle issues relating to internal control and to stay continuously informed about the focus and scope of the audit.

From the date of the previous AGM, the committee held four meetings. The company's auditor, 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 19 October 2010 at which adoption of the annual accounts was dealt with. Furthermore, an extra meeting of the committee has dealt with the election of an auditor ahead of the AGM on 15 December 2010. A customary procurement process has preceded the committee's decision to propose to the nominating committee re-election of the auditing firm of KPMG, with Helene Willberg as Auditor in Charge.

Members	Attendance at a total of 4 meetings
Olof Svenfelt	4
Mikael Svenfelt	4
Meg Tivéus	4

Remuneration committee

The Board has appointed a remuneration committee consisting of Lennart Bohlin and Ulrika Stuart Hamilton, whose task is to prepare recommendations for remuneration and other terms of employment for the Executive Management, as well as matters related to incentive programmes. The committee has held one meeting since the previous AGM. For remuneration to the Managing Director and other senior executives, see Note 7.

Members	Attendance at a total of 1 meeting
Lennart Bohlin	1
Ulrika Stuart Hamilton	1

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 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. The next auditor election will take place at the AGM on 15 December 2010 and the nominating committee proposes re-election of the company's current auditing firm KPMG, with Helene Willberg as Auditor in Charge for the period until the end of the next AGM.

INTERNAL CONTROL

Introduction

The following has been prepared in accordance with the Swedish Code of Corporate Governance. 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. Cloetta has therefore decided to implement the COSO framework f for internal control over financial reporting and the framework has been adapted to the company's operations and conditions.

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 is a description of how internal control over financial reporting is currently organised.

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, guidelines and frameworks 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 AGM on 18 December 2009, the audit committee has received reports from the company's management on development of the company's internal control. 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. The audit committee has received reports from the company's independent auditors and has held four reviews with the auditors since the last AGM.

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 each subsidiary have overall responsibility for internal control over financial reporting in their own units, and continuously report on the status of internal control to the Group CFO.

Risk assessment

Cloetta has performed an analysis at the Group level of the risk for material misstatements 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 have been identified. Furthermore, the company has established a number of risk management processes that have a consider-

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

able 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.
- 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

Connected to the significant processes identified in the risk assessment, there are control structures to handle and minimise the risk for material misstatements in the financial reporting. These control structures consist partly of an organisation with clearly defined roles that facilitate an effective, and from an internal control standpoint, appropriate separation of responsibilities, and partly of specific control activities aimed at detecting or preventing risks for material misstatements in the financial reporting. Critical control activities are 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 well defined decision-making processes 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 is carried out continuously. 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

During the year, Cloetta has performed tests on selected parts of the control structure. These reviews of internal control include audits of compliance with certain policies and guidelines and evaluation of the effectiveness of significant control activities linked to risks for material deficiencies in the financial reporting. The outcome of these reviews has been reported to the Board's audit committee.

The Board continuously monitors and evaluates the information provided by the management and audit committee. One particularly important step in monitoring of internal control is the work of the audit committee in evaluating the management's performance in this area. This includes ensuring that action is taken to address the deficiencies and recommendations identified in external audits. 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. The internal control structure is monitored through self-assessments and the results of these are compiled and reported to the Board's audit committee. In view of this, the Board of Directors concludes 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

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH CHAPTER 6, SECTION 9 OF THE ANNUAL ACCOUNTS ACT (1995:1554)

To the Annual General Meeting of Cloetta AB (publ.)
Corporate identification number 556308-8144

Roles and separation of responsibilities

We have examined the corporate governance report for the financial year from 1 September 2009 to 31 August 2010 on pages 48–53. The Board of Directors and the Managing Director are responsible for the preparation and presentation of the corporate governance report in accordance with the Annual Accounts Act. Our responsibility is to examine the corporate governance report so that we can provide a written statement in accordance with Chapter 6, Section 9, of the Annual Accounts Act.

Focus and scope

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 corporate governance report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

Conclusion

In our opinion, the corporate governance report has been prepared in accordance with the Annual Accounts Act and that it is consistent with the other parts of the annual accounts and the consolidated accounts.

Ljungsbro, 25 November 2010

Helene Willberg
Authorised Public Accountant

Board of Directors and Auditors

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 AB Malfors Promotor, Highland Group AB, Metoden Agenturer AB and Phlisa Metall AB. Board member and Managing Director of AB Malfors Holding. Board member of the Hjalmar Svenfelt Foundation, the Wilhelm Stenhammar Foundation, the Hagdahl Academy Foundation and the Georg Hultner Foundation.
Previous assignments: Board member and Deputy Chairman of Cloetta Fazer 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 10,285,455 class B shares.
Independent from major shareholders: No
Independent from 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 Östergötlands 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 from major shareholders: Yes
Independent from company and management: Yes

Ulrika Stuart Hamilton

Born: 1958, MBA.
Elected to the Board: 5 November 2008.
Other assignments: Deputy Managing Director of the Swedish Entrepreneurship Forum. 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. Member of the Swedish Companies Act Committee and AB Vattenfall.
Shareholding in Cloetta: 550 class B shares.
Independent from major shareholders: Yes
Independent ifrom company and management: Yes

Johan Hjertonsson

Born: 1968, MBA.
Elected to the Board: 5 November 2008.
Other assignments: Board member of AB Fagerhult. Managing Director and CEO of AB Fagerhult.
Previous assignments: Managing Director and CEO of Lammhults Design Group AB. Board member of Electrolux Filter AB and BRIO AB.
Shareholding in Cloetta: 0.
Independent from major shareholders: Yes
Independent from company and management: Yes

Shareholdings at 31 August 2010.

From left: Lennart Bohlin, Birgitta Hillman, Ulrika Stuart Hamilton, Birgitta Junland, Olof Svenfelt, Johan Hjertonsson, Lena Grönedal, Mikael Svenfelt and Meg Tivéus. Linus Ekegren is not shown in the picture.

Mikael Svenfelt

Born: 1966, Marketing and business economist, various law studies.
Elected to the Board: 25 August 2008.
Other assignments: Managing Director of AB Malfors Promotor. Managing Director and board member of Phlisa Metall AB. Board member of Fjärilshuset Haga Trädgård AB, Sjöleden Hällevik AB and Rollox AB.
Previous assignments: Senior positions in Nicator, Dell Financial Services and GE Capital Equipment Finance AB.
Shareholding in Cloetta: 5 class A shares and 7,507 class B shares.
Related party shareholdings in Cloetta: 2,619 class B shares.
Independent from major shareholders: No
Independent from 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, Victoria Park AB and Paynova AB. Board member and chairman of Folktandvården Stockholms län AB.
Previous assignments: Managing Director of Svenska Spel AB, deputy Managing Director of Posten AB and Board member of Cloetta Fazer AB.
Shareholding in Cloetta: 204 class B shares.
Independent from major shareholders: Yes
Independent ifrom 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.

Employee representatives, 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: Investor AB, Thule Investment AB, Nobia AB och 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 Group AB.

Group Management Team

Curt Petri
Born: 1952
Position: Managing Director and CEO since 2008, employed in 1990.
Education: MBA.
Other assignments: Board assignments in the Group and deputy board member of the Swedish Food Federation (LI).
Previous external assignments in the past five years: CFO and Deputy Managing Director of Cloetta Fazer 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.

Karin Svärdh
Born: 1968
Position: Plant Manager since 2009, employed in 2009.
Education: MBA.
Other assignments: –
Previous external assignments in the past five years: Head of Arla's Administrative Service Center, Production and Logistics Manager for Arla's Linköping dairy.
Shareholding in Cloetta: Convertibles corresponding to 9,743 class B shares.

Thomas Wiesgickl
Born: 1977
Position: Purchasing and Supply Chain Director since 2010, employed in 2002.
Education: M.Sc.Eng.
Other assignments: –
Previous external assignments in the past five years: Purchasing Director of Cloetta Fazer Sverige AB.
Shareholding in Cloetta: Convertibles corresponding to 9,743 class B shares.
Related party shareholdings in Cloetta: Convertibles corresponding to 3,289 class B shares.

Tony Wiréhn
Born: 1960
Position: Business Development Director since 2010, employed in 2008.
Education: IHM Executive Management School and a number of courses on leadership and sales management.
Other assignments: Board member of LHC Event AB and deputy board member of CETRO Konsult AB.
Previous external assignments in the past five years: Board member and chairman of AB Takeit Innovativ Teknik i Linköping. Secretary General of the Swedish Tennis Association.
Shareholding in Cloetta: Convertibles corresponding to 31,405 class B shares.

Johan Eriksson
Born: 1969
Position: Marketing Director since 2010, employed in 2002.
Education: MBA.
Other assignments: Board assignments in the Group.
Previous external assignments in the past five years: Category Manager Chocolate and Key Account Manager at Cloetta Fazer Sverige AB.
Shareholding in Cloetta: Convertibles corresponding to 9,743 class B shares.

From left: Curt Petri, Karin Svärdh, Thomas Wiesgickl, Tony Wiréhn, Johan Eriksson, Anders Jendeberg, Johan Torell, Thomas Lundh, Kent Sandin and Christina Björck.

Anders Jendeberg

Born: 1969
Position: Group Controller since 2008, employed in 2003.
Education: MBA.
Other assignments: Board assignments in the Group.
Previous external assignments in the past five years: Business Controller at Cloetta Fazer Sverige AB.
Shareholding in Cloetta: Convertibles corresponding to 9,743 class B shares.

Johan Torell

Born: 1969
Position: Export Director since 2010, employed in 2006.
Education: A number of courses on sales, marketing finance and leadership.
Other assignments: –
Previous external assignments in the past five years: Business Area Manager at Coca-Cola Drycker Sverige AB, Customer Service Director at Cloetta Fazer Sverige AB.
Shareholding in Cloetta: Convertibles corresponding to 9,743 class B shares.

Thomas Lundh

Born: 1960
Position: Sales Director since 2010, employed in 2010.
Education: Corporate Management, Göteborg Management Institute (GMI), a number of courses on sales and leadership.
Other assignments: Board assignments in the Group and board member of Britta & Lennarts Nära Kött.
Previous external assignments in the past five years: Managing Director of Boxholm Mejeri AB.
Shareholding in Cloetta: –

Kent Sandin

Born: 1957
Position: CFO since 2008, employed in 2008.
Education: Stockholm School of Economics and a number of courses on finance and leadership.
Other assignments: Board assignments in the Group.
Previous external 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 in 2001.
Education: Social services with a focus on personnel administration and communication. Executive Programme at the Stockholm School of Economics.
Other assignments: Deputy chairman of Chokofa and sole proprietorship of CB Communication.
Previous external assignments in the past five years: Head of Human Resources at Cloetta Fazer Sverige AB.
Shareholding in Cloetta: Convertibles corresponding to 31,405 class B shares.

Shareholdings at 31 August 2010.


Cloetta
I gott sällskap!
Pops
Crunchy
Polly
Original
Bridge
ORIGINAL
KEX
CHOKLAD
rutor


Cloetta
KEX
CHOKLAD
blåbär
Kexchoklad
med blåbärssmak

Financial information

Financial information

NOTES

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 2009 to 31 August 2010.

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. In June 2008 a Separation Agreement was signed 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. As part of the 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 first 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. 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 and the associated product range. The brands 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. 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 2009/2010

Net sales and profit

The financial year runs from 1 September 2009 to 31 August 2010. The following comments are presented with comparative figures for the period from 1 September 2008 to 31 August 2009.

Sales of Cloetta's products amounted to SEK 914 million (850), up by 8% compared to the same period of last year. Total net sales fell to SEK 1,061 million (1,184), due to Cloetta's discontinued sales of Fazer products as of 1 January 2009. In the Swedish market, which accounts for around 85% of sales, Cloetta's products rose by 5%. The increase is partly attributable to strong Christmas sales of Cloetta's new filled chocolate box and Juleskum as well as the new products launched in the chocolate bar segment, including Tarragona and Good, Cloetta's Wedding Series and the summer campaign. Sales to the other Nordic countries have also shown favourable development during the year, mainly in the Finnish market with products like Center and Polly. Sales of Cloetta's prioritised brands rose by 3% compared to the prior year, partly thanks to increased sales of Juleskum, the relaunch of Tarragona, Good and Polly.

Gross profit is reported at SEK 329 million (336), which corresponds to a gross margin of 31.0%, compared to 28.4% the year before. The figure for the comparison period includes restructuring charges of SEK 7 million. Gross margin excluding items affecting comparability was 31.0%, compared to 29.0% the year before. Gross margin for the period was strengthened by successful sales of Cloetta's products, a good product mix and high efficiency in production.

Selling and administrative expenses fell by SEK 66 million to SEK 299 million (365). The figure for the comparison period includes restructuring charges of SEK 44 million. Excluding these charges, selling and administrative expenses decreased by SEK 22 million, which is connected to Cloetta's licensed sales of Fazer products during the period from September to December 2008.

Operating profit improved to SEK 35 million (0) with an operating margin of 3.3% (0). Excluding items affecting comparability, operating profit for the period rose from SEK 8 million to SEK 35 million. The figure for the prior year included profit of SEK 4 million on the sale of Fazer's products, which means that profit in Cloetta's operations increased by SEK 31 million. Operating profit was positively affected by foreign exchange differences of SEK 6 million (–8). The positive foreign exchange effect, which is reported together with other operating income and expenses, was undermined during the year by higher raw material costs that impacted gross margin. Among other things, the price of cocoa has risen to historically very high levels since the autumn of 2009. Due to the use of forward contracts, the recent strengthening of the Swedish krona will have a delayed effect.

Profit/loss before tax was SEK 31 million (–1). Net financial items totalled SEK –4 million, compared to SEK –1 million the year before. The negative net financial items reported by the Group in spite of a net receivable are mainly explained by the fact that interest on the pension liability and the convertible note programme for the employees is significantly higher than the yield on financial assets. Profit after tax was SEK 22 million (6), which is equal to basic and diluted earnings per share of SEK 0.90 (0.23). The period's income tax expense was SEK –9 million (7). The effective tax rate was 30.9%. The higher tax rate is mainly attributable to non-deductible expenses and imputed interest on tax allocation reserves. Starting in 2009 the corporate tax in Sweden has been reduced from 28% to 26.3%. The lower tax rate was applied in calculation of deferred tax on untaxed reserves and reduced the income tax expense by approximately SEK 7 million in the previous year.

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 the first quarter. 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 fall 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 amounted to SEK 245 million (277).

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 year-end, i.e. in the second quarter.

Cash flow from operating activities was SEK 19 million (127). Net cash of SEK 51 million (111) was utilised for investments in property, plant and equipment during the year. The higher number of newly launched products and earlier Christmas production affected the size of inventories and therefore also had a negative impact on cash flow. The effects of the demerger had a positive effect on cash flow in the comparison period. Interest-bearing assets exceeded interest-bearing liabilities by a net amount (i.e. a net receivable) of SEK 144 million (183). The equity/assets ratio was 65.7% (63.9).

Investments

Investments in property plant and equipment during the period totalled SEK 51 million (111) and included both capacity and replacement investments in the existing production lines. Amortisation/depreciation amounted to SEK 50 million (46).

EMPLOYEES

The average number of employees was 452 (464), all of whom were employed in Sweden. The decrease refers mainly to the previous year's staff reductions in response to redundancies arising in connection with the demerger and the workforce reductions carried out at the factory in Alingsås.

After the end of the financial year, on 14 September 2010, Cloetta cut 17 jobs at the factory in Ljungsbro. The redundancies will affect employees in production and are a response to Fazer's decision to transfer production of certain products that are currently manufactured in Ljungsbro to Finland and the effects of completed equipment investments.

No provisions have been made for the staff redundancies, since the employees are not exempted from work during the notice period.

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 established a presence in Sweden 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 creating 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 commissioned in Ljungsbro and is now in full-scale operation, which has boosted capacity and improved 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 the 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 in the region 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 11 M
Raw materials and packaging	+/–1%	+/– SEK 4 M
Energy price	+/–1%	+/– SEK 0 M
Salaries/wages incl. pensions	+/–1%	+/– SEK 2 M

** Based on 2009/2010*

Financial risks

Cloetta has good liquidity and a high equity/assets ratio. The Group's financial risks consist primarily of foreign exchange risk, interest rate risk and credit risk. Cash and cash equivalents and short-term investments at 31 August 2010 amounted to SEK 245 million (277).

Cash flow from operating activities for 2009/2010 was SEK 19 million (127). 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 foreign exchange 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 2009/2010 amounted to EUR –15 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 forward. The Group does not apply hedge accounting and all derivatives are stated at fair value with value changes through profit or 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 30.

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 1 million
Euro	+/–1%	+/– SEK 1 million

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 the 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 reporting requirements according to the Swedish Environmental Code. These permits apply until further notice. There are no injunctions in respect of the Swedish Environmental Code.

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 and noise. The greatest environmental impact comes from emissions of nutrients and fats into the water and wastewater 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 is involved 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 sustainability report under the heading "Environmental responsibility" on pages 38–40.

PRODUCT DEVELOPMENT

Product development is primarily focused on the creation of new packaging designs and brand varieties within the framework of the existing product range. No expenses for product development have been capitalised.

PARENT COMPANY

Cloetta AB's activities consist primarily of head office functions such as group-wide management and administration.

Net sales in the Parent Company for the full year reached SEK 35 million (39) and referred mainly to intra-group services. Operating profit/loss was SEK 3 million (–3), of which restructuring charges in connection with the demerger amounted to SEK 5 million in the comparison period. Net financial items totalled SEK –2 million (79). Net financial items for the prior year consist mainly of dividends from the subsidiary Cloetta Sverige AB. Profit before tax was SEK 1 million (76) and profit after tax was SEK 0 million (76). Cash and cash equivalents and short-term investments amounted to SEK 72 million (56).

Cloetta's SEK 30 million convertible debenture loan to the employees runs from 14 May 2009 to 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 upon full conversion will increase the number of class B shares by 1,004,889. The interest rate for the period from 10 November 2009 to 10 November 2010 was set at 3.48%.

The Cloetta share

The total number of shares is 24,119,196, consisting of 2,360,000 class A shares and 21,759,196 class B shares. 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.

Trading of the class B share of Cloetta AB (publ) on NASDAQ OMX Stockholm commenced on 16 February 2009. The share is traded under the ticker symbol CLA B with ISIN code SE0002626861.

During the period from 1 September 2009 to 31 August 2010, 5,201,404 shares were traded, equal to around 24% of the total number of class B shares. The highest quoted bid price for the Cloetta share was SEK 43.80 and the lowest was SEK 27.60. The share price on 31 August 2010 was SEK 39.10 (last price paid).

Shareholders

AB Malfors Promotor is the principal shareholder in Cloetta AB (publ). AB Malfors Promotor is wholly owned by the Hjalmar Svenfelt Foundation. At 31 August 2010, Cloetta AB had 4,432 shareholders and the principal shareholder Malfors Promotor held 74.6% of the votes and 52.3% of the share capital. Other institutional investors held 12.7% of the votes and 23.8% of the share capital.

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. An amendment to the Articles of Association regarding conversion of class A to class B shares has been proposed to the Annual General Meeting for 2009/2010 on 15 December 2010.

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 18 December 2009, the Board has held five scheduled meetings, one statutory meeting and four extra meetings. At the extra meetings, the Board has dealt with matters related to the brand, investments and other strategic business decisions. The work of the Board is governed by the Board's adopted work plan and by instructions regarding the separation 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 18 December 2009 adopted rules for the nominating committee. The nominating committee consists of four members, of whom Lennart Bylock, representing AB Malfors Promotor, is chairman in accordance with the adopted rules. The other members are Johan Hjertonsson, appointed by the Board of Cloetta AB, Thomas Ehlin, appointed by Nordea Fonder, and Eva Törnqvist, appointed by Ulla Håkanson. The duties of the nominating committee are to prepare and present recommendations to the 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 and, when appropriate, election of auditors and audit fees.

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 schemes. 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 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 2009/2010 is presented in the corporate governance report on pages 52–53 of the printed version of the annual report.

With regard to the Board of Directors' activities and work plan, see the corporate governance report on pages 48–51 and the company's website www.cloetta.se.

The Board's proposed guidelines for remuneration to senior executives

Remuneration to the Managing Director, other members of the Group Management Team and other senior executives who report directly to the Managing Director shall consist of fixed salary, other benefits and pension benefits.

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, which shall be resolved on by the general meeting of shareholders. 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. Any termination benefits may amount to no more than one year's fixed salary. 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 15 December 2010 largely correspond to those adopted at the latest AGM on 18 December 2009. The difference is that the variable salary component has been eliminated. Information about remuneration to the Board and senior executives is provided in Note 7.

Nominating committee

With regard to election of a new Board and auditor, Cloetta's nominating committee proposes that the AGM resolve to re-elect the Board. Furthermore, the nominating committee proposes that the AGM resolve to re-elect KPMG AB as the company's auditing firm, with Helene Willberg as Auditor in Charge for the period until the end of the next AGM.

Dividend

The Board proposes a dividend of SEK 0.75 per share (–) for the financial year 2009/2010.

Corporate governance report

For the corporate governance report, see pages 48–53 of the printed annual report and the auditor's statement on page 53.

EVENTS AFTER THE BALANCE SHEET DATE

On 14 September, Cloetta cut 17 jobs at the factory in Ljungsbro. The redundancies will affect employees in production and are a response to Fazer's decision to transfer production of certain products that are currently manufactured in Ljungsbro to Finland and the effects of completed equipment investments. After the end of the reporting period, no additional significant events have taken place that could affect the company's operations.

FUTURE OUTLOOK

As an independent company that has now completed two financial years, Cloetta has shown increased market shares, growth in earnings, successful product launches and strong confidence in the future. The company's active efforts to launch exciting and attractive new products in combination with effective and targeted marketing investments have been successful. Sales of Cloetta's products rose by 8% during the 2009/2010 financial year. Profit has improved, not only as a result of higher sales and changes in the product mix but also thanks to greater efficiency in production. However, earnings have been impacted by higher manufacturing costs as a result of escalating raw material prices, which has been partly offset by a stronger Swedish krona rate.

In order to boost efficiency, Cloetta has created a flatter organisation in which the company's functions have been brought closer together and given opportunities to actively participate in development of the product range. This will contribute to the widest possible support and understanding of Cloetta's goals, strategies and future direction. With all functions gathered at the head office in Ljungsbro, the information paths have been streamlined and the lead times between decision and action have been shortened.

Thanks to the solid foundation that has now been laid, Cloetta has excellent conditions for sustained growth. The company's dynamic brand portfolio will be developed in different segments and categories in order to continue growing and capturing market shares. Our ambition is also to grow through acquisitions or partnerships. By utilising the strength of Cloetta's brands, the company can continue to deliver product innovations that appeal to both customers and consumers throughout the Nordic region.

Proposed appropriation of earnings

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

Retained earnings	SEK 481,248 thousands
Profit for the year	SEK 375 thousands
Total	**SEK 481,623 thousands**

The Board of Directors proposes that dividends be paid in an total amount of SEK 18,089 thousand, equal to SEK 0.75 per share. The Board of Directors proposes that the earnings be disposed of as follows:

To be distributed to the shareholders	SEK 18,089 thousands
To be carried forward to new account	SEK 463,534 thousands
Total	**SEK 481,623 thousands**

The number of shares at 31 August 2010 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, 23 November 2010

Olof Svenfelt
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 and CEO

Our audit report was issued on 25 November 2010.

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 15 December 2010. 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 26 November 2010, 8:00 a.m. CET.

Consolidated profit and loss account

SEK M	Note	Sep 2009–Aug 2010	Sep 2008–Aug 2009
Net sales	3	1,061	1,184
Cost of goods sold		–732	–848
Gross profit		**329**	**336**
Other operating income	3	6	37
Selling expenses		–220	–255
Administrative expenses		–79	–110
Other operating expenses		–1	–8
Operating profit	4, 5, 6, 7, 8, 9, 33	**35**	**0**
Financial income		3	5
Financial expenses		–7	–6
Net financial items	10	**–4**	**–1**
Profit/loss before tax		**31**	**–1**
Income tax expense	13	–9	7
Profit for the year		**22**	**6**
Profit for the year attributable to:			
Owners of the Parent Company		22	6
Earnings per share, basic and diluted	22	0.90	0.23
Number of shares at end of period[1]		24,119,196	24,119,196

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

Consolidated statements of comprehensive income

SEK M	Sep 2009–Aug 2010	Sep 2008–Aug 2009
Profit for the year	**22**	**6**
Other comprehensive income		
Translation differences	0	0
Other comprehensive income for the year	0	0
Total comprehensive income for the year	**22**	**6**
Comprehensive income for the year attributable to:		
Owners of the Parent Company	22	6

Quarterly data

	2009/2010	Q4	Q3	Q2	Q1	2008/2009	Q4	Q3	Q2	Q1
	Sep 2009 –Aug 2010	2010 Jun–Aug	2010 Mar–May	Dec 2009 –Feb 2010	2009 Sep–Nov	Sep 2008 –Aug 2009	2009 Jun–Aug	2009 Mar–May	Dec 2008 –Feb 2009	2008 Sep–Nov
Net sales, SEK M	**1,061**	213	267	249	332	**1,184**[2]	212	237	278[2]	457[2]
Operating profit/loss, SEK M[1]	**35**	–6	4	–7	44	**8**	–19	2	–8	33
Operating margin, %[1]	**3.3**	neg	1.5	neg	13.3	**0.7**	neg	0.8	neg	7.2

1) Excluding items affecting comparability.
2) Including sales of Fazer's products during the period September–December 2008.

Comments on the consolidated profit and loss account

NET SALES

Sales of Cloetta's products amounted to SEK 914 million (850), an increase of 8%. Total net sales for the period fell to SEK 1,061 million (1,184). The decrease is due to Cloetta's discontinued sales of Fazer products as of 1 January 2009. In the Swedish market, which accounts for around 85% of sales, Cloetta's products increased by 5%. The rise in sales is partly attributable to strong Christmas sales of Cloetta's new filled chocolate box and Juleskum as well as the new products launched in the chocolate bar segment, including Tarragona and Good, Cloetta's Wedding Series and the summer campaign. Sales to the other Nordic countries have also shown favourable development during the year, mainly in the Finnish market with products like Center and Polly. Sales of Cloetta's prioritised brands were up by 3% compared to the prior year, partly thanks to increased sales of Juleskum, the relaunch of Tarragona, Good and Polly.

GROSS PROFIT

Gross profit for the period was SEK 329 million (336), which corresponds to a gross margin of 31.0% (28.4). The figure for the comparison period includes restructuring charges of SEK 7 million. Gross margin excluding items affecting comparability was 31.0% (29.0). Gross margin for the period was strengthened by successful sales of Cloetta's products, a good product mix and high efficiency in production.

OPERATING PROFIT

Selling and administrative expenses amounted to SEK 299 million (365). The figure for the comparison period includes restructuring charges of SEK 44 million. Excluding these charges, selling and administrative expenses decreased by SEK 22 million, which is connected to Cloetta's licensed sales of Fazer products during the period from September to December 2008.

Operating profit improved to SEK 35 million (0) with an operating margin of 3.3% (0). Excluding items affecting comparability, operating profit for the period rose from SEK 8 million to SEK 35 million. The figure for the prior year included profit of SEK 4 million on the sale of Fazer's products, which means that profit in Cloetta's operations increased by SEK 31 million. Operating profit for the period was positively affected by foreign exchange differences of SEK 6 million (–8). The positive foreign exchange effect, which is reported together with other operating income and expenses, was undermined during the year by higher raw material costs that impacted gross margin. Among other things, the price of cocoa has risen to historically very high levels since the autumn of 2009. Due to the use of forward contracts, the recent strengthening of the Swedish krona will have a delayed effect.

Other operating income[1)] rose by SEK 6 million to SEK 6 million (0). Other operating expenses[1)] amounted to SEK 1 million (14).

Amortisation/depreciation totalled SEK 50 million (46), of which SEK 2 million (1) referred to amortisation of intangible assets.

PROFIT BEFORE TAX

Profit/loss before tax was SEK 31 million (–1). Net financial items fell during the year by SEK 3 million to SEK –4 million (–1). The negative net financial items reported by the Group in spite of a net receivable are mainly explained by the fact that interest on the pension liability and the convertible debenture loan to the employees is significantly higher than the yield on financial assets. Most of the Group's cash and cash equivalents and short-term investments are placed in fixed income listed instruments such as commercial paper and bonds. The average interest rate on outstanding investments during the financial year was 1.2% (1.1).

TAX

The year's income tax expense was SEK –9 million (7). The effective tax rate was 30.9%. The higher tax rate is mainly attributable to non-deductible expenses and imputed interest on tax allocation reserves. Starting in 2009 the corporate tax in Sweden has been reduced from 28% to 26.3%. The lower tax rate was applied in calculation of deferred tax on untaxed reserves and reduced the income tax expense by approximately SEK 7 million in the previous period.

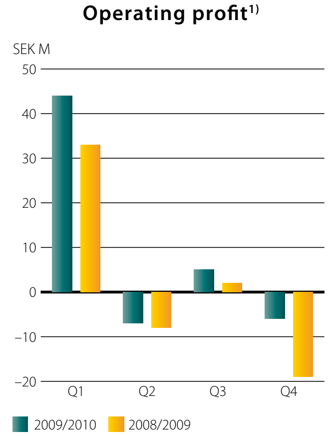
PROFIT FOR THE YEAR

Profit for the year was SEK 22 million (6), which is equal to basic and diluted earnings per share of SEK 0.90 (0.23). Excluding items affecting comparability, earnings per share were SEK 0.90 (0.35).

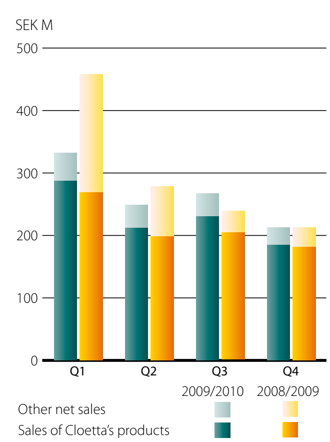
KEY RATIOS[1)]

%	Sep 2009 –Aug 2010	Sep 2008 –Aug 2009
Gross margin	31.0	29.0
Operating margin	3.3	0.7
Return on capital employed	4.7	1.2
Return on equity after tax	3.0	1.3

Operating profit[1)]



Net sales



1) Excluding items affecting comparability

Consolidated balance sheet

SEK M	Note	2010 31 Aug	2009 31 Aug
ASSETS			
Non-current assets			
Intangible assets	14	144	143
Property, plant and equipment	15	460	461
Financial investments	16	1	2
Total non-current assets		**605**	**606**
Current assets			
Inventories	18	145	117
Trade receivables		107	88
Tax assets		3	15
Other current receivables		1	1
Deferred expenses and accrued income	19	10	9
Short-term investments	16	50	21
Cash and cash equivalents	20	195	256
Total current assets		**511**	**507**
TOTAL ASSETS		**1,116**	**1,113**
EQUITY AND LIABILITIES			
Equity	21, 22		
Share capital		121	121
Other contributed capital		405	405
Reserves		0	0
Retained earnings incl. profit for the year		207	185
Total equity		**733**	**711**
Non-current liabilities			
Provisions for pensions and similar commitments	23	74	69
Deferred tax liability	13	103	108
Other provisions	24	–	4
Convertible debenture loan	25	28	26
Total non-current liabilities		**205**	**207**
Current liabilities			
Trade payables		70	78
Other current liabilities	26	10	7
Accrued expenses and deferred income	27	92	94
Provisions	24	6	16
Total current liabilities		**178**	**195**
TOTAL EQUITY AND LIABILITIES		**1,116**	**1,113**
Pledged assets	31	1	2
Contingent liabilities	31	2	2

Comments on the consolidated balance sheet

ASSETS

Total assets at 31 August 2010 amounted to SEK 1,116 million, an increase of SEK 3 million compared to the previous year.

Intangible assets totalled SEK 144 million (143). The year's investments amounted to SEK 3 million (0). Amortisation is reported at SEK 2 million (1). Of total intangible assets, 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 2010, there was no indication of impairment.

Property, plant and equipment amounted to SEK 460 million (461). The year's investments totalled SEK 49 million, of which SEK 2 million referred to buildings, SEK 46 million to machinery and SEK 1 million to equipment. Depreciation is reported at 48 million. The previous year's expenditure totalled SEK 111 million, comprising SEK 31 million for buildings, SEK 78 million for machinery and SEK 2 million for equipment, with depreciation of SEK 45 million. These investments included both capacity enhancement and replacement investments on the existing production lines.

Financial investments totalled SEK 1 million (2) and consisted primarily of endowment insurances relating to direct pension obligations.

Current assets amounted to SEK 511 million, up by SEK 4 million (507) compared to the previous year. Trade payables rose by SEK 19 million to SEK 107 million (88) and the average credit period increased from 33 to 40 days.

EQUITY AND LIABILITIES

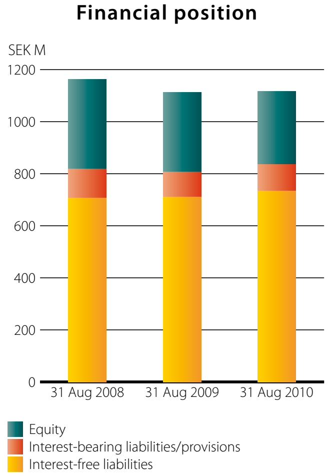
Equity in the Group rose during the year from SEK 711 million to SEK 733 million. On the balance sheet date, the share capital amounted to SEK 121 million. The equity/assets ratio on the same date was 65.7% (63.9).

Interest-bearing non-current liabilities, consisting mainly of pensions and a convertible debenture loan, amounted to SEK 102 million (95), which corresponds to an increase of SEK 7 million compared to the previous year. The convertible debenture loan was raised in the third quarter of 2008/2009 and amounted to SEK 28 million on the balance sheet date.

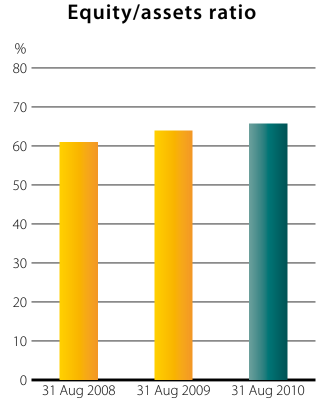
Interest-free non-current liabilities totalled SEK 103 million (112), of which deferred tax liabilities accounted for SEK 103 million (108). Deferred tax liabilities consist mainly of tax on untaxed reserves.

Current (interest-free) liabilities are reported at SEK 178 million (195), of which SEK 70 million (78) referred to trade payables and SEK 108 million (117) to other liabilities.

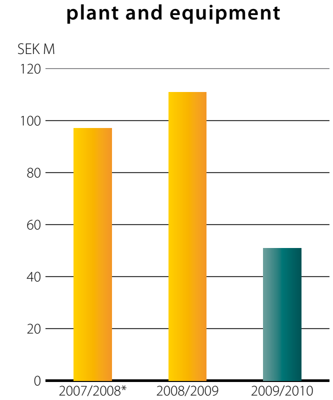
Financial position



Equity/assets ratio



Investments in property, plant and equipment



** 2007/2008 refers to the period September 2007–August 2008 pro forma*

Consolidated cash flow statement

SEK M	Note	Sep 2009–Aug 2010	Sep 2008–Aug 2009
Profit/loss before tax	29	**31**	**–1**
Adjustments for non-cash items	28	43	59
Income tax paid		–3	–10
Cash flow from operating activities before changes in working capital		**71**	**48**
Cash flow from changes in working capital			
Change in inventories		–29	36
Change in operating receivables		–20	77
Change in operating liabilities		–3	–34
Cash flow from operating activities		**19**	**127**
Investing activities			
Acquisition of property, plant and equipment		–51	–111
Acquisition of short-term investments		–29	–21
Sale of non-current investments		0	3
Cash flow from investing activities		**–80**	**–129**
Financing activities			
Dividends to shareholders		–	–4
Convertible debenture loan		–	30
Repayment of borrowings		–	–47
Cash flow from financing activities		**0**	**–21**
Cash flow for the year		**–61**	**–23**
Cash and cash equivalents at beginning of year		256	279
Cash and cash equivalents at end of year	20	195	256
Cash, cash equivalents and short-term investments < 3 months		195	256
Short-term investments > 3 months		50	21
		245	**277**

Comments on the consolidated cash flow statement

CASH FLOW

Cash flow from operating activities before changes in working capital was SEK 71 million (48), an improvement of SEK 23 million compared to the previous year.

Cash flow from operating activities was SEK 19 million (127), where the decrease compared to the previous year is explained by changes in tied-up working capital. Among other things, inventories have increased as a result of the earlier Christmas production and a higher number of newly launched products. The effects of the demerger of Cloetta Fazer had a positive effect on cash flow in the comparison period.

Cash flow from investing activities totalled SEK –80 million (–129). Net cash of SEK 51 million (111) was utilised for investments in property, plant and equipment.

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 29 million to SEK 50 million. In the previous year, the corresponding figure was SEK 21 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 amounted to SEK 0 million. The figure for the previous year was SEK –21 million, and consisted of repayment of interest-bearing liabilities, raising of a convertible debenture loan and payment of shareholder dividends.

The net cash flow was SEK –61 million (–23), which decreased cash and cash equivalents to SEK 195 million, compared to SEK 256 million in the previous year.

Cash and cash equivalents consisted of the following items:

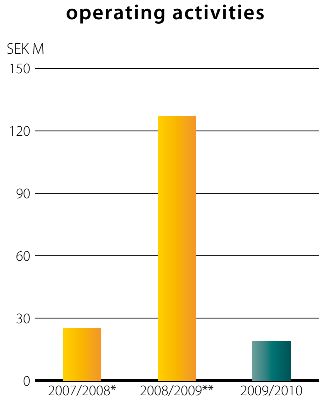
SEK M	2010 31 Aug	2009 31 Aug
Short-term investments, maturity < 3 months	35	65
Cash and bank balances	160	191
Closing balance at end of year	**195**	**256**

NET RECEIVABLE

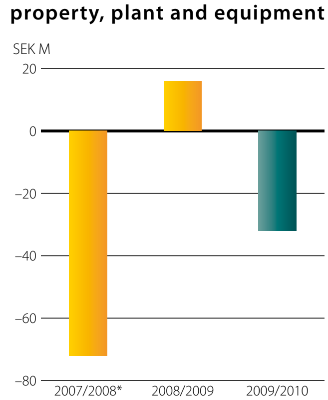
Cash and cash equivalents and other interest-bearing assets exceeded interest-bearing liabilities by SEK 144 million (183).

Change in net receivable, SEK M	2010 31 Aug	2009 31 Aug
Net receivable at beginning of year	183	171
Change in interest-bearing liabilities	–6	16
Change in interest-bearing assets	–33	–4
Net receivable at end of year	**144**	**183**

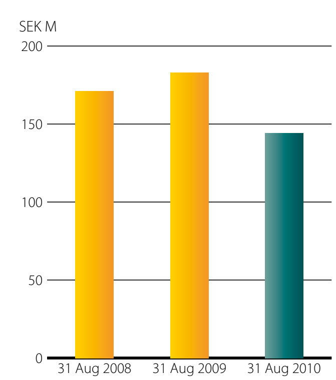
Cash flow from operating activities



Cash flow after investments in property, plant and equipment



Net receivable



** 2007/2008 refers to the period September 2007–August 2008 pro forma ** The effects of the demerger of Cloetta Fazer had a positive effect on cash flow*

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 September 2008	**100**	**428**	**179**	**707**
Bonus issue	21	–21	–	–
Comprehensive income for 2008/2009	–	–	6	6
Total income and expense, excl. transactions with owners of the Parent Company	**21**	**–21**	**6**	**6**
Contributed capital, convertible debenture loan	–	2	–	2
Dividend	–	–4	–	–4
Equity at 31 August 2009	**121**	**405**	**185**	**711**
Comprehensive income for 2009/2010	–	–	22	22
Total income and expense, excl. transactions with owners of the Parent Company	**–**	**–**	**22**	**22**
Equity at 31 August 2010	**121**	**405**	**207**	**733**

Parent Company profit and loss account

SEK M	Note	Sep 2009–Aug 2010	Sep 2008–Aug 2009
Net sales	3	35	39
Costs for property management and sold services		–1	–1
Gross profit		**34**	**38**
Other operating income	3	0	0
Administrative expenses		–31	–41
Other operating expenses		0	0
Operating profit/loss	4, 5, 6, 7, 8	**3**	**–3**
Result from shareholdings in group companies		–	80
Financial income		0	1
Financial expenses		–2	**–2**
Total result from financial investments	11	**–2**	**79**
Profit before tax		**1**	**76**
Appropriations	12	–1	–1
Income tax expense	13	0	1
Profit for the year		**0**	**76**
Proposed dividend per share, SEK		0.75	–

Parent Company balance sheet

SEK M	Note	2010 31 Aug	2009 31 Aug
ASSETS			
Non-current assets			
Intangible assets	14	0	0
Property, plant and equipment	15	4	4
Financial assets			
Shareholdings in group companies	17	538	538
Deferred tax asset	13	2	1
Total non-current assets		**544**	**543**
Current assets			
Trade receivables		0	–
Receivables from group companies	32	28	41
Other current receivables		0	0
Prepaid expenses and accrued income	19	1	1
Cash and bank balances	20	72	56
Total current assets		**101**	**98**
TOTAL ASSETS		**645**	**641**
EQUITY AND LIABILITIES			
Equity	21		
Restricted equity			
Share capital		121	121
Non-restricted equity			
Share premium reserve		405	405
Retained earnings		76	0
Profit for the year		0	76
Total equity		**602**	**602**
Untaxed reserves	36	**2**	**1**
Non-current liabilities			
Provisions for pensions and similar commitments		1	0
Convertible debenture loan	25	28	26
Total non-current liabilities		**29**	**26**
Current liabilities			
Trade payables		1	3
Income tax expense		1	1
Other current liabilities	26	1	1
Accrued expenses and deferred income	27	9	7
Total current liabilities		**12**	**12**
TOTAL EQUITY AND LIABILITIES		**645**	**641**
Pledged assets		None	None
Contingent liabilities	31	75	71

Parent Company cash flow statement

SEK M	Note	Sep 2009–Aug 2010	Sep 2008–Aug 2009
Profit before tax		**1**	**76**
Adjustments for non-cash items		3	0
Income tax paid		0	–
Cash flow from operating activities before changes in working capital		**4**	**76**
Cash flow from changes in working capital			
Change in operating receivables		2	–6
Change in operating liabilities		0	8
Cash flow from operating activities		**6**	**78**
Investing activities			
Acquisition of property, plant and equipment		–	0
Change in other interest-bearing receivables		10	–1
Acquisition/sale of non-current investments		0	–
Cash flow from investing activities		**10**	**–1**
Financing activities			
Dividends to shareholders		–	–4
Convertible debenture loan		–	30
Repayment of borrowings		–	–47
Cash flow from financing activities		**0**	**–21**
Cash flow for the year		**16**	**56**
Cash and cash equivalents at beginning of year		56	0
Cash and cash equivalents at end of year	20	72	56
Cash and bank balances		72	56

Parent Company statement of changes in equity

	Restricted	Free		
SEK M	Share capital	Share premium eserve	Retained profit	Total equity
Equity at 1 September 2008	**100**	**428**	**0**	**528**
Total income and expense recognised directly in equity, excl. transactions with owners of the Parent company	**–**	**–**	**–**	**–**
Bonus issue	21	–21	–	–
Profit for the year 2008/2009	–	–	76	76
Total recognised income and expense excl. transactions with owners of the Parent company	**21**	**–21**	**76**	**76**
Contributed capital, convertible debenture loan	–	2	–	2
Dividends	–	–4	–	–4
Equity at 31 August 2009	**121**	**405**	**76**	**602**
Total income and expense recognised directly in equity, excl. transactions with owners of the Parent company	**–**	**–**	**–**	**–**
Profit for the year 2009/2010	–	–	0	0
Total recognised income and expense excl. transactions with owners of the Parent company	**–**	**–**	**0**	**0**
Equity at 31 August 2010	**121**	**405**	**76**	**602**

Notes to the financial statements

NOTE 1 Accounting and valuation policies of the Group

GENERAL INFORMATION

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 2009 to 31 August 2010 include the accounts of the Parent Company and its subsidiaries, together forming the Group.

The annual report and consolidated financial statements were approved for publication by the Board of Directors on 12 November 2010. The profit and loss accounts and balance sheets of the Group and the Parent Company will be put before the Annual General Meeting on 15 December 2010 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 (IAS B) and the interpretations issued by the IFRS 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 1 September 2009. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1.2, Supplementary Accounting Rules for Groups, has been applied.

The annual report of the Parent Company has been prepared in accordance with the with the Swedish Companies Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2.2, 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 historical 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 results 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 34 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 2009. The following new standards have been applied in preparation of the year's financial statements:

- IFRS 8, Operating Segments, replaces IAS 14, Segment Reporting. 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. The management monitors the Group's entire operations in its internal reporting, and the financial statements therefore contain no reporting by segment.
- IAS 1 (Revised), Presentation of Financial Statements. 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 has affected the Group in that income and expenses, which were previously presented in the statement of changes in equity, are now presented in a separate report directly following the profit and loss account; the consolidated statement of comprehensive income. The change will not affect the determination of the reported amounts. The Group applies IAS 1 (Revised) starting on 1 September 2009.
- IFRS 3 (Revised), Business Combinations, and consequential amendments to IAS 27, Consolidated and Separate Financial Statements. The revisions and changes include the following: the definition of a business has changed, all acquisition-related costs must be expensed as incurred, any contingent consideration payable is recognised at fair value at the acquisition date and subsequent changes to the fair value of contingent consideration are recognised in profit or loss. Another new feature is that there are two alternative ways to measure non-controlling interests and goodwill, either at fair value, i.e. goodwill is included in non-controlling interests, or at the acquiree's proportionate share of identified net assets. The choice between these two methods is made on an acquisition-by-acquisition basis. Furthermore, subsequent acquisitions once control has been achieved are regarded as transactions with owners and are recognised directly in equity, which is a change from Cloetta's earlier policy to recognise excess amounts as goodwill.
- IFRS 7 (Amendment), Financial Instruments: Disclosures, effective 1 September 2009. primarily introduces new disclosure requirements for financial instruments measured at fair value in the balance sheet. The instruments are classified in a three-level fair value hierarchy that reflects the significance of the inputs used for measurement. The division into

levels determines which disclosures are required about the instruments; where level 3 with the lowest quality inputs requires more disclosures than the other levels. These disclosure requirements have primarily affected Note 30. Aside from this, the amendments to IFRS 7 have not led to any changes in the disclosures about liquidity risk.

According to the transitional provisions in IFRS 7, the comparative disclosures required by the changes do not need to be provided in the first year of application. Consequently, no such disclosures have been provided. Since the changes do not affect how the reported amounts are determined, no adjustments have been made in the amounts in the financial statements.

The following changed standards and new interpretations have not had any significant impact on the financial statements of the Group; IFRIC 12, Service Concession Arrangements, IFRIC 13, Customer Loyalty Programmes, IFRIC 16, Hedges of a Net Investment in a Foreign Operation, IFRS 2, (Amendment) Share-based Payment – Vesting Conditions and Cancellations, IAS 23 (Amendment), Borrowing Costs, IAS 32 (Amendment), Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements, for "Puttable Financial Instruments and Obligations Arising on Liquidation", and IAS 39, Financial Instruments: Recognition and Measurement, for exposures qualifying for hedge accounting.

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.

NEW IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new, revised or amended standards and interpretations are effective for annual periods beginning on or after the start of the coming financial year and have not been adopted in advance 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 are not described below, Cloetta has not yet assessed these. The following changes in standards are not expected to have any significant impact on the financial statements of the Group;

- IFRS 2, Share-based Payment, for group cash-settled share-based payment transactions.

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 2010; with earlier adoption permitted. 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

An operating segment is an identified part of a group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available. An operating segment's results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

Segment information is reported according to the management approach, which means that it is presented in a manner consistent with the Group's own the internal reporting. The Group manufactures homogenous products and conducts operations divided into three functions: purchasing, manufacturing and sales. One critical success factor is to produce goods with the lowest possible cost per unit through centralised manufacturing. The management monitors the Group's entire operations in its internal reporting, and the financial statements therefore contain no reporting by segment. The financial statements are presented in conformity with this reporting to the management. For information about the Group's sales and earnings development and financial position, see the consolidated profit and loss accounts, balance statements and cash flow statements.

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 balance sheet date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or settled within 12 months from the balance sheet 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.

Acquisitions on or after 1 September 2009

Business combinations are reported according to the acquisition method of accounting, whereby the acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. A purchase price allocation (PPA) is used to determine the acquisition date fair value of the identifiable assets acquired and liabilities assumed, as well as any non-controlling interest in the acquiree. Transaction costs, with the exception of those associated with the issue of equity or debt instruments, are expensed as incurred.

In business combinations where the fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree (in a business combination achieved in stages) exceeds the Group's share in the fair value of net identifiable assets acquired and liabilities assumed, the difference is recorded as goodwill. When the difference is negative, the resulting gain is recognised as a bargain purchase directly in profit or loss.

The consideration transferred for the acquisition of a subsidiary does not include amounts related to the settlement of pre-existing business relationships. Such amounts are recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as an equity instrument, it is not remeasured and settlement is accounted for within equity. Otherwise, the fair value of contingent consideration is remeasured at each reporting date and the change is recognised in profit or loss.

Acquisitions prior to 1 September 2009

For business combinations prior to 1 September 2009 where the cost of acquisition exceeds the fair value of identifiable assets acquired and liabilities and contingent liabilities assumed, the difference is recorded as goodwill. When the difference is negative, is it is recognised directly in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

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 in 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 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 CURRENCY TRANSLATION

Transactions in foreign currency

Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rates ruling at the reporting date. Foreign exchange gains/losses arising on translation are recognised in profit or loss.

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to SEK at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to SEK at an average rate that is a reasonable approximation of the 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 gains/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 customer. 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 Group will comply with any conditions attached to the grant and that the grant will be received. No government grants were received during the financial year. For the comparison 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, on the line "Other income and expenses".

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, on the line "Other income and expenses".

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 the 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 in other comprehensive income or in equity, in which case the resulting tax effect is recognised in other comprehensive income or 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 historical 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, 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).

PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment in the Group are measured at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the costs of purchase and any other costs directly attributable to bringing the assets to a working condition for their intended use. Borrowing costs are not included in historical cost. The accounting policies for impairment are presented below.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The carrying amount of an item of property, plant and equipment 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 of an item of property, plant and equipment consists of the difference between the proceeds from disposal and the carrying amount of the asset less direct costs to sell and is recognised in 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 included in the carrying amount of an asset or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other subsequent expenditure is expensed in the profit and loss account for the period in which it arises.

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 recognised 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	2009/2010
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 historical 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 and liabilities assumed. Goodwill is allocated to cash-generating units and is tested for impairment at least annually.

Brands

Brands refer mainly to brands acquired indirectly 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.

Many of the brands owned by Cloetta have been used for many years. The assessment is that the acquired brands will also be used for many years, although it is not possible to make a reasonable estimate of the length of this time period. These brands have no definite useful life.

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 within the 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 that are acquired by the Group are measured at historical 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 for capitalised intangible assets is recognised as an asset in the balance sheet only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in profit or loss 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 using the First-In, First-Out (FIFO) method 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 production overheads, based on normal operating capacity.

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 tested for impairment at each balance sheet date, or earlier if changes in circumstances indicate that the carrying amount may not be recoverable. 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, which are tested according to IAS 39. For the excepted assets above, the carrying amount is reviewed according to the respective standard.

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

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. The calculation 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. These gains and losses are recognised according to the corridor method, which means that the portion of unrecognised accumulated actuarial gains and losses which exceeds 10% of the greater of the defined benefit obligation or the fair value of plan assets is recognised in profit or loss over the expected average remaining working lives of the participating employees covered by the plan. In other case, actuarial gains and losses are not recognised.

When valuation leads to a benefit to the Group, the recognised asset is limited to the total of any unrecognised actuarial losses and past service costs and the present value of future economic benefits from the plan or reductions in future contributions to the plan. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

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 and administered by Försäkringsbolaget PRI Pensionsgaranti, Mutual. 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.

ISSUED CONVERTIBLE NOTES

Convertible notes that can be converted into shares at the option of the holder are accounted for as compound financial instruments that are split between a liability and an equity component. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The value of the equity instrument is calculated as the difference between the proceeds when the convertible notes were issued and the fair value of the financial liability at the issue date. Any deferred tax attributable to the liability at the issue date is deducted from the carrying amount of the equity instrument. Directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of the proceeds. The interest expense is recognised in profit of loss and is calculated using the effective interest rate method.

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 valuation 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 2.2, Accounting for Legal Entities. The statements issued by the Board with respect to listed companies are also applied. RFR 2.2 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 2.2 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. Furthermore, the Parent Company has no statement of comprehensive income.

SUBSIDIARIES

In the Parent Company, shareholdings in subsidiaries are accounted for in accordance with the cost method of accounting. This means that transaction costs are included in the carrying amount of shareholdings in subsidiaries. In the consolidated financial statements, transaction costs are expensed as incurred. The value of contingent consideration is measured based on the probability that the consideration will be paid. Any changes in the provision/receivable are added to/reduce the historical cost. In the consolidated financial statements, contingent consideration is measured at fair value with changes through profit or loss.

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 recognised 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.

INCOME TAXES

In the Parent Company balance sheet, untaxed reserves are recognised with no division between equity and deferred tax liabilities, in contrast to the Group. Correspondingly, no portion of appropriations is allocated to deferred tax expense in the Parent Company profit and loss account.

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 and administered by Försäkringsbolaget PRI Pensionsgaranti, Mutual. 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.

BORROWING COSTS

In the Parent Company, borrowing costs are expensed in the period in which they are incurred. No borrowing costs are capitalised as part of the cost of an asset.

FINANCIAL GUARANTEES

The Parent Company's financial guarantee contracts consist primarily of guarantees issued on behalf of subsidiaries, joint ventures and associated companies. A financial guarantee contracts mean that the company has an obligation to reimburse the holder of a debt instrument for losses it incurs because a specified debtor fails to make payment when due. For reporting of financial guarantee contracts, the Parent Company applies a voluntary exemption that is permitted by the Swedish Financial Reporting Board compared to the rules in IAS 39. The voluntary exemption refers to financial guarantees issued on behalf subsidiaries, joint ventures and associated companies. The Parent Company recognises financial guarantee contracts as provisions in the balance sheet when it is probable that an outflow of resources will be required to settle the obligation.

NOTE 3 Breakdown of operating income

	Group		Parent Company	
	2010	**2009**	**2010**	**2009**
SEK M	1 Sep–31 Aug	1 Sep–31 Aug	1 Sep–31 Aug	1 Sep–31 Aug
Net sales				
Sale of goods	1,061	1,184	–	–
Service contracts	–	–	35	39
Other operating income				
Other	6[2]	37[1]	0	0
Total operating income	1,067	1,221	35	39

1) Refers to compensation of SEK 28 million from Fazer and the reversal of a SEK 9 million provision for contingent consideration relating to Karamellpojkarna.
2) Refers to foreign exchange differences.

NOTE 4 Amortisation/depreciation

	Group		Parent Company	
	2010	**2009**	**2010**	**2009**
SEK M	1 Sep–31 Aug	1 Sep–31 Aug	1 Sep–31 Aug	1 Sep–31 Aug
Intellectual property rights	2	1	–	–
Buildings	3	3	0	0
Machinery	43	40	–	–
Equipment	2	2	0	0
Total amortisation/depreciation	**50**	**46**	**0**	**0**
Amortisation/depreciation has been allocated by function as follows				
Cost of goods sold	46	43	–	–
Administrative expenses	4	3	0	0
Total	**50**	**46**	**0**	**0**

NOTE 5 Operating expenses by cost type

SEK M	Group 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug	Parent Company 2010 1 Sep– 31 Aug	Parent Company 2009 1 Sep– 31 Aug
Raw materials and consumables[1]	454	551	–	–
Change in inventories of finished goods and work in progress	25	34	–	–
Personnel expenses	243	291	17	27
Amortisation/depreciation	50	46	0	0
Other operating expenses	260	299	15	14
Total operating expenses	**1,032**	**1,221**	**32**	**41**
1) Of which, government grants (cost reductions) consisting of export subsidies	–	1	–	–

NOTE 6 Personnel expenses and number of employees

SEK M	Group 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug	Parent Company 2010 1 Sep– 31 Aug	Parent Company 2009 1 Sep– 31 Aug
Salaries and remuneration				
Senior executives				
– Sweden	12	15	7	11
Of which, bonuses	–	*2*	–	*1*
Other employees				
– Sweden	148	155	2	1
Total salaries and remuneration	**160**	**170**	**9**	**12**

Note 6, cont'd

SEK M	Group 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug	Parent Company 2010 1 Sep– 31 Aug	Parent Company 2009 1 Sep– 31 Aug
Pension costs				
Senior executives				
– Defined contribution plans	5	8	3	8
– Defined benefit plans	0	1	0	1
Other employees				
– Defined contribution plans	11	22	0	0
– Defined benefit plans	2	2	–	–
Total pension costs	**18**	**33**	**3**	**9**
Other social security expenses, all	55	65	4	6
Total personnel expenses	**233**	**268**	**16**	**27**
Average number of employees				
Sweden	452	464	6	7
Of whom, women	228	255	2	2

Specification of gender distribution in company managements

	Group 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug	Parent Company 2010 1 Sep– 31 Aug	Parent Company 2009 1 Sep– 31 Aug
Percentage of women				
Board of Directors	33%	46%	50%	50%
Other senior executives[1]	17%	25%	33%	29%

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

NOTE 7 Remuneration to senior executives

Remuneration and benefits in 2009/2010, (SEK 000s)	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total	Pension obligation
Board Chairman							
Olof Svenfelt	175	–	–	–	20	195	–
Board members							
Mikael Svenfelt	150	–	–	–	20	170	–
Lennart Bohlin	150	–	–	–	15	165	–
Ulrika Stuart Hamilton	150	–	–	–	15	165	–
Johan Hjertonsson	150	–	–	–	–	150	–
Meg Tivéus	150	–	–	–	20	170	–
Managing Director							
Curt Petri	2,624	–	132	1,502	–	4,258	7,642
Other senior executives (10 persons)	7,777	–	377	2,801	–	10,955	1,397
Total	**11,326**	**–**	**509**	**4,303**	**90**	**16,228**	**9,039**
Of which, Parent Company	6,661	–	376	2,857	90	9,984	8,023

Summary of remuneration and benefits in 2008/2009, (SEK 000s)	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total	Pension obligation
Board Chairman[2]	131	–	–	–	15	146	–
Other Board members[2]	715	–	–	–	30	745	–
Managing Director, incl. former MDs	3,003	732	119	1,505[1]	–	5,359	6,575
Other senior executives (6 persons)	7,410	665	190	1,820	–	10,085	677
Total	**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 November 2008 to an endowment insurance owned by Cloetta and pledged to Curt Petri, a so-called direct pension. The lump sum amount is tax-deductible in connection with disbursement of the pension.
2) The same individuals as in 2009/2010, see table on page 84.

Comments on the table for 2009/2010

- The figures in the table refer to costs for the financial year from 1 September 2009 to 31 August 2010.
- 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 18 December 2009 resolved that the Board would be paid fees in a total amount of not more than SEK 1,005,000, that the audit committee would be paid fees in a total amount of not more than SEK 60,000 and that the remuneration committee would be paid fees in a total amount of not more than SEK 40,000. Of total Board fees, the AGM resolved that SEK 175,000 would be paid the Board Chairman, SEK 150,000 to each of the other Board members and SEK 20,000 to each of the employee representatives. 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, 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 2,624,000 and other benefits of SEK 132,000. No variable remuneration has been paid. Variable remuneration in the previous year refers to a bonus 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 for 2008/2009.

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, customers, sales , purchasing, financial control, business development and production issues. During the financial year these individuals received total salaries of SEK 7,777,000 and other benefits of SEK 377,000. No variable remuneration has been paid. Variable remuneration in the previous year refers to a bonus 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.

Preparatory and decision-making process

The Board of Directors has set up a remuneration committee consisting of two members. The remuneration committee has prepared recommendations for the Board's decision on issues relating to remuneration principles, the amount of remuneration and the terms of employment for the Executive Management. These recommendations have included the proportional relationship between fixed and variable remuneration, the size of any salary increases, pension terms and termination benefits.

Remuneration to the Managing Director for the financial year 2009/2010 has been determined by the Board. Remuneration to other senior executives has been decided by the Managing Director. Monitoring of remuneration to the Executive Management has been carried out by the remuneration committee and the Board. Since the AGM on 18 December 2009, the remuneration committee has met on one occasion. The proposed guidelines for remuneration to senior executives will be presented to the AGM on 15 December 2010 for approval.

NOTE 1 NOTE 2 NOTE 3 NOTE 4 NOTE 5 NOTE 6 NOTE 7 NOTE 8 NOTE 9 NOTE 10 NOTE 11 NOTE 12 NOTE 13 NOTE 14 NOTE 15 NOTE 16 NOTE 17 NOTE 18 NOTE 19 NOTE 20 NOTE 21 NOTE 22 NOTE 23 NOTE 24 NOTE 25 NOTE 26 NOTE 27 NOTE 28 NOTE 29 NOTE 30 NOTE 31 NOTE 32 NOTE 33 NOTE 34 NOTE 35 NOTE 36

NOTE 8 Audit fees

SEK M	Group 2010 1 Sep–31 Aug	Group 2009 1 Sep–31 Aug	Parent Company 2010 1 Sep–31 Aug	Parent Company 2009 1 Sep–31 Aug
Fees for auditing services				
KPMG	2	2	0	1
Total auditing services	**2**	**2**	**0**	**1**

Mkr	Group 2010 1 Sep–31 Aug	Group 2009 1 Sep–31 Aug	Parent Company 2010 1 Sep–31 Aug	Parent Company 2009 1 Sep–31 Aug
Fees for other services				
KPMG				
– Tax advice	0	0	0	0
– Audit-related advice	0	1	0	1
– Other	0	0	0	0
Total other services	**0**	**1**	**0**	**1**
Total audit fees	**2**	**3**	**0**	**2**

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.

NOTE 9 Comparative information

SEK M	1 Sep 2009 – 31 Aug 2010 Excl. items affecting comparability	1 Sep 2009 – 31 Aug 2010 Items affecting comparability	1 Sep 2009 – 31 Aug 2010 Incl. items affecting comparability	1 Sep 2008 – 31 Aug 2009 Excl. items affecting comparability	1 Sep 2008 – 31 Aug 2009 Items affecting comparability	1 Sep 2008 – 31 Aug 2009 Incl. items affecting comparability
Net sales	1,061	–	1,061	1,184	–	1,184
Cost of goods sold	–732	–	–732	–841	–7[1)]	–848
Gross profit/loss	**329**	**–**	**329**	**343**	**–7**	**336**
Other operating income	6	–	6	0	37[2)]	37
Selling and administrative expenses	–299	–	–299	–321	–44[1)]	–365
Other operating expenses	–1	–	–1	–14	6[3)]	–8
Operating profit/loss	**35**	**–**	**35**	**8**	**–8**	**0**
Financial items	–4	–	–4	–1	–	–1
Profit/loss before tax	**31**	**–**	**31**	**7**	**–8**	**–1**
Income taxes	–9	–	–9	2	5	7
Profit/loss for the period	**22**	**–**	**22**	**9**	**–3**	**6**

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 contingent consideration. 3) Refers to compensation received from Fazer Confectionery in respect of forward exchange contracts.

NOTE 10 Financial income and expense

SEK M	Group 2010 1 Sep–31 Aug	Group 2009 1 Sep–31 Aug
Interest income on financial assets held for trading (incl. investments with a remaining maturity of < 3 months)	1	1
Net gain on financial assets/liabilities held for trading[1)]	0	0
Interest income on bank balances	2	4
Financial income	**3**	**5**
Interest income on liabilities measured at amortised cost	–2	–1
Interest expenses on financial assets/liabilities held for trading	–1	0
Net exchange gains/losses	0	–1
Interest expenses on defined benefit pension obligations	–4	–4
Other interest expenses	0	0
Financial expenses	**–7**	**–6**
Net financial items	**–4**	**–1**

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

NOTE 11 Result from financial investments

SEK M	Parent Company 2010 1 Sep– 31 Aug	2009 1 Sep– 31 Aug
Result from shareholdings in group companies		
Dividends from subsidiaries	–	80
Other interest income and similar profit/loss items		
Interest income, group companies	0	1
Interest income on bank balances	0	0
Financial income	**0**	**81**
Interest expense and similar profit/loss items		
Interest expenses, group companies	–	–1
Net exchange gains/losses	0	0
Interest expenses on defined benefit pension obligations	0	0
Interest expenses on financial liabilities measured at amortised cost	–2	–1
Other interest expenses	0	0
Financial expenses	**–2**	**–2**
Result from financial investments	**–2**	**79**

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

NOTE 12 Appropriations

SEK M	Parent Company 2010 1 Sep– 31 Aug	2009 1 Sep– 31 Aug
Change in tax allocation reserve	–1	–1
Difference between planned depreciation and book depreciation	0	0
Total	**–1**	**–1**

NOTE 13 Income taxes

SEK M	Group 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug	Parent Company 2010 1 Sep– 31 Aug	Parent Company 2009 1 Sep– 31 Aug
Tax on profit for the year is broken down as follows				
Current tax				
Swedish income tax	–14	–8	–1	–1
Deferred tax				
Sweden	5	15	1	2
Total	**–9**	**7**	**0**	**1**
The year's income tax expense corresponds to an effective tax rate of, %	30.9	440.5	40.9	1.7
The difference between the effective tax rate and the statutory tax rate in Sweden, is attributable to the following items:				
Tax rate in Sweden, %	26.3	28.0	26.3	28.0
Non-taxable income, %	–1.0	200.3	0	0
Non-deductible expenses and other items, %	5.6	–228.0	13.5	–26.3
Effect of changed tax rate in calculation of deferred tax on untaxed reserves	–	440.2	–	–
Effect of reported tax from prior periods	0.0	–	1.1	–
Reported effective tax rate, %	**30.9**	**440.5**	**40.9**	**1.7**
Deferred tax liabilities (+)/assets (–) are broken down as follows				
Intangible assets	12	13	0	0
Property, plant and equipment	63	61	0	0
Other untaxed reserves*	29	35	0	–
Loss carryforwards	–1	–1	–	–
Other temporary differences	0	0	–2	–1
Closing balance at end of year	**103**	**108**	**–2**	**–1**

** Refers to tax allocation reserves.*

Deferred tax pertaining to untaxed reserves in the Parent Company is reported only in the Group. See Note 36.

Deferred tax liabilities (+)/assets (–), change between years	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Opening value at beginning of year	108	122	–1	0
Change through profit or loss	–5	–15	–1	–2
Change through equity pertaining to convertible debenture loan	–	1	–	1
Closing balance at end of year	**103**	**108**	**–2**	**–1**

NOTE 14 Intangible assets, Group

SEK M	Goodwill[1]	Brands[2]	Licenses[3]	Total
Historical cost				
Opening balance, 1 September 2008	181	50	21	252
Acquisitions	–	–	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
Closing balance, 31 August 2009	**–90**	**–**	**–19**	**–109**
Carrying amounts				
1 September 2008	91	50	3	144
31 August 2009	91	50	2	143
Historical cost				
Opening balance, 1 September 2009	181	50	21	252
Acquisitions	–	–	3	3
Closing balance, 31 August 2010	**181**	**50**	**24**	**255**
Accumulated amortisation and impairment				
Opening balance, 1 September 2009	–90	–	–19	–109
The year's amortisation	–	–	–2	–2
Closing balance, 31 August 2010	**–90**	**–**	**–21**	**–111**
Carrying amounts				
1 September 2009	91	50	2	143
31 August 2010	91	50	3	144

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 the carrying amount of brands in the Group are attributable to the acquisition of Candelia AB in 1998. These brands were transferred and goodwill was assigned to the Cloetta Group in connection with the formation of the group 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. Cash flows after five years are extrapolated using a estimated growth rate of 2.5 per cent.

At 31 August 2010, 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 was 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 the management's judgement. The pre-tax discount rate has been estimated at 9.8% (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 Property, plant and equipment, Group

SEK M	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Historical cost					
Opening balance, 1 September 2008	93	565	21	64	743
Acquisitions	31	2	2	76	111
Reclassification	–	28	–	–28	–
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
Historical cost					
Opening balance, 1 September 2009	124	587	20	112	843
Acquisitions	2	4	1	42	49
Reclassification	–	22	–	–22	–
Sales and disposals	–	–6	0	–	–6
Closing balance, 31 August 2010	**126**	**607**	**21**	**132**	**886**
Accumulated depreciation and impairment					
Opening balance, 1 September 2009	–6	–365	–11	–	–382
The year's depreciation	–3	–43	–2	–	–48
Sales and disposals	–	4	–	–	4
Closing balance, 31 August 2010	**–9**	**–404**	**–13**	**–**	**–426**
Carrying amounts					
At 1 September 2009	118	222	9	112	461
At 31 August 2010	117	203	8	132	460

SEK M	**2010** 31 Aug	**2009** 31 Aug
Tax assessment values		
Tax assessment values, buildings (in Sweden)	78	73
Tax assessment values, land (in Sweden)	24	24
Total	**102**	**97**

NOTE 15 Property, plant and equipment, Parent Company

SEK M	Buildings and land	Equipment, tools, fixtures and fittings	Total
Historical cost			
Opening balance, 1 September 2008	4	0	4
Investments	0	0	0
Closing balance, 31 August 2009	**4**	**0**	**4**
Accumulated depreciation and impairment			
Opening balance, 1 September 2008	–	–	–
The year's depreciation	0	0	0
Closing balance, 31 August 2009	**0**	**0**	**0**
Carrying amounts			
At 1 September 2008	4	0	4
At 31 August 2009	4	0	4
Historical cost			
Opening balance, 1 September 2009	4	0	4
Closing balance, 31 August 2010	**4**	**0**	**4**
Accumulated depreciation and impairment			
Opening balance, 1 September 2009	0	0	0
The year's depreciation	0	0	0
Closing balance, 31 August 2010	**0**	**0**	**0**
Carrying amounts			
At 1 September 2009	4	0	4
At 31 August 2010	4	0	4

SEK M	**2010** 31 Aug	**2009** 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 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug
Employee benefit assets measured at fair value in accordance with IAS 19		
Endowment insurances	1	2
Closing balance at end of year	**1**	**2**
Financial assets at fair value through profit or loss		
Fixed-income securities	50	21
Closing balance at end of year	**50**	**21**

NOTE 17 Shareholdings in group companies

SEK M	Corp. ID no.	Domicile	No. of shares	% of capital 2010	% of capital 2009	Carrying amount 2010	Carrying amount 2009
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	911 167 271	3)		100	100	–	–
Cloetta A/S	967 897 167	3)		100	100	–	–
AB Karamellpojkarna	556063-3223	2)	15,000	100	100	4	4
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	**538**

1) Linköping 2) Alingsås 3) Askim/Norway 4) Gibraltar/Spain

NOTE 18 Inventories

SEK M	Group 2010 31 Aug	Group 2009 31 Aug
Raw materials and consumables	30	28
Work in progress	9	8
Finished goods and goods for resale	106	81
Closing balance at end of year	**145**	**117**

NOTE 19 Prepaid expenses and accrued income

SEK M	Group 2010 31 Aug	Group 2009 31 Aug	Parent Company 2010 31 Aug	Parent Company 2009 31 Aug
Prepaid personnel-related expenses	1	2	0	1
Prepaid rents, insurance and lease charges	2	1	0	0
Other prepaid expenses	5	5	1	0
Accrued interest	2	0	0	0
Other accrued income	0	1	–	–
Closing balance at end of year	**10**	**9**	**1**	**1**

NOTE 20 Cash and cash equivalents

	Group		Parent Company	
SEK M	2010 31 Aug	2009 31 Aug	2010 31 Aug	2009 31 Aug
Specification of cash and cash equivalents				
Cash and bank balances	160	191	72	56
Short-term investments, equated with cash and cash equivalents	35	65	–	–
Total	**195**	**256**	**72**	**56**

NOTE 21 Equity

Equity in the Group is broken down as follows:

	Group	
SEK M	2010 31 Aug	2009 31 Aug
Equity	733	711
Profit for the year	22	6
Equity/assets ratio, %	65.7	63.9
Cash flow from operating activities	19	127
Cash flow after investing activities	–61	–2

The Group's long-term targets

Growth

Cloetta's target is achieve average organic growth of 3% annually over a five-year period. In addition, Cloetta aims to grow through partnerships and acquisitions. Sales of Cloetta's products during financial year grew by 8% (6).

Operating margin

The long-term operating margin should be 8%. During the financial year, the operating margin was 3.3% (0.7).

Equity/assets ratio

The equity/assets ratio should be at least 35%. A lower ratio can be accepted temporarily in connection with acquisitions. At 31 August 2010, the equity/assets ratio was 65.7% (63.9).

Dividend

Cloetta strives to maintain an even dividend payout ratio. The target is to distribute at least 40% of the Group's net profit. The Board proposes to the Annual General Meeting a dividend of SEK 0.75 per share (–), which is equal to 83% of the Group's net profit.

The breakdown of dividends is as follows:

	Parent Company	
SEK M	2010 31 Aug	2009 31 Aug
Reported dividend	–	4[1)]
Proposed dividend	18	–
Dividend per share, SEK		
Reported	–	0,18
Proposed	0.75	–

1) A dividend was paid to settle the net receivable under the Separation Agreement, see also page 54 in the administration report of the previous year's annual report.

PARENT COMPANY

Share capital

The number of shares on 31 August 2010 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. 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 class A shares specified in the request to class B shares.

The 2009/2010 Annual General Meeting on 15 December 2010 is proposed to approve an amendment to the Articles of Association regarding conversion of class A shares to class B shares.

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.

Retained earnings

Retained earnings comprises the sum of profit for the year and retained earnings from previous years. Retained earnings including the share premium reserve represent the amount of equity available for distribution to the shareholders.

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.

Reserves

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 2009–2010 have been insignificant.

Changes in equity

For disclosures about changes in equity in the Group, see the statement of changes in equity on page 72.

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 2010.

	Group	
	2010	2009
SEK M	31 Aug	31 Aug
Basic earnings per share		
Profit for the year	22	6
Number of ordinary shares outstanding	24,119,196	24,119,196
Basic earnings per share , SEK	0.90	0.23

	Group	
	2010	2009
SEK M	31 Aug	31 Aug
Diluted earnings per share		
Profit for the year	22	6
Interest expense on convertible notes	3	1
Tax attributable to interest expense	–1	0
Adjusted profit/loss	24	7
Weighted average number of ordinary shares during the year after dilution	25,124,085	24,412,624
Diluted earnings per share , SEK	0.90	0.23

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 and administered by Försäkringsbolaget PRI Pensionsgaranti, Mutual. 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	
	2010	2009
SEK M	31 Aug	31 Aug
Defined benefit pension plans	74	69
The amounts recognised on the following lines of the balance sheet have been calculated as follows		
Present value of unfunded obligations	101	85
Unrecognised actuarial gains (+) and losses (–)	–27	–16
Total	**74**	**69**
Amounts are recognised on the following lines of the balance sheet		
Provisions for pensions and similar commitments	74	69
Pensions not regulated by the Occupational Pension Act	0	0
Total	**74**	**69**

	Group	
	2010	2009
SEK M	31 Aug	31 Aug
The amounts recognised in the profit and loss account for defined benefit pensions plans are as follows		
Current service costs	3	2
Interest expenses	4	4
Net actuarial losses (+) and gains (–) recognised for the year	0	0
Total	**7**	**6**
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	1
Selling expenses	1	1
Administrative expenses	1	0
Financial expenses	4	4
Totalt	**7**	**6**
Specification of changes in the net liability recognised in the balance sheet		
Net liability at beginning of year according to the adopted balance sheet	69	64
Net expense (+)/net income (–) recognised in the profit and loss account	7	6
Benefits paid	–2	–1
Net liability at end of year	**74**	**69**
Unrecognised actuarial losses		
Opening actuarial loss	–16	–14
The year's actuarial loss	–11	–2
Total	**–27**	**–16**

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 interpolation of the yield curve to 29.0 years.

The ***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.

The ***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.

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Note 23, cont'd

	Group	
	2010	**2009**
Expressed as a weighted average, %	31 Aug	31 Aug
Discount rate	3.5	4.0
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	1.5
Employee turnover rate	5.0	5.0

Historical information	**2010**	**2009**
Defined benefit pension plans		
Present value of obligations	101	85
Present value of net obligation	101	85
Unrecognised actuarial gains (+) and losses (–)	–27	–16
Net liability in the balance sheet	**74**	**69**

NOTE 24 Other provisions

	Group	
	2010	**2009**
SEK M	1 Sep–31 Aug	1 Sep–31 Aug
Provisions that are non-current liabilities		
Special wage tax	–	0
Termination benefits, layoff benefits and other personnel-related expenses	–	4
Total	**–**	**4**
Provisions that are current liabilities		
Termination benefits, layoff benefits and other personnel-related expenses	6	16
Total	**6**	**16**
Cost arising from staff reductions		
Reported value at beginning of period	20	4
Provisions made during the period	0	51
Amount utilised during the period	–14	–35
Closing balance at end of year	**6**	**20**
Payments		
Amount by which the provision is expected to be settled after more than 12 months	–	4

NOTE 25 Convertible debenture loan

	Group/Parent Company	
	2010	**2009**
	31 Aug	31 Aug
Carrying amount of liability component on the balance sheet date (SEK M)	28	26
Nominal amount of liability component (SEK M)	30	30
Conversion rate (SEK)	30.4	

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 held. 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 3.48% for the period from 11 November 2009 to 10 November 2010.

NOTE 26 Other current liabilities

	Group		Parent Company	
	2010	**2009**	**2010**	**2009**
SEK M	31 Aug	31 Aug	31 Aug	31 Aug
Derivatives	1	1	–	–
Value added tax	3	0	1	1
Employee withholding taxes	5	5	0	0
Other	1	1	–	–
Closing balance at end of year	**10**	**7**	**1**	**1**

NOTE 27 Accrued expenses and deferred income

	Group		Parent Company	
	2010	**2009**	**2010**	**2009**
SEK M	31 Aug	31 Aug	31 Aug	31 Aug
Accrued personnel-related expenses	49	56	5	5
Accrued bonuses and discounts	23	22	–	–
Other accrued expenses	19	12	4	2
Deferred income	1	4	–	–
Closing balance at end of year	**92**	**94**	**9**	**7**

NOTE 28 Cash flow statement

SEK M	Group 2010 1 Sep– 31 Aug	Group 2009 1 Sep– 31 Aug
Specification of non-cash items		
Amortisation/depreciation and impairment of assets	50	46
Capital gains/losses on the sale of non-current assets	1	1
Unrealised foreign exchange gains/losses	–3	1
Provisions for pensions	5	5
Other provisions	–14	5
Other non-cash items	4	1
Total	**43**	**59**

NOTE 29 Interest and dividends

SEK M	Group 2010 31 Aug	Group 2009 31 Aug
Interest paid	–1	–1
Interest received	2	4
Dividends paid	–	–4
Dividends received	–	–
Total	1	–1

NOTE 30 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, foreign exchange 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 the coming 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 (50) at 31 August 2010.

Cash and cash equivalents and short-term investments at 31 August 2010 totalled SEK 245 million (277).

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	70	0	–	–	70
Total	**70**	**0**	**–**	**30**	**100**

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, at any given time, 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. The forecasted future cash flow must always be weighed into the finance function's decisions regarding the maturities and amounts of the 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 31 August 2010 was estimated at approximately SEK 0.1 million (0.3) and the average fixed duration at the same date was approximately 2 months (4).

SEK M	Fair value	Average interest rate, %	Within 3 mths	3 mths –1 yr	1–5 yrs	Total
Assets						
Cash and cash equivalents	195	0.8	195	–	–	195
Short-term investments	50	2.0	40	10	–	50
Total assets	**245**		**235**	**10**	**–**	**245**
Liabilities						
Convertible debenture loan	30	3.48	–	–	30	30
Total liabilities	**30**		**–**	**–**	**30**	**30**

Foreign exchange risk

The Group is exposed to different types of foreign exchange 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 2009/2010, 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 6 million (–8) and net financial items by SEK –0.1 million (0.4).

Note 30, cont'd

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 and equipment are 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 established 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 2009/2010 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 –1.2 million (–0.9).

Transaction exposure and exposure hedge

Currency	Actual 2009/2010*	Forecast 2010/2011*	Hedged share of 2010/2011 forecast, %
EUR M	–15	–16	52
NOK M	52	54	56
DKK M	–7	–10	6
PLN M	–0	–0	0
GBP M	–0	–0	0

** 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 2010/2011	1% change in SEK value, SEK M
EUR M	–16	+/–1
NOK M	54	+/–1
DKK M	–10	+/–0
PLN M	–0	+/–0
GBP M	–0	+/–0
Total		**+/–2**

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– (Standard & Poor's) or an equivalent rating from a similar 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 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 2009/2010 and in a historical perspective, and at each monthly closing the Group reviews overdue trade receivables to assess these for evidence of impairment.

Specification of credit risks

	Group	
SEK M	**2010** 31 Aug	**2009** 31 Aug
Credit risk exposure		
Cash and cash equivalents	195	256
Fixed-income securities	50	21
Trade receivables	107	88
Total	**352**	**365**
Geographic spread of credit risk exposure		
Sweden	141	93
Other Nordic countries	15	16
Other markets	1	0
Total	**157**	**109**
Age analysis of overdue trade receivables, not written down		
Trade receivables not yet due	104	89
Overdue trade receivables, 0–30 days	3	0
Overdue trade receivables, 31–60 days	0	–1
Overdue trade receivables, 61–90 days	0	0
Overdue trade receivables, > 90 days	0	0
Total	**107**	**88**

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 on consolidated profit. In a longer perspective, however, consolidated profit will be affected by more lasting changes in currency and interest rates. At 31 August 2010, 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 and equity by approximately SEK 1 million. A general increase of 1% in the value of the Swedish krona against other foreign currencies would have an effect of approximately SEK 2 million on profit and equity based on the Group's forecasted transaction exposure for 2010/2011.

Equity is affected by translation gains/losses from foreign subsidiaries 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 achieved partly through claims prevention measures and partly through 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

	2010 31 Aug		2009 31 Aug	
SEK M	Carrying amount	Fair value	Carrying amount	Fair value
Employee benefit assets measured at fair value in accordance with IAS 19				
Endowment insurances	1	1	2	2
Financial assets held for trading measured at fair value through profit or loss				
Fixed-income securities	50	50	21	21
Loans and receivables				
Cash and cash equivalents	195	195	256	256
Trade receivables	107	107	88	88
Total financial assets	**353**	**353**	**367**	**367**
Financial liabilities measured at fair value through profit or loss				
Derivatives	1	1	1	1
Financial liabilities measured at amortised cost				
Convertible debenture loan	28	28	26	26
Trade payables	70	70	77	77
Total financial liabilities	**99**	**99**	**104**	**104**

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

All 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 cash flows of the principal amount and interest discounted by a market rate of interest for similar liabilities without an equity conversion option.

NOTE 31 Pledged assets and contingent liabilities

	Group		Parent Company	
SEK M	2010 31 Aug	2009 31 Aug	2010 31 Aug	2009 31 Aug
Assets pledged to secure pension obligations				
Endowment insurances	1	2	–	–
Total pledged assets	**1**	**2**	**–**	**–**
Contingent liabilities				
Guarantees on behalf of subsidiaries	–	–	75	71
Guarantees, PRI	1	1	–	–
Other guarantee commitments	1	1	–	–
Total contingent liabilities	**2**	**2**	**75**	**71**

A lawsuit has been filed against Aktiebolaget Karamellpojkarna by the Alingsås district court regarding the 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 32 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. During the period from 1 September 2009 to 31 August 2010, the Parent Company's purchases from related parties amounted to SEK 1 million (0), equal to 0.1% of the Group's total purchases. 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	2010 31 Aug	2009 31 Aug
Current Interest-bearing receivables	24	34
Current interest-free receivables	4	7
Total	**28**	**41**

For the Parent Company, SEK 35 million (39), equal to 100% (100) of the year's sales, and SEK 0 million (1), equal to 2% (4) of the year's purchases, refer to subsidiaries in the Cloetta Group. The prices of goods and services sold to and purchased from related parties are set on market-based terms.

NOTE 33 Operating leases

Recognised expenses for operating leases amount to

	Group	
SEK M	2010 1 Sep– 31 Aug	2009 1 Sep– 31 Aug
Lease charges	13	16
Future annual payment obligations for leased assets in the Group are broken down as follows		
Within one year	8	10
Between one and five years	12	3
Total	**20**	**13**

Operating leases refer primarily to rents for a storage facility. No lease has a term of more than five years. A new lease agreement has been signed for the storage facility during the current financial year.

NOTE 34 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 35 Events after the balance sheet date

On 14 September, Cloetta cut 17 jobs at the factory in Ljungsbro. The redundancies will affect employees in production and are a response to Fazer's decision to transfer production of certain products that are currently manufactured in Ljungsbro to Finland and the effects of completed equipment investments. After the end of the reporting period, no additional significant events have taken place that could affect the company's operations.

NOTE 36 Untaxed reserves

Accumulated excess depreciation	Parent Company	
SEK M	2010 31 Aug	2009 31 Aug
Equipment		
Opening balance	0	–
The year's excess depreciation	0	0
Sales and disposals	–	–
Closing balance at end of year	**0**	**0**
Tax allocation reserves		
Provision for 2010 tax assessment	1	1
Provision for 2011 tax assessment	1	–
Closing balance at end of year	**2**	**1**
Total untaxed reserves	**2**	**1**

Audit report

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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 2009 to 31 August 2010. The company's annual accounts and the consolidated accounts are included in the printed version of this document on pages 61–98. 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, 25 November 2010
KPMG AB

Helene Willberg
Authorised Public Accountant

Multi-year overview

SEK M	Sep 2009–Aug 2010	Sep 2008–Aug 2009	2008 Jan–Aug	Proforma Sep 2007–Aug 2008
Profit and loss account in summary				
Net sales	**1,061**	1,184	838	1,387
Operating expenses	**–1,031**	–1,213	–928	–1,450
Other operating income	**6**	37	6	6
Other operating expenses	**–1**	–8	0	0
Operating profit/loss	**35**	0	–84	–57
Financial items	**–4**	–1	3	5
Profit/loss before tax	**31**	–1	–81	–52
Income tax expense	**–9**	7	–4	–11
Profit/loss for the year	**22**	**6**	**–85**	**–63**
Attributable to				
Owners of the Parent Company	**22**	6	–85	–63
Balance sheet in summary				
Intangible assets	**144**	143	144	144
Property, plant and equipment	**460**	461	397	397
Financial assets	**1**	2	4	4
Inventories	**145**	117	153	153
Current receivables	**121**	113	185	185
Cash and cash equivalents	**245**	277	279	279
Total assets	**1,116**	**1,113**	**1,162**	**1,162**
Equity	**733**	711	707	707
Non-current liabilities				
Interest-bearing liabilities	**28**	26	–	–
Interest-bearing provisions	**74**	69	65	65
Interest-free provisions	**103**	112	133	133
Current liabilities				
Interest-bearing liabilities	**–**	–	47	47
Interest-free liabilities	**178**	195	210	210
Total equity and liabilities	**1,116**	**1,113**	**1,162**	**1,162**
KEY RATIOS				
Items affecting comparability	**–**	–8	–92	–114
Operating profit excl. items affecting comparability	**35**	8	8	57
Operating margin excl. items affecting comparability, %	**3.3**	0.7	1.0	4.1
Profit margin, %	**2.9**	neg	neg	neg
Net receivable	**144**	183	171	171
Capital employed	**835**	806	819	819
Equity/assets ratio, %	**65.7**	63.9	60.9	60.9
Return on capital employed excl. items affecting comparability, %[1)]	**4.7**	1.2	3.8	3.8
Return on equity after tax excl. items affecting comparability, %[1)]	**3.0**	1.3	5.9	5.9
Cash flow from operating activities	**19**	127	–35	25
Cash flow after investments in property, plant and equipment	**–32**	16	–121	–72
Investments in property, plant and equipment	**51**	111	85	97
Average number of employees	**452**	464	503	512
Payroll expenses	**160**	170	111	151

1) Refers to rolling 12-month period

Key ratios per share

		Sep 2009–Aug 2010	Sep 2008–Aug 2009	2008 Jan–Aug	Pro forma Sep 2007–Aug 2008
Earnings per share, basic and diluted	SEK	**0.90**	0.23	–3.50	–2.63
Earnings per share, basic and diluted, excl. items affecting comparability	SEK	**0.90**	0.35	0.31	1.84
Cash flow from operating activities	SEK	**0.78**	5.27	–1.45	1.04
Equity, basic and diluted	SEK	**30.38**	29.47	29.34	29.34
Dividend	SEK	**0.75**	–	–	–
Share price at 31 August	SEK	**39.10**	28.50	–	–
P/E ratio	Times	**43**	124	–	–
Price/equity ratio	%	**129**	97	–	–
Dividend yield	%	**1.9**	–	–	–
Average weighted number of shares, basic [1]		**24,119,196**	24,119,196	24,119,196	24,119,196
Average weighted number of shares, diluted [1]		**25,124,085**	24,412,624	24,119,196	24,119,196
Number of shares at end of period, basic [1]		**24,119,196**	24,119,196	24,119,196	24,119,196
Number of shares at end of period, diluted [1]		**25,124,085**	25,124,085	24,119,196	24,119,196

1) Dilution in 2008/2009 and 2009/2010 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 by 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.

- In 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.
- In 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 holdings in Cloetta.
- In 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.
- In the 1980s and 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.
- In 1994 Cloetta's class B share was listed on the Stockholm Stock Exchange.
- In 1998 Cloetta acquired Candelia, including the brands Polly and Bridge.
- In 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.
- In 2001 the Group's trading operations were divested.
- In 2007 AB Karamellpojkarna was acquired in Alingsås, with the brands Extra Starka, Hemkola, Fruktklubbor and Fünf Kräuter.
- In 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 had become a division of the Fazer group, and Cloetta.
- In 2009 Cloetta's class B share was once again listed on NASDAQ OMX Stockholm.

Cloetta's chocolate shop in Ljungsbro contains an exhibit on the history of chocolate and Cloetta. Here, visitors can view older packages and watch advertising films of today and yesterday.

The shop carries Cloetta's entire product range as well as an outlet for chocolate factory seconds at attractive prices.

The shop is open on weekdays from 9 a.m. to 6 p.m. and Saturdays from 10 a.m. to 2 p.m.

Annual General Meeting

The Annual General Meeting (AGM) will be held on Wednesday, 15 December 2010, 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 Thursday, 9 December 2010, 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 Thursday, 9 December 2010.

DIVIDEND

The Board proposes a dividend of SEK 0.75 per share for the financial year 2009/2010.

REGISTRATION

Registration to participate in the AGM must be received by the company no later than Thursday, 9 December 2010. 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

TO ORDER THE ANNUAL REPORT

The annual report is published in Swedish and English. The printed annual report can be ordered via the website, e-mail to eva.gad@cloetta.se or by calling +46 13-28 50 00. It can also be downloaded from www.cloetta.se or www.cloetta.com.

Kexchoklad and the mountains – an active combination.

Financial calendar

Interim report Q1, September 2010 – November 2010	15 December 2010
Interim report Q2, September 2010 – February 2011	23 March 2011
Interim report Q3, September 2010 – May 2011	23 June 2011
Year-end report, September 2010 – August 2011	18 October 2011
Annual General Meeting 2010/2011	19 December 2011

Kexchoklad and A Swedish Classic – a new combination.

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Plopp was the focus of Cloetta's involvement and presence during the festivities surrounding the wedding of Sweden's Crown Princess Victoria and Mr. Daniel Westling on 19 June 2010. Plopp Mini was given a temporary new wrapper with the messages Hug, Kiss, Joy and Love. We will be seeing more of the specially designed packages in the future.

Cloetta

Cloetta AB, SE-590 69 Ljungsbro, Sweden, www.cloetta.com