Cloetta

Annual and sustainability report

2017

Contents

■ The audited annual report for Cloetta AB (publ) 556308-8144 consists of the administration report and the accompanying financial statements on pages 1–4 and 62–139.
■ The sustainability report consists of pages 1–10, 37-40, 44–55, 71, and 149–156.

The annual report is published in Swedish and English.
The Swedish version is the original.

As a result of the sale of Cloetta S.r.l. on 5 September 2017, the divestment of Cloetta Italia S.r.l. has been accounted for as discontinued operation. The comparative figures in the consolidated profit and loss account and the profit and loss account related disclosure notes have been restated to present the discontinued operation separately from continuing operations. The comparative figures in the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the hereto related disclosure notes have not been restated.

Cloetta

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

FOUNDED IN
1862

2,467
EMPLOYEES

SALES IN
>50
COUNTRIES

LEADING BRANDS

8

ANNUAL SALES
SEK
5.8
BILLION

CHOCOLATE

CANDY

PASTILLES

CHEWING GUM

PICK & MIX

NUTS

VISION
To be the most admired satisfier of Munchy Moments

MISSION
To bring a smile to your Munchy Moments

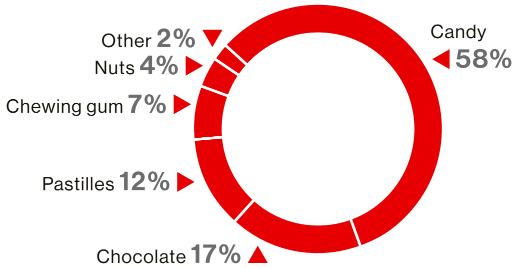
The vision, together with the goals and strategies, expresses Cloetta's business concept

Munchy Moments

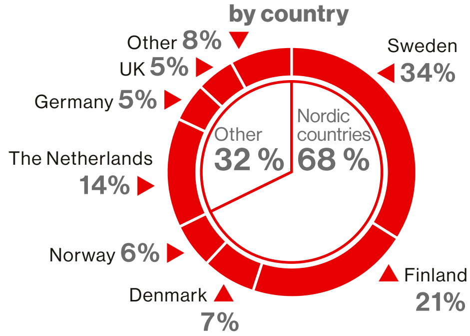
Cloetta's strengths

- Strong brands and market positions.
- Excellent availability in stores enabled by a strong and effective sales and distribution organization.
- Good consumer recognition and loyalty.
- Innovative product and package development.
- Efficient production with high and consistent quality.

Cloetta's net sales by category



Cloetta's net sales by country



Categories where Cloetta is among the market leaders

Sweden
Candy
Chocolate countlines
Pastilles
Chocolate bags
Pick & mix

Norway
Pastilles
Candy
Pick & mix

Denmark
Pastilles
Candy
Pick & mix

The Netherlands
Pastilles
Candy
Chewing gum

Finland
Pastilles
Chewing gum
Candy
Pick & mix

The year in brief

Q1

- Strategic review of Cloetta Italy is announced.
- Henri de Sauvage-Nolting takes his seat as new President and CEO.
- Acquisition of Candyking is announced.

Q2

- Acquisition of Candyking is completed.
- Dividend of SEK 0.75 per share is paid, representing 53 per cent of net profit before impairment.
- Divestment of Cloetta Italy is announced.
- A fire at the factory in Turnhout, Belgium, destroys one production line.

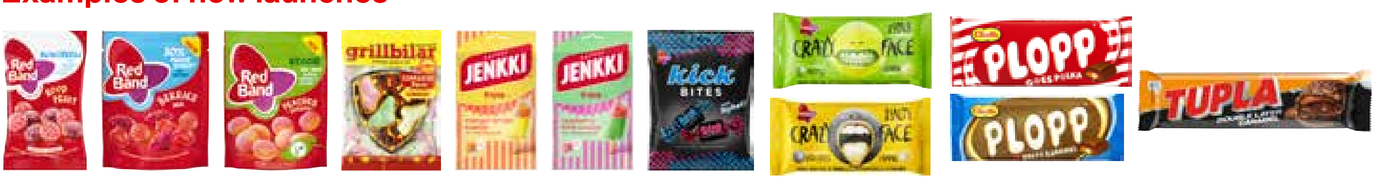
Q3

- Marcel Mensink is appointed as new President Operations.
- Annual Report comes top in Reportwatch competition, food and beverage category.
- Cloetta receives best corporate website award.
- Divestment of Cloetta Italy is completed.

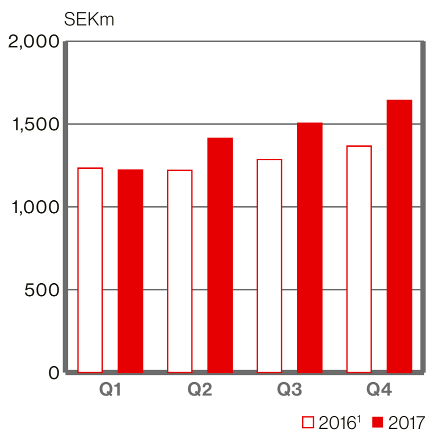
Q4

- Cloetta's Scandinavian management to be divided into two roles, President Cloetta Sweden and President Cloetta Denmark & Norway.
- Cloetta's Head Office moves to Solna.
- The Board proposes an ordinary dividend of SEK 0.75 per share and a special dividend of SEK 0.75 per share, in total corresponding to SEK 1.50 per share.

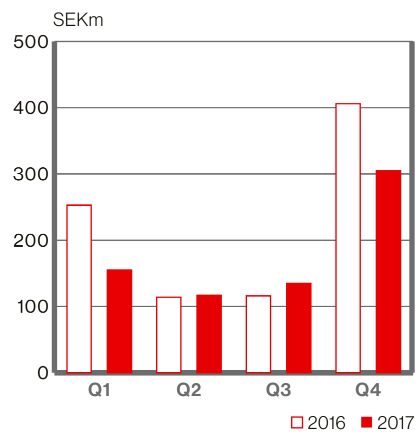
Examples of new launches



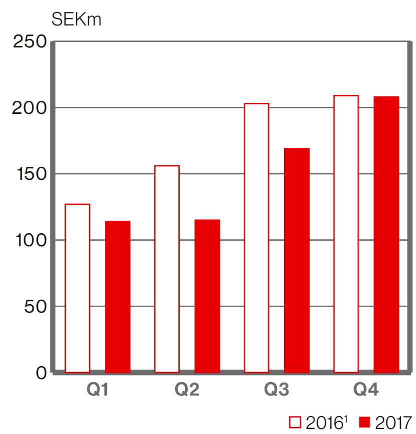
Net sales



Cash flow from operating activities



Operating profit, adjusted



Key ratios

SEKm	2017	2016[1]	2015	2014	2013
Net sales	5,784	5,107	5,674	5,313	4,893
Operating profit (EBIT), adjusted	604	695	690	632	585
Operating profit margin (EBIT margin), adjusted %	10.4	13.6	12.2	11.9	12.0
Operating profit (EBIT)	527	635	671	577	418
Operating profit margin (EBIT margin), %	9.1	12.4	11.8	10.9	8.5
Profit/loss before tax	443	469	493	338	210
Profit/loss for the period	–97	–191	386	242	264
Profit/loss for the period excluding impact of impairment loss discontinued operation including corporate income tax effects and other items affecting comparability	402	403	386	242	264
Earnings per share, basic and diluted, SEK	–0.34	–0.67	1.35	0.84	0.92
Earnings per share, basic and diluted excluding impact of impairment loss discontinued operation including tax effects and other items affecting comparability, SEK	1.40	1.41	1.35	0.84	0.92
Net debt/EBITDA, x	2.39	2.44	3.03	3.97	4.19
Cash flow from operating activities	712	889	927	500	131

1) Comparative figures for profit and loss account items have been restated for discontinued operation, read more on page 89.

For definitions, see page 147.

A year of change

Acquisition of Candyking and divestment of Cloetta Italy

2017 was a year of change for Cloetta. The acquisition of Candyking and the divestment of Cloetta Italy changed the Group's structure significantly. This increases our focus on profitable growth in the Northern and Western European markets. At the same time, synergies are created from the acquisition of Candyking.

Net sales for the year rose by SEK 677m to SEK 5,784m (5,107) compared to last year. Organic growth was –1.2 per cent. Operating profit, adjusted for items affecting comparability, amounted to SEK 604m (695).

Stable cash flow and on-target net debt/EBITDA ratio

Cloetta has a stable cash flow and the decrease we saw in 2017 was mainly due to a lower operating profit and higher tax payments related to a tax settlement in Italy. In addition, the comparative figure for 2016 contains the divested Italian business.

It is gratifying that Cloetta, for the second consecutive year, has a net debt/EBITDA ratio in line with our target. This means that we no longer need to lower our debt but can focus on potential acquisitions and continued share dividends. In view of the profit for the year, the Board proposes an unchanged ordinary dividend of SEK 0.75 (0.750) per share. In addition, the Board proposes a special dividend of SEK 0.75 per share as a result of the divestment of Cloetta Italy.

Divestment of Cloetta Italy

Economic development in Italy has been weak for several years, resulting in lower sales and earnings for Cloetta Italy. In order to focus more on the Northern and Western European markets, we have therefore sold our operations to Katjes International.

The long-standing challenging business development in our Italian operations also forced us to recognize an impairment loss in Cloetta Italy. Since the impairment is non-cash it has not affected our ability to issue share dividends or make acquisitions. The proceeds from the divestment have instead enabled the Board to propose a special dividend.

Acquisition of Candyking creates synergies

In April, Cloetta acquired Candyking, a leading concept supplier of pick & mix candy in the Nordic countries and the UK. This acquisition has strengthened our position within pick & mix at the same time as we create substantial synergies.

Pick & mix candy is a growing category in many countries and with this acquisition Cloetta notably strengthens its positions in Denmark, Norway and the UK. Our aim is to develop Candyking's brand and product offering and thereby offer an even more attractive customer and consumer experience.

Synergies will be created from the acquisition by insourcing production and reducing costs. Synergies will be gradually realized with the majority in 2018 and 2019. Based on current volume development, we have identified synergies from Candyking of SEK 100m on an annual basis starting in 2020. The pick & mix business, however, is volatile since it is based on major customer contracts with different maturities. During 2017, however, we succeeded in renewing almost all existing Candyking contracts for future years. This proves the strength of the Candyking concept.

Strategic initiatives support profitable growth

The confectionery market is characterized by stability. Admittedly growth in Europe is relatively small and individual markets can show reduced sales in a single month or quarter, but over time annual growth in the confectionery market is normally 1 – 2 per cent. Despite this, Cloetta has not managed to fully grow in line with the market in recent years. We have therefore started a number of strategic initiatives that will contribute to profitable growth.

My key focus for Cloetta is to improve our competitiveness, thereby driving profitable growth in our main markets and selected international markets. We will do this by improving the competitive power of our brands, improving our ability in partnership with our customers to expand our categories, as well as improving our performance culture and our cost culture.

The means that we must

- have clearer category and brand plans and improve our working methods when we develop, launch and sell our products,

> “Despite the challenges we faced during the year, Cloetta stands on a firm foundation.”

- offer consumers a choice which means that they can choose with sugar, with less sugar or sugar-free,
- be more effective in our marketing and over time increase our brand investments while providing leading-edge support to our customers with their online sales of our products,
- reduce our cost base both in order to increase profitability and to be able to finance new brand investments,
- integrate Candyking to create substantial synergies and thereby increased profitability,
- continue our Lean2020 programme among other things to increase capacity for in-sourcing from Candyking as well as reducing production costs.

Enhanced sustainability work

Cloetta's aim is to build long-term sustainable values by growing as a company while at the same time ensuring that the impact on both people and the environment is positive. Cloetta's sustainability commitment has three components: greater well-being, reduced environmental impact and sustainable sourcing. Action plans, targets and key performance indicators are in place for all prioritized areas.

Cloetta is a member of the UN Global Compact and supports its 10 principles. These are also incorporated into Cloetta's Code of Conduct and thus provide a solid foundation for our sustainability work.

In the area of sustainable sourcing, Cloetta has prioritized a number of raw materials. All cocoa and chocolate that we purchase is UTZ certified. We have now also removed palm oil as a glazing agent in the majority of our products. For the few products that still contain palm oil, we have started switching to segregated palm oil which improves traceability. In 2018 we are also starting a programme for sustainable shea butter.

Cloetta's long-term environmental goals extend until 2020. Following a steady improvement in our environmental key performance indicators in recent years, the picture in 2017 is more mixed. Carbon dioxide emissions per produced kilogram decreased and our recovery rate increased, while our total energy consumption was largely unchanged. We therefore need to increase our focus on energy efficiency since this is good both for our environment and our economy.

Our sustainability report (included in this annual report) has been reviewed by the auditing firm KPMG. Since it is our ambition to meet international standards, our sustainability report is prepared in accordance with the Global Reporting Initiative (GRI) guidelines.

A challenging year

2017 was not just a year of change it also brought its challenges. The fire in June at a production line in our factory in Belgium created restrictions in production capacity, resulting in lower volumes, higher production costs and also lost sales. Our organic sales also decreased during the year, mainly due to specific challenges in a couple of markets. At the same time, operating profit also decreased.

I am naturally not satisfied with development during 2017 and we as a company must therefore focus even more on driving profitable growth.

Cloetta is stable

Despite the challenges we faced during the year, Cloetta stands on a firm foundation. We have some of the market's strongest brands and leading market positions. We have one of the best sales and distribution organizations in our main markets. We have experienced, skilled and dedicated employees who are proud of our company and our products. And we have a profitable business, which generates a stable cash flow that can be used for both acquisitions and dividends.

I therefore feel confident in the knowledge that we have the foundation we need to further develop and improve Cloetta. This is for the benefit of customers, consumers, shareholders and employees.

Stockholm, March 2018

Henri de Sauvage-Nolting
President and CEO

Long-term financial targets

Organic sales growth

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

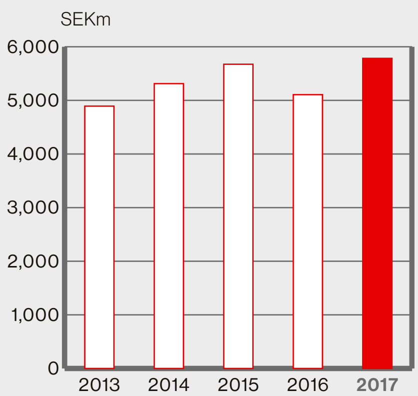
EBIT margin

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

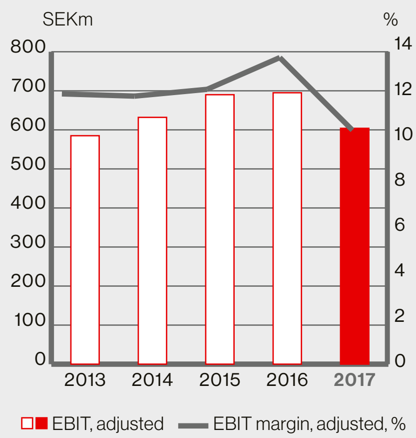
Net debt

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

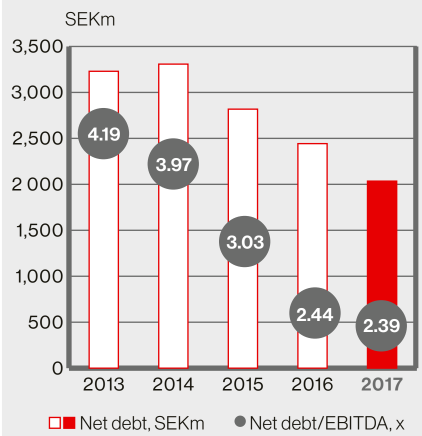
Sales



EBIT and margin, adjusted



Net debt/EBITDA



Comment on the year's outcome

Historically, total annual growth in the markets where Cloetta is active has been around 1–2 per cent. In 2017 organic growth accounted for –1.2 per cent, mainly due to specific challenges in a few markets.

Comment on the year's outcome

The EBIT-margin, adjusted, decreased during the year, mainly due to the acquisition of Candyking, which before synergies had substantially lower margins, but also due to lower production volumes and sales.

Comment on the year's outcome

Cloetta met the long-term target for net debt in 2017 for the second year in a row. Net debt/EBITDA reached 2.39x, which is slightly better than the target of 2.5x.

Dividend policy

Cloetta's long-term intention is to have a dividend payout ratio of 40–60 per cent of profit after tax.

Comment on the year's outcome

Cloetta met its long-term target of a net debt/EBITDA ratio of around 2.5x for the second year in row. Due to a decreased profit compared to the previous year, the Board of Directors proposes an unchanged dividend of SEK 0.75 per share for 2017, which corresponds to 54 per cent of the profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability. In addition, the Board of Directors, due to the consideration from the divestment of Cloetta Italy, is proposing a special dividend of SEK 0.75 per share.

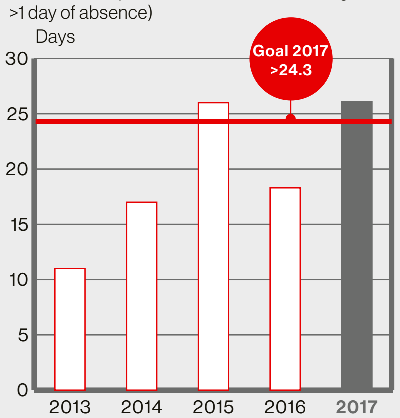
Long-term sustainability targets

Greater well-being

Employees

Cloetta has zero tolerance for occupational accidents. The target for 2017 was achieved after more focused working methods.

Days between occupational accidents
(number of days between accidents leading to >1 day of absence)



In 2017 LTA reached 26.1 days on average between LTAs compared to 16.6 days in 2016.

Great Place to Work – the goal is an improved Trust Index compared to the previous survey.

Consumers – Less sugar/sugar-free

Have a sugar-free alternative for all Cloetta's key brands by 2020.

No artificial colours or flavours

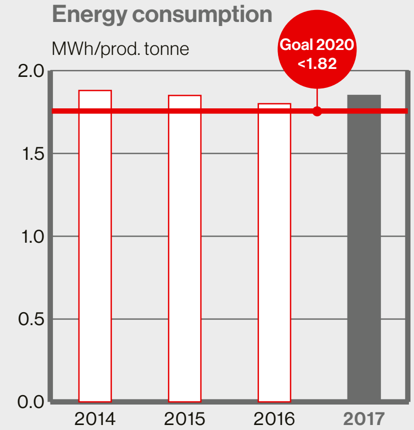
Cloetta is committed to increasing the share of natural ingredients. Cloetta's product portfolio will contain no artificial flavours and no artificial colours by 2019.

Reduced environmental impact

Energy consumption

Energy consumption per produced tonne to be reduced by 5 per cent by 2020.

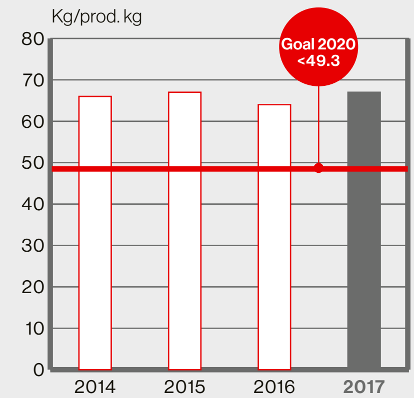
Energy consumption
MWh/prod. tonne



Waste

The volume of waste per produced kg to be reduced by 25 per cent by 2020.

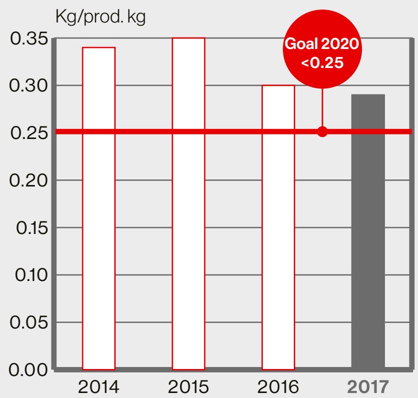
Waste
Kg/prod. kg



Carbon dioxide emissions

CO_2 emissions from production per produced kg to be reduced

Carbon dioxide emissions
Kg/prod. kg



Energy consumption and waste decreased in absolute numbers but the targets were not met due to lower production volumes.

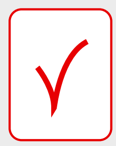
Sustainable sourcing

Responsibility for raw material producers

- Sustainability programmes will be implemented for all prioritized raw materials.
- By 2020 at the latest, Cloetta's suppliers of oils and fats shall have a fully traceable pipeline of palm oil fractions back to known plantations.
- 100 per cent of all cocoa and chocolate purchased by Cloetta must be UTZ-certified.
- From July 2018 and onwards, Cloetta will only source sustainable shea butter according to the AAK programme, see page 50.

Comments on the year's outcome

- Sustainability programmes have been implemented for cocoa and palm oil. For shea butter, Cloetta has decided to switch to sustainable shea butter which will be implemented in 2018. Sustainability programmes for cane sugar, cashew nuts and gum arabic will be in place by 2020 at the latest.
- 100 per cent of the cocoa purchases are UTZ-certified.
- Cloetta started to remove most of the palm oil from glazing agents at the end of 2017. This means that the majority of Cloetta's products are palm oil free. Cloetta's range of chocolate and fudge products still contain palm oil but during the year Cloetta started switching to segregated palm oil in accordance with RSPO principles. Certification according to this standard will take place in 2018.



Sustainability programs developed for cocoa, palm and shea butter

By 2020 sustainability programs in place for prioritized materials

New strategic priorities for 2017 and 2018

Focus on driving growth

Brand development – consumer

Continuously enhance our brands with a focus on high quality and local tradition.

- Develop international brand platforms and joint innovation across markets.
- Focus on fewer but bigger brands and activities.
- Use digital media as a communication platform.
- Drive "Choice for you" for the launch of products that contain less sugar or are sugar-free and free from artificial flavours and colours.
- Develop sustainability programmes for the prioritized raw materials.

Customer and market development

Be #1 among snack and candy companies in brand and category development.

- Be available for purchase at all Munchy moments.
- Build superior shopper insight to become preferred supplier with all customers.
- Develop the market's best "shop in shop" pick & mix concept.
- Strengthen the brands in the stores through wide distribution and high visibility.
- Maintain excellent customer service.
- Develop e-commerce concepts as a way to support the customers.

New markets, initiatives and concepts

Widen and expand the product portfolio into new geographical markets.

- Strengthen and establish international market hubs for global development of The Jelly Bean Factory brand.
- Launch and acquire new products, concepts and brands in existing product categories in existing or closely related markets.

Focus on cost-efficiency

Increase profitability and future investments

- Integrate Candyking and insource production to create synergies.
- Continue the implementation of Lean 2020, which leads to increased efficiencies, lower costs and reduced energy consumption, waste and emissions.
- Minimize material costs through systematic value engineering and reduced waste, and indirect costs through value improvement.
- Greater efficiency in marketing activities.

Focus on the employees and organization

Create the conditions for growth

- Zero tolerance for accidents.
- Create a common agenda and a uniform way of working.
- Create a winning culture.
- Optimize Cloetta's culture with support from "Great Place to Work" and Lean 2020.
- Develop leaders and attract, develop and retain skilled and competent employees.
- Strengthen the organization in brand and category development.

Cloetta's value chain

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

Through innovative product development, efficient purchasing and high-quality production, as well as good relations with the retail trade and marketing that strengthens the brands, Cloetta creates economic value. At the same time, Cloetta strives to have a positive impact on people and the environment.

Value creation

Product development

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

Purchasing

- Cloetta's total purchasing costs amounted to SEK 3,873m, of which SEK 2,575m refers to raw materials and consumables. Of these, packaging materials are the largest cost item and account for around 22 per cent. The three main raw materials in terms of purchasing costs are sugar, cocoa and milk powder.

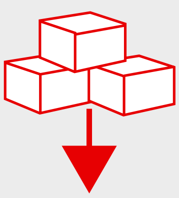
Production

- Cloetta had 2,467 employees during 2017 and total personnel costs amounted to SEK 1,152m.
- Cloetta's 8 factories had 1,580 employees.
- During the year, Cloetta produced 95.6 thousand tonnes of candy, chocolate, chewing gum, pastilles and nuts.

Sustainable corporate responsibility

Product development

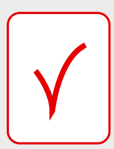
- For several years Cloetta has conducted a long-term programme, NAFNAC (No Artificial Flavours, No Artificial Colours) aimed at offering a portfolio of products that contain only natural flavours and colours.
- Cloetta is pursuing a project to systematically develop alternative products that have lower sugar or are sugar-free for the major brands. Within the "Choice for you" strategy, Red Band in the Netherlands launched vegetarian, sugar-free and less sugar alternatives during the year.



LESS SUGAR & SUGAR-FREE

Purchasing

- Suppliers to Cloetta's production are subject to an approval process in which both product safety and corporate responsibility are evaluated.
- Cloetta promotes sustainable production of prioritized materials: cocoa, palm oil, cane sugar and shea butter, read more on pages 48–50.



Sustainability programs developed for cocoa, palm and shea butter

Production

Environment

- Development of more energy-efficient processes and lower CO_2 emissions is continually underway.
- Waste is sent to material recycling and energy recovery.
- Systematic environmental management is a natural part of processes in all factories.

Occupational Health and Safety (OHS)

- Focus on personal safety.
- OHS activities with systematic monitoring are part of the daily follow-up.

Product Safety

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

Repayment of borrowings

Customers

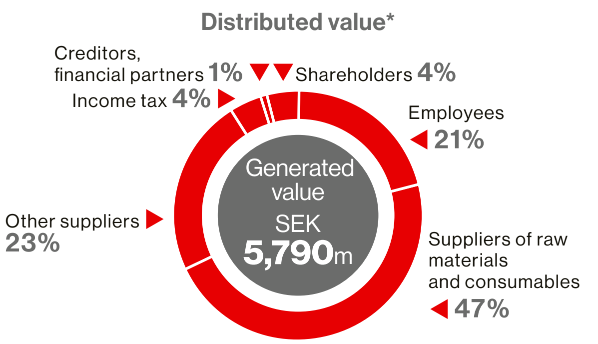
- Total net sales amounted to SEK 5,784m. Cloetta's largest customer category is the grocery retail trade. The service trade is also a very important customer group.

- In general, the customers require BRC or ISO certification.
- Unnecessary transport packaging is avoided and transports are optimized. All packaging can be sorted at source.

Consumers

- Cloetta satisfies Munchy Moments.
- Feedback about complaints and viewpoints.

- Products of a high quality are marketed responsibly.
- Offer consumers a wide range of natural products.
- Programmes to promote sustainable packaging.



* Excluding amortization/depreciation, loss in discontinued operation and loss for the year and including paid dividends and net financial items, total SEK 5,531m.

Economic impact

Production and sales of Cloetta's products generate economic values that benefit the stakeholders.

Profit for the year was SEK 402m
excluding impact of impairment loss in discontinued operation including income tax effects and other items affecting comparability. Including items affecting comparability, profit amounted to SEK –97m.

Shareholders

A certain share of non-restricted equity is distributed to Cloetta's shareholders in the form of dividends, after the operations have been provided with the capital necessary for development. For 2017 the Board has proposed an ordinary dividend of SEK 0.75 per share, which corresponds to 54 per cent of the profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability and a special dividend of SEK 0.75 per share, equal to a total of SEK 433m, to be paid in 2018. In 2017, SEK 216m was distributed to the shareholders.

Cloetta's Code of Conduct is the basis for all relationships within and outside the company

Cloetta's sustainability commitment

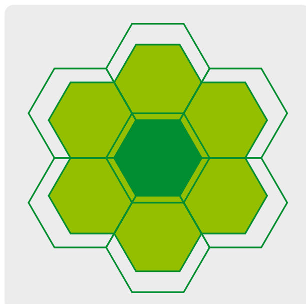
Cloetta's overall goal for corporate responsibility is to build sustainable long-term value. For Cloetta, sustainable value is about growing as a company while at the same time ensuring that the people and environments that are affected by Cloetta's operations or products are positively impacted.

GREATER WELL-BEING EMPLOYEES

Employee well-being is guaranteed through **an attractive** and **safe working environment** in accordance with the UN Global Compact.

GREATER WELL-BEING CONSUMERS

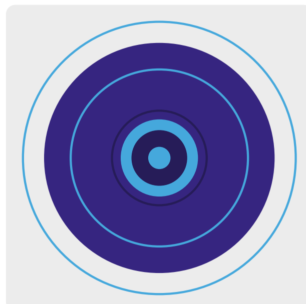
Consumer well-being is ensured through **high** and **consistent quality** and **sustainable product development,** with a greater share of **natural raw materials** and **less sugar** or **sugar-free products**.



REDUCED ENVIRONMENTAL IMPACT

Environmental impact from Cloetta's factories to be reduced. Focus on **Energy, CO_2** and **Waste**.

More **environmentally friendly** and **sustainable packaging** to be developed.



SUSTAINABLE SOURCING

Cloetta complies with the ten principles of the **UN Global Compact**.

Key suppliers to be approved from a sustainability perspective.

Sustainability programmes are in place for **prioritized raw materials** from developing countries.

Cloetta's sustainability commitment functions as the road map for building long-term sustainable value. Based on stakeholder dialogues and a materiality analysis, Cloetta has identified four areas which are of key importance for Cloetta to fuel sustainable growth. For all four areas, long-term goals have been identified and matched with clear action programmes and follow-up systems.

Cloetta's work with corporate responsibility is governed by the Code of Conduct and the four Cloetta values Focus, Passion, Teamplay and Pride.

Sustainability reporting

Cloetta's integrated annual and sustainability report is prepared according to GRI G4 Core level standards. The reviewed sustainability report which is equivalent to the statutory sustainability report in accordance with the Swedish Annual Accounts Act chapter 6, consists of pages 1–10, 37–40, 44–55, 71, 149–156. The GRI Index is on pages 154–155. The Sustainability section on pages 149–153 describes the basis for sustainability work in more detail as well as how this is governed and organized. How Cloetta has defined materiality issues is also described here.

The confectionery market

The confectionery market is traditionally divided into candy, chocolate, pastilles and chewing gum. Cloetta is active in all these categories, as well as nuts.

Cloetta's main markets are Sweden, Finland, Norway, Denmark, the Netherlands, the UK and Germany. The total market for confectionery in Cloetta's main markets amounts to approximately SEK 225bn. The markets where Cloetta is active account for around 58 per cent of Western Europe's total confectionery consumption.

Mature market

The confectionery market is relatively insensitive to economic fluctuations and shows stable growth that is driven primarily by population trends and price increases. Market recessions are affecting Cloetta mainly through general price pressure from the retail trade and increased competition from the trade's own private labels. However, private labels account for a relatively small share of confectionery compared to other grocery products.

Because growth takes places almost exclusively through the development of existing strong confectionery brands, the continuous launch of new flavours and products is a key success factor.

In terms of value, candy accounts for around 24 per cent, chocolate for around 54 per cent, pastilles for around 13 per cent and chewing gum for around 9 per cent of the total market in Cloetta's home markets.

Competitive market

The global market for confectionery is dominated by international companies like Mars/Wrigley, Mondelez, Nestlé, Ferrero, Perfetti, Haribo, and Lindt & Sprüngli. However, in the local markets these meet tough opposition from players with locally established brands such as Cloetta, Fazer, Orkla and Toms. No player has a strong position across all European markets.

Consolidation of the confectionery industry is taking place gradually. The industry as such has a long history and the rate of technological change is low.

The nut market

Since 2014, Cloetta is also active in the nut market following the acquisition of Nutisal. The total market is worth around SEK 5bn in the Nordic region and is growing by 3–5 per cent annually. The retail trade's private labels account for around one third of the total market.

Consumption patterns

Confectionery is one of the most impulse-driven categories in the retail trade. With over 80 per cent of purchasing decisions made at the point of sale, brand, availability and product placement are significant success factors.

The European confectionery market is characterized by strong consumer loyalty to local brands. The main aspects when buying are brand, flavour, quality and curiosity about new products.

Consumption patterns and taste preferences vary between the different markets. Compared to the rest of Europe, for example, the Nordic region has lower per capita consumption of chocolate, but significantly higher consumption of candy than the rest of Europe.

Pick & mix

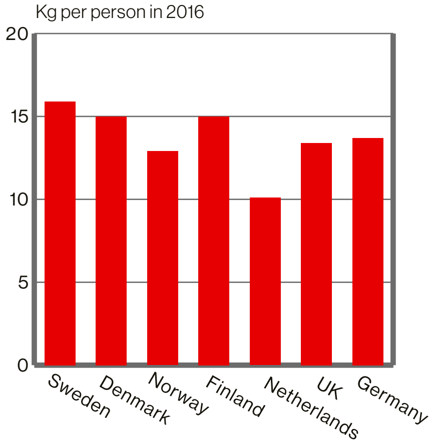
The pick & mix category has a very strong position in the Nordic countries and accounts for a high share of total confectionery consumption, while consumption of pick & mix is considerably lower in Central Europe where packaged candy and chocolate have a stronger position. In Sweden, pick & mix accounts for 30 per cent of the total confectionery market, while in the other Nordic countries it accounts for 5–15 per cent. Pick & mix candy as a market is growing faster than packaged products in most Nordic countries.

Traditional sales channels

Cloetta's foremost sales channels in all markets are the grocery retail trade and the service trade.

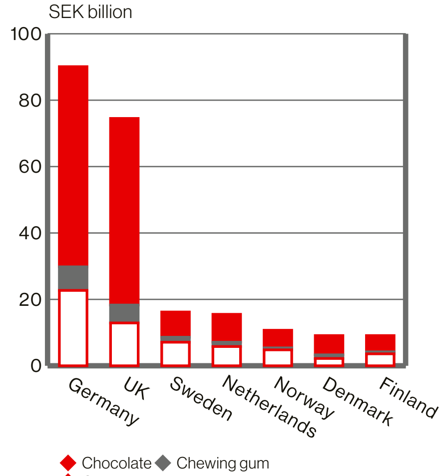
The grocery retail trade has undergone extensive consolidation and restructuring over the past ten years, and the number of stores has decreased at the same time that floor space per store has grown larger. Concentration in the grocery trade is high in the majority of European markets, which means that the channel can place high demands on its suppliers. At the same time, as a leading supplier Cloetta has the opportunity to develop partnerships that benefit both parties. Strong brands and high-quality products that are attractively priced and can be effectively

Confectionery consumption
per capita



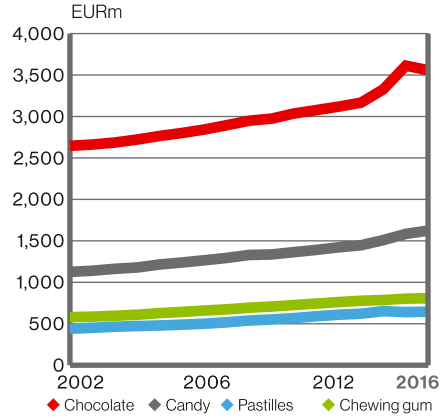
The graph refers to candy and chocolate in the countries where Cloetta is active.
Source: Mintel

Market size, by region,
Cloetta's main markets, 2016



Source: Mintel

Market development
in Cloetta's main markets, 2016[1]



1) Includes Sweden, Finland, Norway, Denmark, the Netherlands, Germany and the UK.
Source: Datamonitor and Mintel

Cloetta's sales channels

Grocery retail trade

Increasingly fewer and larger stores, which is leading to greater efficiency and strength. Typically covered by central agreements at the national level.

Service trade

Generous opening hours, centrally located in the form of convenience stores, but also filling stations. An increasingly wide range of snack alternatives.

Other sales channels

These include movie theatres, building supply stores, airports and arenas. This channel often requires support in developing its confectionery sales. The e-commerce sales channel is growing rapidly, although still at a relatively low level compared to other consumer goods.

displayed and marketed are therefore of major importance.

A large share of everyday consumption of confectionery has traditionally taken place via the service trade, i.e. filling stations and convenience stores, kiosks, etc. Over the past decade, confectionery sales to the service trade have decreased, primarily due to fewer filling stations, but also because the service trade has developed its own snack alternatives that compete with confectionery.

New sales channels

Because availability and a strong brand are two key factors for impulse-driven purchases, Cloetta continuously evaluates new types of sales channels to ensure availability where the consumers are found.

Other sales channels include those where confectionery has been offered for many years, including ferry lines, movie theatres, airports and arenas, but also channels that have not been traditionally associated with confectionery sales, such as building supply stores, hotels and bars.

One key success factor is to develop different packaging solutions to help customers in the different channels display the products.

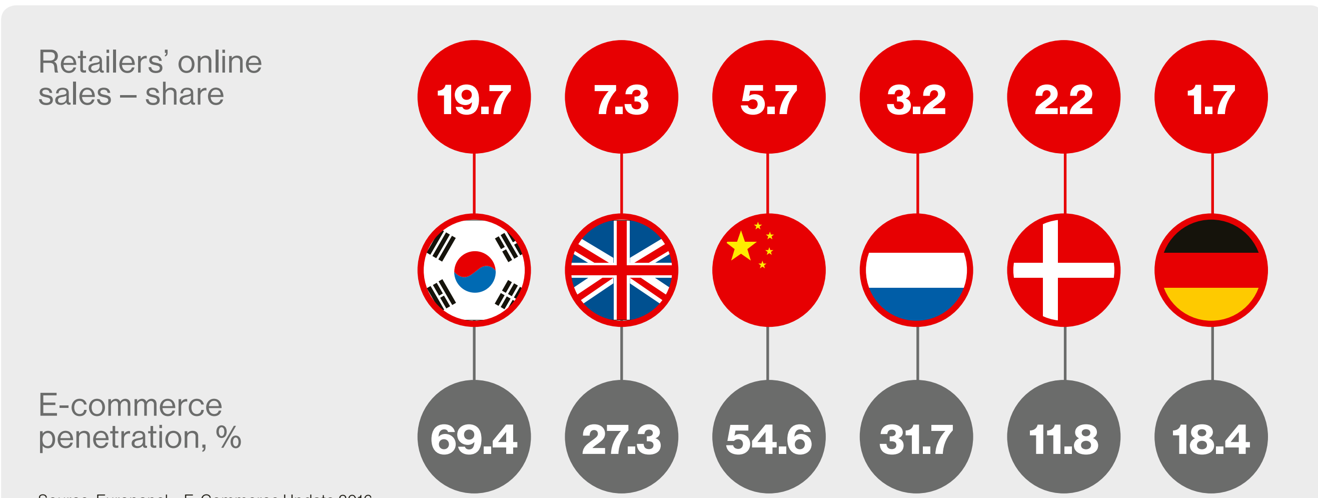
E-commerce

E-commerce is continuing to grow globally in all types of industries, including food products and confectionery. Historically, the consumer goods industry has not been a leader in the e-commerce segment, but forecasts indicate that half of the growth in the next five years will be driven by online sales. Research shows that in 60 countries, 17–30 per cent of consumers are already buying groceries online and over 50 per cent say they are willing to do so in the near future.

The UK is the most mature market in Europe, closely followed by France and the Netherlands.

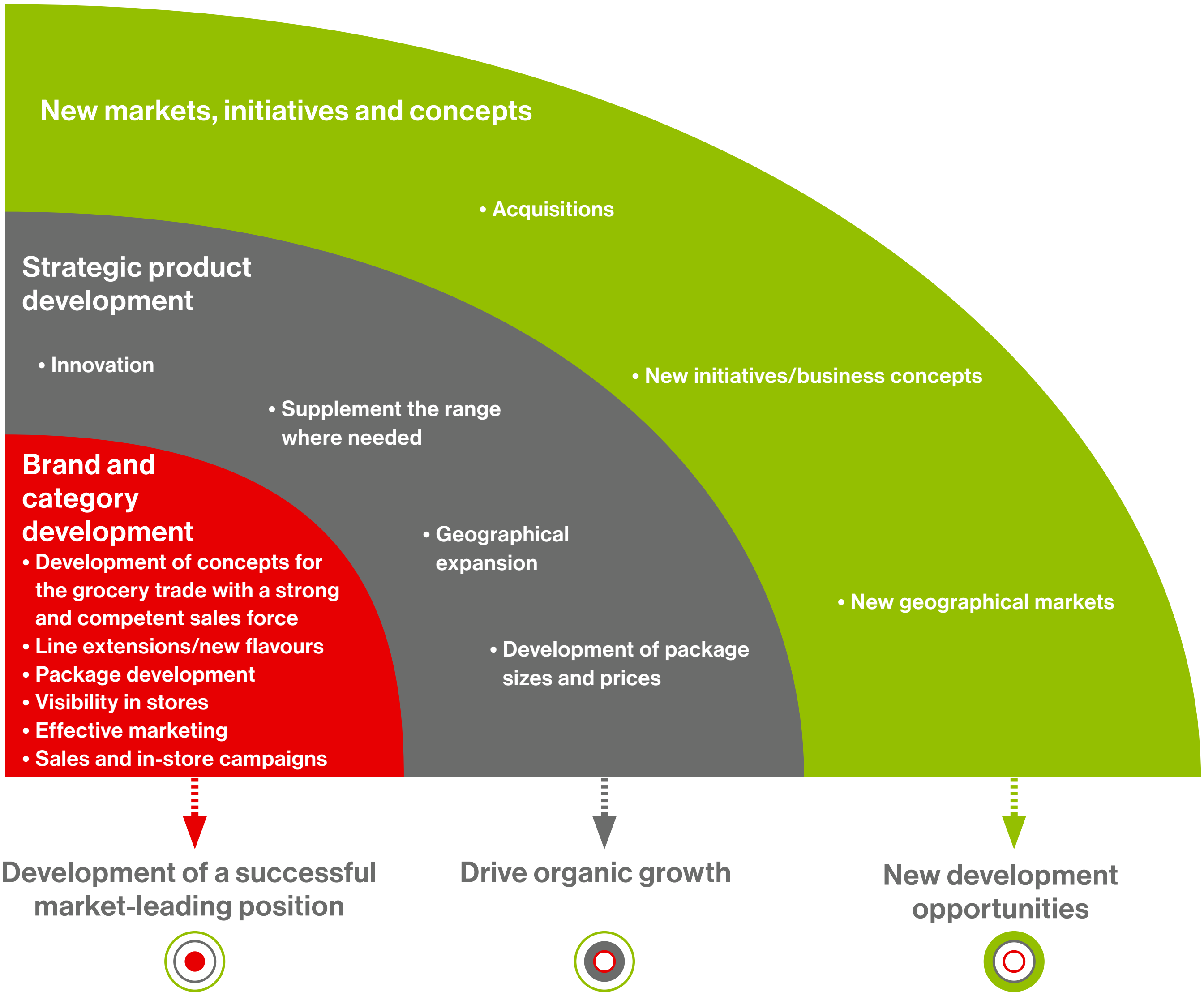
The typical online shoppers are families with small children, in urban and suburban areas. The main driver for buying their groceries online is 'convenience'. The use of mobile devices for retail e-commerce has surpassed that of laptop and desktop computers. Similar figures are seen in media (advertising), where more than 50 per cent of all advertising is already digital (Social, Display & Search).

The fast-moving consumer goods industry has taken several initiatives to strengthen its e-commerce presence. Unilever has acquired Dollar Shave Club (shaving products for consumers) and Wal-Mart has both acquired JET.com (an online discount platform, including confectionery) and increased its holding in JD.com, a major Chinese online retailer that also offers food products. Alibaba (China e-commerce platform) has acquired a stake in a big Chinese offline retailer. In addition, the American e-commerce platform Amazon has purchased Wholefoods, an offline groceries player, clearly demonstrating their ambition to move into groceries. In Sweden Axfood has acquired Mat.se and in the Netherlands, Albert Heijn has acquired BOL.com, a local competitor to Amazon. Read more about Cloetta's development in e-commerce on page 15.



Source: Europanel – E-Commerce Update 2016

Market strategies for growth



Brand and category development is the core of day-to-day activities

Cloetta's extensive brand portfolio is the Group's greatest asset. Nurturing and developing the brands are therefore in constant focus. For Cloetta's customers in the grocery trade, category development is an equally important factor.

Read more on page **14**

Strategic product development

Through various strategic initiatives based on the Group's existing brands and production structure, Cloetta can drive organic growth.

Read more on page **19**

New markets, initiatives and concepts

When good opportunities arise, Cloetta will widen its territory through acquisition of new brands, expansion into new geographical markets or new initiatives/business concepts.

Read more on page **22**

Category and brand management

Confectionery is the most impulse-driven category in the retail trade, which means that good availability and visibility in stores, alongside strong brands with high recognition and loyalty, are critical for confectionery sales. Cloetta's continuous development of its brands and concepts, and a strong sales force, are therefore of vital importance.

Planned brand management

Cloetta's ten largest brands account for around 46 per cent of the Group's sales. Read more about the leading brands on pages 26–29.

For each brand there is an individual development plan to continuously contemporize and develop the brand. The primary tools are line extension, package development, sales development and effective marketing.

Category development

Confectionery is a very important and profitable category in the retail trade. Category development and category management are as important as brand development. By having the best facts and insights, profitable growth for both Cloetta and its customers is supported.

Category vision

A long-term category vision supports the development of the shelf and the assortment from today to tomorrow's future state. Powerful brands and a differentiated product portfolio that fit today's and future consumer and customer needs are important parts of the category vision.

Consumer and shopper insights

Consumer and shopper insights are at the heart of category management. In category management, the brands are the vehicles for growing the categories. Category management can therefore drive top-line growth and build the brands and their market positions, which will be beneficial for both Cloetta and the retail trade partners.

New flavours

The regular launch of new and attractive product variants or flavours, in segments where there is consumer demand, strengthens Cloetta's offering to both customers and consumers.

An exciting product innovation or seasonal product is mainly aimed at reminding consumers of the brand. Since successful innovations inspire trials of both the new product and often also the original product, good seasonal products and innovations normally generate incremental sales.

Package development

An important part of brand management consists of package development. The packaging material must perform several functions, such as protecting the product on its way to

Examples of new flavours during the year

- Sportlife Bluemint and Greenmint
- Jenkki Enjoy Mango-Lemon Icepop
- Lonka Fudge Caramel Sea Salt
- Center Cappucino

the consumer, enabling easy handling of the product, providing product information and communicating the brand. Package development also includes retail packaging for the various sales channels.

Visibility in stores

One decisive success factor for consumer sales is good exposure in the store, which means that it is crucial how new products and innovations are received by the retail trade. The customers must see the products as being needed, easy to handle and profitable for the trade.

Cloetta has a large, trendsetting and innovative sales force in its main markets. Through good relations with the trade and extensive knowledge about the industry, market and products, Cloetta can present attractive sales solutions that support the customers' business objectives and create added value for both Cloetta and the customer.

The most important part of the sales force's day-to-day work consists of helping the individual retailers display Cloetta's products to achieve higher turnover rates and margins in the store. Through the sales organization's category knowledge and strong in-store presence, Cloetta can reach out with campaigns, monitor local compliance with centrally negotiated listings and distribution agreements and ensure good visibility on the store shelves, in the checkout lines and in other places. Read more on page 17.

Marketing

Effective and well planned marketing, from traditional channels such as outdoor marketing and advertisements to activities in the social media, combined with in-store promotion, stimulates consumer awareness of and demand for Cloetta's products.

Cloetta's marketing is primarily local in nature and is tailored to each brand's strategy and position. Cloetta's marketing is characterized by image-creating brand advertisements, sponsorship and events directed to selected target groups.

A major portion of Cloetta's advertising budget goes to advertisements on online channels such as Facebook, Instagram and YouTube. In the past year, a campaign for Crazy Face (Malaco) was also conducted via SnapChat, see page 18.

Media meets the trade

Since such a large share of Cloetta's media budget is spent on online marketing, the company has started to implement fact-based ad buying, so called Programmatic Advertising, to purchase digital advertising and thereby maximize effectiveness.

Programmatic Advertising is used to capture data and activate the right marketing. With the support of this technology, brand messages, advertisements and e-commerce can be used together to deliver a better customer experience or ads that are relevant for each recipient.

Sales-promotional activities

Cloetta typically combines marketing activities with in-store campaigns. New products are normally given effective sales support through campaigns, events, in-store activities and advertisements to reach consumers as quickly as possible.

E-commerce

Like many food producers, Cloetta has a clear strategy for how to grow its online business. In 2017, an international e-commerce team was created to support the local markets in building the right capabilities and competencies and gaining a better understanding of digital retail, both in ´Brick & Clicks (e.g. ICA.se, AH.nl, etc.) as well as "Pure Play" (e.g. Mathem.se, PicNic.nl, etc.)' retail.

Cloetta aims to achieve online growth in line with its market shares. Online sales of confectionery are lower than for other categories, but are expected to catch up in the next few years. Although the share of confectionery sold online is still very low, the growth rate among consumers who have started to buy groceries online is around 30 per cent year on year. The average online shopper also spends two to three times longer on the purchase than they do in the store.

Cloetta has in-house skills in e-commerce from its online stores. In the web shop www.jellybeanfactory.com, consumers can buy personalized candy gifts with different messages, such as 'Happy Birthday' and

Cloetta further develops its brands

Development

Tools to strengthen brands

- New flavours and seasonal products are launched regularly.
- Package development to expose the product but also to adapt to different sales channels.

Challenges

- Increased coordination of development between markets and brands creates new opportunities and cost synergies.

Availability

Tools to strengthen brands

- A large and competent sales force supports retailers.
- Cloetta offers stores a complete product range.

Challenges

- Continuously finding new channels to reach consumers.
- To develop new sales solutions adapted to different customer categories.

Recognition and loyalty

Tools to strengthen brands

- Increase consumer awareness through advertising, PR and sponsorship.

Challenges

- Continue to improve use of social media.
- Be visible where consumers are found through planned effective marketing and in-store sales campaigns.

'Valentine greetings'. The consumer can write a personal digital message and the gifts are delivered by mail. In Sweden Cloetta has an online store with fun merchandise www.cloettashop.se.

In Finland, Cloetta has optimized and rebuilt the Xylitol Direct2Consumer web shop (www.ksylitolikauppa.fi) for mobile devices in order to deliver a better consumer experience.

During 2017, Cloetta also opened a web shop on Tmall (cloetta.tmall.hk), the Chinese marketplace from Alibaba, where consumers can buy a selection of Cloetta's products from Sweden and Finland.

Online sales can have various impacts on impulse-driven goods like confectionery and Cloetta must learn more together with partners in the grocery trade. Cloetta will focus on increasing its knowledge about online confectionery sales.

Social media

Cloetta's goal is to increasingly communicate in the social media as a means of developing consumer loyalty to the brands, but also to facilitate interaction with consumers and gather valuable feedback. Through the social media Cloetta can:

- Gather knowledge on consumer thoughts and ideas about different products through so-called Candy Portals, i.e. online consumer panels.
- Answer online questions via various media and pass on these viewpoints in the organization.
- Cooperate with consumers, among other things by asking direct questions.

To capture attention in the social media, the content must be interesting and based on stories and experiences.

Measurement tools

Effective marketing is dependent on continuous monitoring and analysis of changes in consumer patterns. In-depth knowledge about consumers and trends is essential for successful product development and marketing.

Marketing activities online and in the social media are targeted and followed up via two tools: DSI (Digital Sentiment Index) is a metric that summarizes the brands' online performance and NPS (Net Promotor Score) continuously measures different aspects of the customer and consumer experience linked to loyalty and recommendation. The purpose of these tools is to quickly track the success of individual activities in the various markets. Thanks to the DSI and NPS measurements the Group can see how marketing initiatives have contributed to enhancing both the image of and loyalty to these brands.

Protection of intellectual property rights

To prevent infringement of its intellectual property rights, Cloetta uses a special monitoring service that provides alerts about applications for registration of brands, both nationally and internationally, that are identical to or can be confused with Cloetta's key brands.

For example, Kexchoklad's chequered pattern has been design protected for many years and the name Kexchoklad has been trademarked since 2004.

In the Netherlands 10 seconds Bill board campaign Red Band 30% less sugar, feeds from social media and sampling instore events.

Success factors for the sales organization

The right products to the right customer

Selling the right products to the right customer generates profitability for both Cloetta and for the customer. Cloetta's sales force is large and effective, which provides good opportunities for a presence in many different sales points.

Good relations with customers at the central and local levels

Through good relations with the retail trade and in-depth knowledge of the industry, market and products, Cloetta can present attractive sales solutions that support each customer's business objectives.

Good visibility for Cloetta's products

High visibility in stores, and particularly at the checkout stands, is vital for growth in sales. In order to maximize the visibility of Cloetta's products, the sales force also works actively to increase the number of display points in the stores.

Effective sales campaigns in cooperation with the customers

Marketing campaigns are typically combined with sales promotional activities in the stores. The sales force helps retailers to display these.

Ensure compliance with central agreements with the retail trade

The sales force ensures compliance with central agreements and that the agreed range of products is found in the stores.

Boost sales

By being where consumers are found, it is possible to increase sales. The task for Cloetta's sales organization is to continuously seek new non-traditional sales points for selected parts of the product range, but also to increase display space and sales in existing stores.

Attention-getting campaigns

Malaco Crazy Face

– a more intense flavour experience designed to appeal to Generation Z. The launch campaign reached 96% of the target group through a selection of digital media. Malaco Crazy Face was one of Sweden's very first "lens" campaigns on Snapchat. This was followed up by video advertisements on Snapchat, Instagram, YouTube and Facebook.

Ahlgrens Grillbilar

Ahlgrens Grillbilar created the summer's best "carbeque" and made Sweden's tastiest car even more delicious! Ahlgrens bilar has been Sweden's most beloved and sold car since 1953, and is ideal for any occasion. With this success, a new consumer occasion has seen the light of day!

Candy weeks at Pressbyrån

Candy weeks at Pressbyrån were a success again in 2017. In October, Pressbyrån convenience stores in Stockholm, Gothenburg and Malmö were transformed into Godisbyrån, "The Candy Agency" and were a popular sweets extravaganza full of fun activities for both kids and adults.

Red band – 30% less sugar

Red Band 30% Less sugar campaign to introduce the new range of Red Band via PR and video online (using programmatic buying) created product awareness. This is combined with instore sampling of candy with 30% less sugar.

Lonka

The Lonka campaign around the coffee/tea moment was shown in social media and on TV to generate brand awareness. This was combined with sampling in local stores to build interest and demand and finally with store promotions to attract consumers.

Skipper's Pipes XL

Skipper's Pipes XL was launched through an engaging campaign in both digital and other media to create awareness and demand for the new XL pipe. The media campaign generated more than 6 million views among Danish consumers and was supported by eye-catching POS merchandizing materials and racks.
The launch was a major hit and total sales of Skipper's Pipes surged by 26 per cent in 2017 – an XL success!

Tupla

Tupla "Hungry for adventure" in Finland was a branded entertainment campaign for the young target group. The concept consisted of an own adventure series in YouTube. The series gained almost 3 million views, PR attention and increased interest for the brand among the youngsters.

"A little piece of smile"

Jenkki's "A little Piece of Smile "–campaign is a part of a long-term Jenkki brand program, making Jenkki brand positioning alive and strengthening Jenkki as a lifestyle brand. Creative focus was on impactful outdoor posters and video format to drive emotions. As a result Jenkki turned around the declining category trend and increased its preference.

Sportlife

Sportlife extended its popular campaign with Ukrainian ice hockey players. This included new films and activities such as table hockey in town.

Strategic product development

Through strategic product development, Cloetta utilizes its strong brands and its flexible production organization to drive and maximize organic growth.

Some examples of strategic initiatives are brand extension, new geographical markets, the relaunch of brands and pure innovations. Strategic initiatives also include price strategies and the related changes in packaging sizes.

Innovation and trends

Product development is a key driver behind Cloetta's brands and enables differentiation in the market. Cloetta's innovation work and optimization of the product development process create the conditions for future new product launches and relaunches.

Fashion and trends are found in all areas, even in the confectionery industry, where they are primarily related to colours, packages, flavours and ingredients. The ability to identify the trends that could be influential for Cloetta is of major importance. Knowledge about trends in the market and consumer behaviour is necessary for the development of successful product innovations.

Market analysis, trend monitoring and interaction with consumers in the social media provide the marketing department with valuable data for analysis of changes in consumption patterns.

Natural ingredients and consideration to environmental and ethical aspects are factors that are affecting the confectionery market to a growing extent. Cloetta continuously reviews all products and questions their ingredients. For example, sweeteners and fruit flavourings have been replaced with stevia and fruit juice. Stevia is used in Läkerol and xylitol is used in Läkerol DentaFresh. During the year, Cloetta made a strategic decision that all major brands should have a sugar-free or less sugar alternative by 2020.

Product development process

An effective product development process is decisive for profitable growth. Product development is steered by the way in which market trends and consumer behaviour can be optimally combined with existing brands.

The biggest costs in product development arise in the product launch phase and are primarily associated with marketing activities, but also with ensuring efficient production.

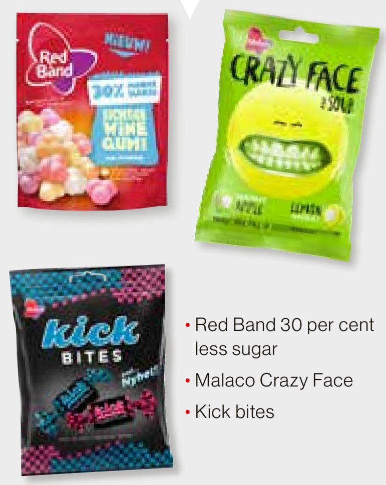
Cloetta drives category projects in candy, chocolate, pastilles, chewing gum and nuts. Within this framework, Cloetta has developed a product development process that combines consumer demand and needs with the possibilities found in the existing production structure and the innovation activities being carried out within the Group, see next page.

Tools for idea and concept generation and continuous follow-up create the conditions for Cloetta to be an even more innovation-active company.

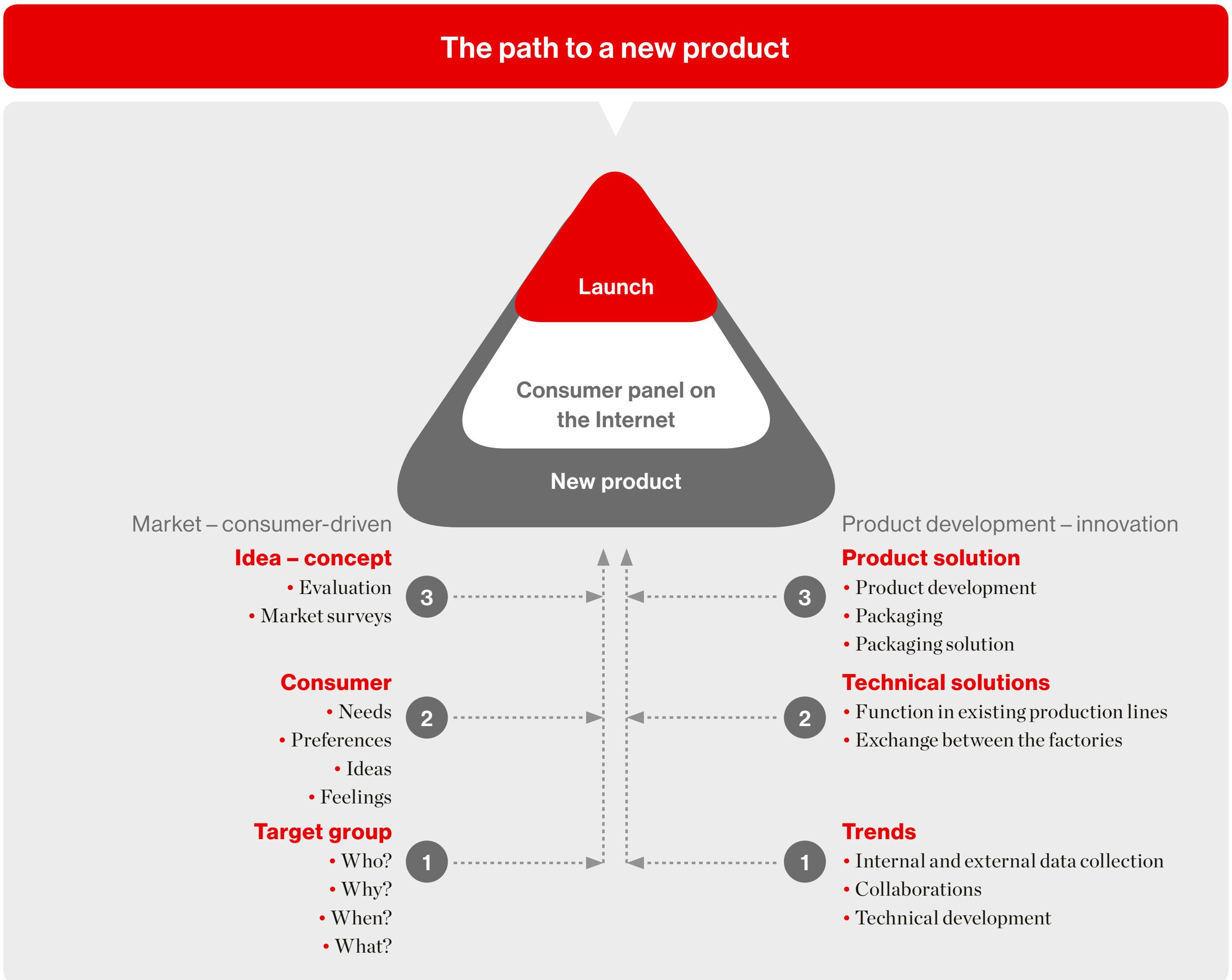
A focus on taste

Packages and marketing can tempt consumers to try a new product, but if the taste doesn't measure up there is rarely a second purchase. It is therefore critical that the new products launched by Cloetta meet consumer requirements and expectations. The focus is on taste when Cloetta develops new products. Before a product is launched, it undergoes both internal and external taste tests via consumer panels that among other things assess its flavour, consistency and overall impression.

Strategic product development during the year



- Red Band 30 per cent less sugar
- Malaco Crazy Face
- Kick bites



To systematically gather consumer feedback, Cloetta uses a consumer panel that regularly provides feedback and ideas on the Internet after receiving product samples to their homes. The ideas that have come up have been highly valuable for Cloetta's innovation work.

Without approval by the consumer panel, the product will not be released on the market. A large database of earlier tests and reference values facilitates the necessary assessment.

The process from concept to a product ready for launch normally takes around one year, but can be accelerated with the use of focused resources.

Launches in new markets

A product that is successful in one market can be launched in another market under an existing local brand. For Cloetta, with its many brands in different markets, scale economies in production can be utilized effectively by matching brands. Some examples:

- Läkerol Dents in Finland have become Läkerol DentaFresh in Sweden and Norway and King Chewmints in the Netherlands.
- Sportlife Mints from the Netherlands are sold as Mynthon ZipMint in Finland.
- Polly from Sweden has been sold for many years as Pops in Norway, and Norwegian Pops Puffar are sold as Polly Puffar in Sweden.

In recent years, the British brand Chewits has been launched in several markets that are new for the brand.

Package size

Aside from tasting good and being reasonably priced for the consumer, a new product must be commercially attractive to the retail trade and part of a category concept. Its weight, package and distribution are adapted for their respective sales channels and markets. With the right packaging, many of the products that are strong in one market can also secure a good position in new markets.

Package sizes are often associated with price strategies for different customer categories and markets. Changing a package size is therefore a strategic decision for how a brand can be further developed to reach new customers and thereby also new consumers.

Travel Retail

For many years Cloetta has had substantial sales to ferry lines, charter tour operators and airports, so-called Travel Retail.

Well-known brands and unique packages in terms of both appearance and size are two of the most important competitive tools.

6 distinct consumer trends

Genuine raw materials

There is a continued interest in natural and genuine raw materials. Additives of various types and artificially produced substances are being questioned in favour of natural materials. E numbers are being replaced with the name of the additive in plain language. Natural sugar or stevia are preferred over artificial sweeteners.

Greater individualization

Consumers are seeking satisfaction of their individual needs to a greater extent. This means that they want the option of choosing products, but also to have access to products and services that are individualized and can be adapted to different occasions. Pick & mix is a good example of a concept that is individualized.

On-the-go

More and more often, we are eating outside the home on our way to and from different activities. Greater availability and different solutions allow consumers to satisfy their needs immediately.

Responsibility for the environment and working conditions

One key trend is an interest in the effects of food production on the environment and social conditions. Suppliers and retailers have responded to consumer demand for information, above all about the raw materials' origins, quality and cultivation methods by introducing different types of labelling and certification.

Health and less sugar

People are increasingly seeking raw materials with positive health effects.

Cloetta's product range includes nuts, which are rich in vitamins and minerals. Xylitol, which is found in chewing gum and chewy pastilles, is good for dental health.

Cloetta's Red Band offers choices with one totally sugar-free variant, one with 30 per cent less sugar and a vegetarian option.

E-commerce and social media gaining importance

E-commerce is growing rapidly across all sectors, including the grocery retail trade. Both grocery retailers and food producers are building up their own e-commerce capacity to sell their goods online, and new players are also capitalizing on the powerful growth of online sales. Alongside e-commerce, direct communication with consumers via the social media is emerging as one of the most important channels for further developing the brands' personalities and capturing trends.

New market, initiatives and concepts

In the spring of 2017 Cloetta acquired Candyking Holding AB ("Candyking") and its subsidiaries, a leading concept supplier in the pick & mix category in the Nordic region and the UK. Candyking offers retailers a total concept in pick & mix, consisting of products, racks and merchandising as well as in-store and logistics services.

At the time of the acquisition, Candyking provided some 8,000 sales outlets in seven countries with pick & mix and had annual sales of approximately SEK 1,200m. Candyking's brands include Candyking and Karamellkungen in the candy market and Parrots in natural snacks. Today, pick & mix accounts for 30 per cent of the Group's sales.

Pick & mix – a vital part of the candy market

Pick & mix accounts for over 30 per cent of the candy market in Sweden, measured by volume. In the other Nordic countries, the share is between 10 and 15 per cent.

In the rest of Europe, pick & mix has a weaker position but is a growing part of the candy market.

Synergies from the acquisition

For several years Cloetta has offered a similar concept for both regular pick & mix and natural snacks. In Finland, Cloetta has successfully driven the pick & mix concept Karkkikatu for many years.

Since Candyking has no in-house production, Cloetta can bring about significant synergies through the acquisition. Over the years, Cloetta has delivered candy to Candyking and Cloetta has the production capacity to successively insource additional production. The synergies are created not only in production, but also in administration, logistics and sales, and will be realized during the years 2017 – 2020.

A total of 600 – 800 articles

Following the acquisition of Candyking, Cloetta now offers a total of 600 – 800 articles in the pick & mix assortment in the form of chocolates, gummy candies, hard-boiled candies, toffee, foam, liquorice and natural snacks. A customer can choose a concept with between 16-200 different articles that consumers can pick in bags or cups.

Natural snacks

Through the Parrots brand, Cloetta is also a leading player in the natural snacks market in Sweden and Finland. Parrots is currently the only pick & mix brand that is 100% free from palm oil and includes only UTZ-certified chocolate and natural flavours.

Cloetta's acquisitions

2013

Goody Good Stuff
Annual sales at acquisition, SEK 10m.
Access to a new technology and brand in natural gummy candy.

2014

Nutisal
Annual sales at acquisition, SEK 200m.
Access to a whole new category, nuts.

The Jelly Bean Factory
Annual sales at acquisition, SEK 100m.
Premium offering in candy and stronger presence in the UK.

2015

Lonka
Annual sales at acquisition, SEK 300m.
Strengthens Cloetta's position in the Netherlands and provides access to a new category.

2017

Candyking
Annual sales at acquisition, SEK 1,200m.
Strengthens Cloetta's position in the large and growing pick & mix category.

Candyking + Cloetta = #1 in pick & mix

Cloetta's goals for pick & mix are to:

- offer consumers the **best experience in the retail trade.**
- **drive category development** together with the customer.
- deliver **innovative products, packages and racks.**
- be the **most effective supplier** when it comes to merchandising and the efficient supply of goods.
- have the most **satisfied customers** in pick & mix.

Consumer well-being

GREATER
WELL-BEING
CONSUMERS

Cloetta's responsibility for consumer well-being starts with high and consistent quality together with correct and detailed content labelling. Besides these fundamentals, Cloetta is also running a programme with the ambition to meet increasing consumer demand for more healthy products.

Cloetta offers choices

Sugar plays an important role in Cloetta's assortment when it comes to delivering great taste, pleasure and enjoyment to our consumers. Sugar is also important in bringing structure and preservative properties to the products.

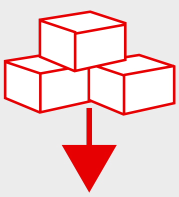
Cloetta's mission is to bring a smile to consumers' munchy moments, something that should also include products with alternatives to sugar. Consumers must therefore be able to find sugar-free products, products with less sugar or those that are naturally free from sugar in Cloetta's assortment.

By 2020 all Cloetta's key brands will have a sugar-free alternative or an alternative with a reduced amount of sugar.

No artificial flavours, no artificial colours (NAFNAC)

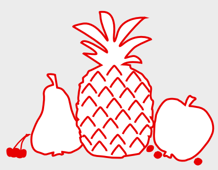
There is an increasing consumer interest in natural ingredients. Different types of additives and chemically produced substances are being questioned from a health standpoint. Cloetta is therefore conducting a programme aimed at removing artificial flavours and colours from the assortment.

By 2019 Cloetta will use only flavours and colours derived from natural sources.



LESS SUGAR &
SUGAR-FREE

Offers choices – sugar-free for key brands by 2020.



NAFNAC
No Artificial Flavours &
No Artificial Colours

No Artificial Flavours (NAF) **or Colours** (NAC) **by 2019**

Responsibility for consumer well-being

Fewer calories with stevia

In order to offer products with a reduced calorie content, stevia plays a key role for Cloetta's products. Stevia is a plant native to South America whose leaves contain an intense and natural sweetness. Cloetta uses stevia extract in products such as Läkerol, chewing gum and selected offers of packed confectionary from Red Band.

Nuts – loaded with nutrients

Nuts are a natural source of many vital nutrients and also contain antioxidants. Cashew nuts are rich in iron, folic acid and zinc. Peanuts (which are actually seeds) are rich in protein and contain high levels of Vitamin B3. Almonds (which are actually seeds) are rich in Vitamin E and pistachios are very rich in antioxidants.

Dental benefits with xylitol

Production of the sweetener xylitol, which has fewer calories than natural sugar, was originally started in Finland in the 1970s through extraction from birch sap. Today xylitol is manufactured from various deciduous trees and maize. Xylitol is found in several of Cloetta's chewing gum products, such as Jenkki and Mynthon and the pastille Läkerol DentaFresh.

Natural raw materials

Goody Good Stuff and The Jelly Bean Factory are two examples where Cloetta has implemented the idea of 100 per cent natural ingredients. All artificial colours and flavours have been replaced by natural fruit and plant extracts and all other food additives have been removed.

Clear declaration of ingredients

Cloetta works continuously to develop responsible and clear information about the contents of the products via packages and the website.

High quality and product safety

High quality and product safety are vital in food production and are strictly adhered to in every step of Cloetta's production processes, from inspection of raw materials to finished products. First class raw materials, correct handling and processes according to the recipes create the right flavour, appearance and consistency and eliminate any risks to the consumers.

Goal and outcome for complaints/returns, see page 40.

Cloetta's leading brands

Cloetta is the name and symbol of the Nordic region's oldest confectionery company, with a very strong local heritage. Cloetta's brands fulfil the mission »To bring a smile to your Munchy Moments«.

Ahlgrens bilar

is a fruit-flavoured foam that a large majority of the Swedes love and enjoy. The original taste and elegant design have been unchanged since 1953, when Ahlgrens' candy factory decided to try to produce marshmallows. The result was not as expected; instead it was small foam pieces of candy in the shape of a car. Sweden's best tasting car was born! New car models have been launched since then, in flavours such as salty liquorice and sweet & sour.

Sold in: Sweden, Norway, Denmark, the US, Guinea, Malta, Cyprus, Poland, Thailand.

Bridge

is a candy mix that was created in 1966 when some employees were playing bridge and ate a mixture of different tasty products that were made at the factory. One day someone came up with the idea of launching this mix of various delicious flavours in a bag. Bridge is the mature candy mix where everyone can find their favourite.

Sold in: Sweden, Norway, Denmark.

Candyking/Karamellkungen

allows you to put together the most delicious sweets we can find and lets you mix things up your way. Sour, sweet and salty. Hard, soft and chewy. The original brand, Candyking, in Sweden known as Karamellkungen, has been developed during 30 years. This pick & mix-concept is currently offered in 8,000 sales points.

Sold in: Sweden, Denmark, Norway, Finland, the UK, the Baltics.

Center

has been around since 1941 when the roll was first launched in Sweden. Center is the tasty roll at the centre of attention – just unroll a piece and enjoy!

Sold in: Sweden, Norway, Denmark, Estonia, Finland, Cyprus, Poland.

Chewits

was launched in the UK in 1965 as a kids chewy sweet. Chewits is vegetarian, free from artificial colours and contains no hydrogenated fats. The sticks flavours are strawberry, cola, blackcurrant, orange, fruit salad and ice cream. The Chewits Xtreme range consists of sour apple, tutti frutti and pineapple. Newest to the range is the Chewits Crazy Face, an extreme candy based on well known bonbon technology, filled with extreme powder flavours. "Chewie the Chewitsaurus" is the brand mascot.

Sold in: the UK, Norway, Finland, Italy, the Baltics, Russia.

Goody Good Stuff

This tasty gummy candy range was launched in the UK in 2010. The range pioneers a plant-derived bio-gum technology that eliminates the need for animal-based gelatine, which makes the candy suitable for vegetarians. To make the range accessible to an even bigger user-group, the range is also free from artificial colours and flavours, gluten and lactose, and is Halal- and Kosher-certified.

Sold in: the Netherlands, the UK, France, Sweden, Norway, Germany, Austria, Taiwan.

The Jelly Bean Factory

offers 36 different flavours of gourmet jelly beans, made from 100 per cent natural flavours and fruit juices. Free from gluten, gelatine and nuts. The Jelly Bean Factory was established in 1998 in Ireland. Every day over 12 million gourmet jelly beans are produced at the factory in Dublin, packaged in a wide range of playful formats. The most juicy, mouthwatering jelly beans on the planet.

Sold in: around 60 countries worldwide, mainly in the UK, Sweden, Germany, the Netherlands, Baltics, Russia, Cyprus, Portugal, Spain, Israel, China, Singapore, Hong Kong, Switzerland.

Jenkki

is the market-leading chewing gum brand in Finland, where it was originally launched in 1951. Since 1975 the brand has been sweetened with the dental innovation xylitol, and has thus become a smart tooth-friendly habit for Finns: as a breath refresher or an enjoyable treat after each meal.

Sold in: Finland, Estonia, China.

Juleskum

is the original that has become a natural part of the Swedish Christmas traditions. Cloetta started making marshmallow Santas as early as the 1930s. Each year a limited edition is released, this year with the taste of lingonberries. Although Juleskum is only sold for a limited period around Christmas, it is the fourth best-selling candy bag in Sweden on an annual basis. Juleskum Original is a fluffy, two-coloured marshmallow Santa with a taste of strawberry.

Sold in: Sweden, Norway, Denmark.

Kexchoklad

was launched as early as 1938 and is one of Cloetta's active Swedish classics. Sweden's best tasting between-meal snack. Three layers of crispy, chocolate-covered filled wafers make Kexchoklad a snack for active people who need to quickly refill their energy.

Sold in: Sweden, Denmark, Baltics, the US, China, Hungary, Poland, Cyprus, Guinea, Malta, Estonia, Latvia, Russia.

King

The De Vries family started producing peppermint in 1902, and from 1922 under the brand name King. Over time, the brand has evolved from a simple throat lozenge into a modern breath freshener. Today, after more than 90 years, it still contains the same secret peppermint blend that makes King loved by many Dutch consumers.

Sold in: the Netherlands, Lithuania, Russia, Canada, the US, France, Belgium, Surinam, Australia.

Lonka

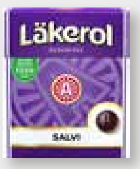
At Lonka, it's all about soft and delicious sweets made with passion and high quality. Since the first Lonka factory opened in 1920 in the Netherlands, Lonka has been providing consumers with traditional favourites like caramel, fudge, soft nougat and chocolate. With Lonka products, consumers make their coffee and tea moment more indulging.

Sold in: Around 40 countries worldwide, mainly in Benelux, Sweden, Denmark, the UK, Spain, Germany, Israel, Italy, Estonia.

Läkerol

is a classic brand and the tastiest refresher for all occasions. The first box was sold in 1909. Läkerol is available in a variety of flavours and is effective when you want to soothe your throat, refresh your breath or just fancy something tasty. Läkerol makes people talk.

Sold in: Sweden, Norway, Denmark, Finland, Germany, Switzerland, the US, Hongkong, Indonesia, South-Korea, Singapore, Lebanon, Belgium.



Läkerol Dents/ Läkerol DentaFresh

is the world's first, in Finland market-leading and in Sweden and Norway new, xylitol pastille with 50 per cent xylitol, and is available in several flavours. Take two tablets after every meal to stop acid attack and strengthen your teeth. Läkerol Dents is the most delicious way to take care of your teeth. Läkerol DentaFresh – a smart habit for stronger teeth.

Sold in: Läkerol Dents in Finland. Läkerol DentaFresh in Sweden, Norway.

Malaco

offers a wide variety of candy products. The name Malaco comes from the first letters in the company name Malmö Lakrits Compani, founded in 1934. Over the years, many new products have been launched under the brand, such as Gott&blandat, TV MIX, Aakkoset, Familie Guf, Lagerman Konfekt and Kick. Quite simply – Saturday all week.

Sold in: Sweden, Finland, Norway, Denmark, the Baltics, Italy, Malta, the UK, Ireland, Poland, Switzerland, Canada, the US, Germany, Thailand, Israel, Cyprus, Guinea.

Mynthon

is the leading pastille brand in Finland, where it was launched in 1976. Fresh and effective is Mynthon's brand essence. The product range consists of chewy, hard and compressed pastilles in a variety of fresh flavours. In 2012, chewing gum was also launched under the brand.

Sold in: Finland, Norway, the Baltics, Hungary, Russia.

Nutisal

is the Group's nut expert as of 2014. The business started in a shop in Beirut, Lebanon. There, back in 1948, a unique 'dry roasting' method was developed for roasting without oil. Nutisal took this technology to Europe and created a range of dry roasted mixes that was launched in 2007. Because no oil is used in the process, the consumer can enjoy the genuine taste of nuts.

Sold in: Sweden, Denmark, Finland, the Netherlands, Switzerland, Germany, Estonia, Latvia, Greece.

Plopp

is the mini-bar for indulging yourself or someone close to your heart. Originally introduced in 1949, Plopp is personified by the little mini-bar that stands for nostalgia, fun and playfulness. Plopp consists of wonderful milk chocolate filled with soft toffee.

Sold in: Sweden.

Polly

was launched in 1965 and is the leading brand of bagged chocolate on the Swedish market. It's impossible to eat just one. Polly is delightfully chewy foam drops, covered with chocolate. The original is flavoured with vanilla, arrack and butter toffee. Polly is also the candy that surprises, for example Polly with a taste of Ahlgrens bilar.

Sold in: Sweden, Finland, Denmark, Poland.

Red Band

has roots going back to 1928. Since the start, the Red Band brand has built up a leading position in the Dutch and German confectionery markets with a promise to deliver fun, quality and pleasure. The classic Winegum Mix, the original Drop Fruit Duo's and Pret Mix are some of the well-known products that are sold under the Red Band brand. Today Red Band also offers the consumer more alternatives with the no-sugar version, the 30% less sugar and the vegetarian version.

Sold in: more than 25 countries, mainly the Netherlands, Switzerland, Belgium, Germany, France, the Baltics and Canada.

Sisu

is a liquorice pastille flavoured by a secret Sisu-aroma that was launched in Finland in 1928. Sisu is named for the true nature of the Finnish people – the word 'sisu' means guts, endurance or relentless courage. For the Finns, the Sisu brand is part of the Finnish spirit that no other brand can replace. With Sisu, you can do it. Sisu is available in several flavours packaged in boxes.

Sold in: Finland.

Sportlife

was launched in the Netherlands in 1981 as the first chewing gum in "blister" packaging. Since the start, Sportlife has been a leader in the Dutch market and also has a strong position in Belgium. Sportlife is based on the brand essence of unexpected freshness and has an international brand profile. In 2015 Sportlife launched the core flavors in jars.

Sold in: the Netherlands, Belgium, Romania, Surinam.

Sportlunch

is a crispy wafer generously coated with pure milk chocolate in easy-to-break pieces. Sportlunch was launched in Sweden in 1937, under the name "Mellanmål" and changed name to Sportlunch in 1996.

Sold in: Sweden, Norway, Estonia, Lithuania.

Tupla

was launched in 1960 and is the number one chocolate countline in Finland. Tupla means ´double´ in Finnish and Tupla original countline contains two pieces that are filled with energy and easy to share. The original Tupla countline has a cocoa nougat filling covered with milk chocolate, with a twist of saltiness and roasted almond crush. The taste and texture of Tupla is fuel for the body and attitude. Tupla is available in different flavours and sizes, and since 2015 also as a sport bar Tupla+.

Sold in: Finland, the Baltics.

Venco

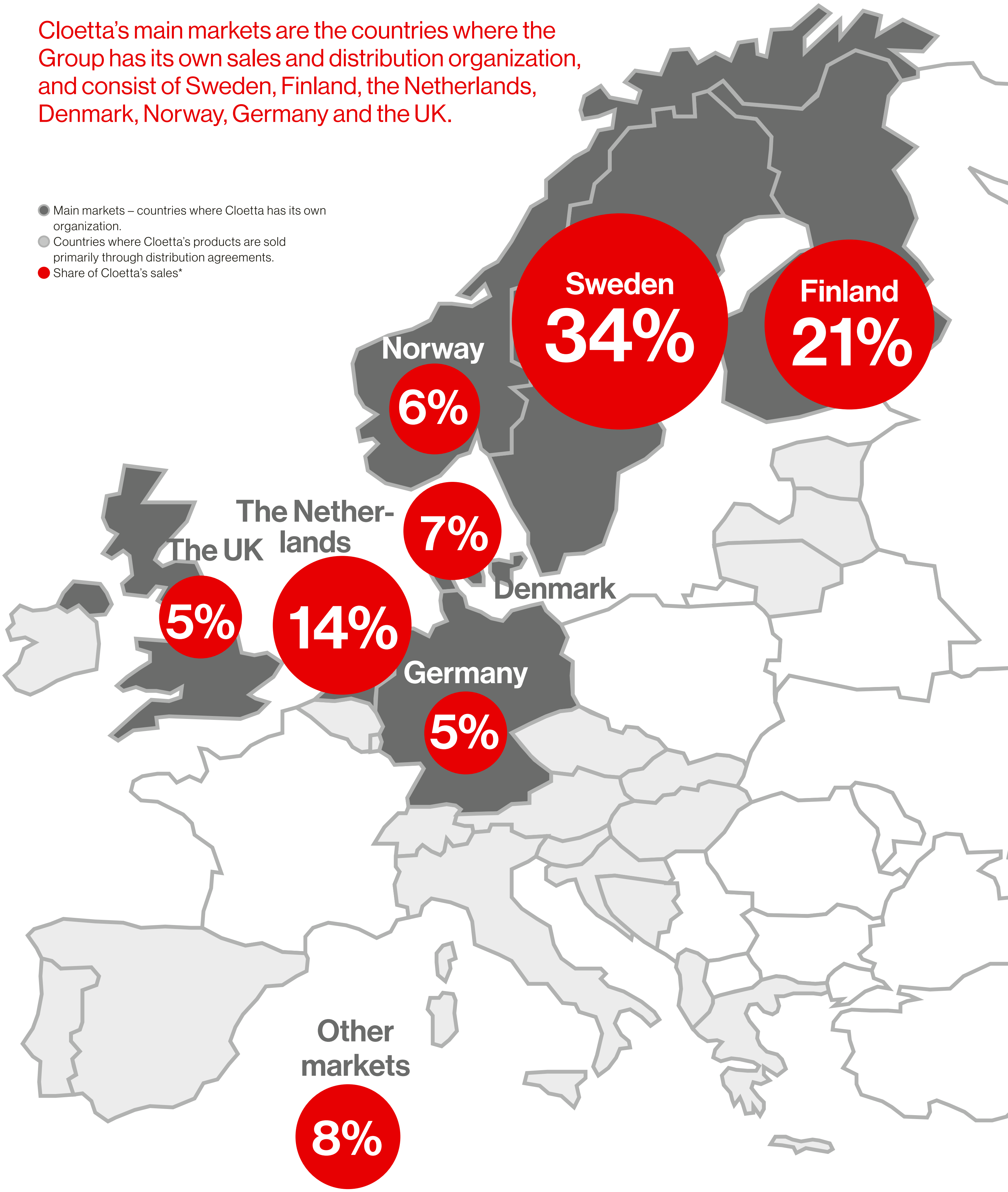
Venco was launched as early as 1878 and is the leading liquorice brand in the Netherlands. Venco has 'a passion for liquorice', which is delivered in a wide range of unique, iconic and top-selling items like chalk and honey liquorice. When the Dutch think of liquorice, they think of Venco.

Sold in: the Netherlands, Canada, Israel, Italy, Surinam, South Africa, France, Belgium.

LEADING BRANDS

Cloetta's main markets

Cloetta's main markets are the countries where the Group has its own sales and distribution organization, and consist of Sweden, Finland, the Netherlands, Denmark, Norway, Germany and the UK.



*Pro forma excluding Cloetta Italy including Candyking full year.

Sweden

Sweden is the largest single market in the Nordic region, with around one third of total confectionery consumption. In 2017 the total market showed positive development.

Share of Cloetta's sales:

34%

SWEDEN

Population:

10.1 million

Top-selling brands:

Market size:

Consumer sales of approx. SEK**16.2**bn

Cloetta's largest customers:

Axfood, Coop, ICA, Bergendahls and Privab

CAGR 2011–2016:

2.7%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
✓	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

In Sweden Cloetta is the market leader in candy and pastilles, Mondelez (including the Marabou brand) in chocolate and Wrigley's in chewing gum. Overall, Cloetta is the second largest player in the Swedish market for packaged confectionery, with a share of around 23 per cent (23). Mondelez has approximately 31 per cent (31) of the market. The retail chains' private labels have a share of around 5 per cent (5) of the confectionery market and 42 per cent within nuts.

Pick & mix, an important category that accounts for 30 per cent of the total market, is not included in the market shares above, but through contracts with retailers Coop, Bergendahls and ÖoB and the acquisition of Candyking, Cloetta is the market leader in this category.

Sales channels

The Swedish grocery retail trade is concentrated and increasingly centrally steered, but with good opportunities for influence at the local store level. The task for Cloetta's sales force is to ensure distribution as well as placement and space in the stores in compliance with central agreements, but also to provide the trade with support in implementing campaigns and launches. The pick & mix concepts are handled by a dedicated sales and merchandising organization.

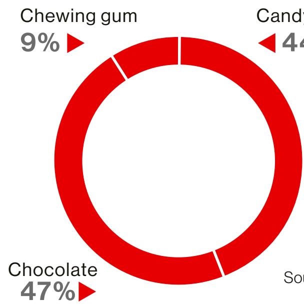
The service trade is a vital sales channel. In recent years, alternative sales channels like building supply stores, movie theatres, arenas, etc., have become increasingly important.

Organization

In Sweden, there are a total of around 320 employees in the sales and merchandising organization and at the Swedish head office in Malmö.

Categories, Sweden

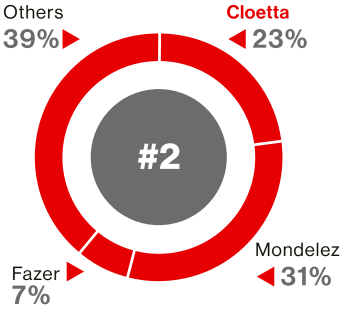
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Sweden

Confectionery market excl. pick & mix



Source: Datamonitor

Finland

Finland is the third largest market in the Nordic region, with around one fifth of the region's total confectionery consumption. The Finnish market grew in 2017.

Share of Cloetta's sales:

21%

FINLAND

Population:

5.5 million

Top-selling brands:

Market size:

Consumer sales of approx. SEK**9.1**bn

Cloetta's largest customers:

SOK, Kesko and Tuko

CAGR 2011–2016:

1.5%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
✓	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the second largest player in the Finnish market, with a share of around 25 per cent (25) of packaged confectionery. The market leader is Fazer, with approximately 40 per cent (42) of the confectionery market. The retail chains' private labels have a share of around 8 per cent (8) of confectionery sales in the Finnish market. Cloetta is the undisputed market leader in pick & mix.

The confectionery tax in Finland was abolished in 2017. As a result, sales have increased significantly compared to previous year.

Sales channels

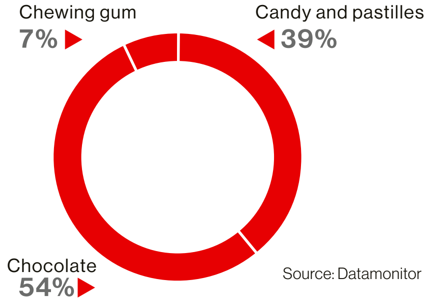
The Finnish grocery retail trade is dominated by two players, Kesko and S-Group. Lidl has a larger share of retail trade compared to the other Nordic countries. Finland is the market with the most centralized purchasing in the Nordic region. Thanks to centralized purchasing, new products can achieve wide distribution and become quickly available to consumers.

Organization

In Finland, there are around 170 employees in the sales and merchandising organization and at the office in Turku.

Categories, Finland

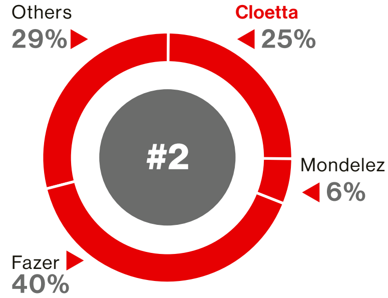
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Finland

Confectionery market excl. pick & mix



Source: Datamonitor

The Netherlands

The Netherlands is the sixth largest market in Western Europe with regard to confectionery consumption. The Dutch confectionery market showed slightly positive development in 2017, mainly driven by chocolate, candy and pastilles.

Share of Cloetta's sales: **14%**

NETHERLANDS

Population: **17.0 million**

Top-selling brands:

Market size: Consumer sales of approx. SEK**15.5**bn

Cloetta's largest customers: **Albert Heijn, Superunie, Jumbo Supermarkten and Maxxam**

CAGR 2011–2016: **0.8%**

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
✓	Chewing gum
✓	Nuts
	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the second largest player in the total confectionery market as a result of strong positions in the segments of candy, liquorice, chewing gum and chocolate specialties. Cloetta's share is around 10 per cent (10). In the candy market Cloetta is the second largest player and Perfetti market leader.

The retail chains' private labels including hard discount have a share of around 9 per cent (9) of total candy sales in the Dutch market.

Sales channels

The grocery retail trade is concentrated around a few major players. With primarily centralized purchasing, it is possible to achieve wide and rapid distribution of the new products that are launched.

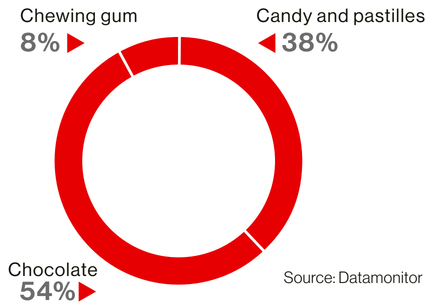
The hard discount retail chains with a high proportion of private labels have increased their market shares during the year. Other important channels for confectionery are pharmacy and out-of-home, with a wide variety of channels and players.

Online grocery shopping has a stronger position in the Netherlands than in any of Cloetta's other main markets.

Sales organization

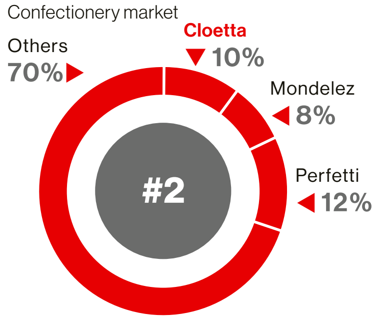
Cloetta has around 85 employees at the office in Oosterhout and in the sales organization.

Categories, the Netherlands
Confectionery market



Source: Datamonitor

Largest players, the Netherlands
Confectionery market



Source: Datamonitor

Denmark

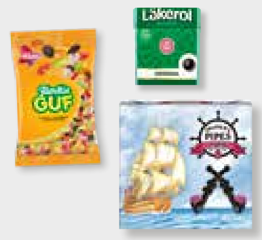
Denmark accounts for around one fourth of the Nordic region's total confectionery consumption. The confectionery market grew during the year.

Share of Cloetta's sales:
7%

DENMARK

Population:
5.7 million

Top-selling brands:



Market size:
Consumer sales of approx. SEK**10.7**bn

Cloetta's largest customers:
Coop, Dansk Supermarked and Dagrofa

CAGR 2011–2016:
1.9%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the third largest player in the Danish market for candy and pastilles, with a market share of around 16 per cent (18). The market leaders are Haribo with around 29 per cent (27) and Toms with approximately 16 per cent (16). The retail chains' private labels have a market share of around 6 per cent (5). Cloetta is the leading pick & mix player in Denmark and has strong positions in both candy and nuts. In 2017, Cloetta gained market shares in all channels except one large retail chain with which Cloetta could not agree on pricing, resulting in a decrease in Cloetta's total market share.

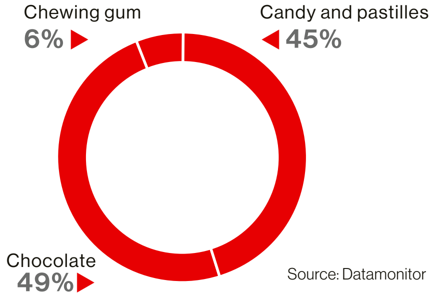
Sales channels

The grocery trade in Denmark is moving towards greater centralization, but with a combination of centrally-driven chains and a more decentralized approach than in the other Nordic countries. Extensive efforts at the individual store level are therefore required to achieve distribution and sales of in-store display racks. The growth of the discount channel has stopped and new channels such as non-food outlets and DIY are growing in importance.

Organization

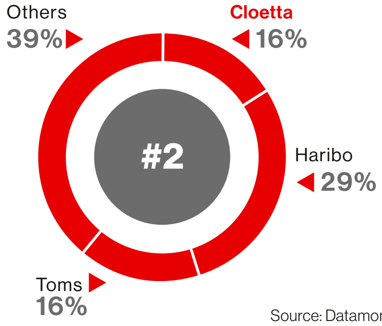
In Denmark, there are around 100 employees at the offices in Brøndby and Randers and in the sales and merchandising organization.

Categories, Denmark
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Denmark
Candy and pastilles excl. pick & mix



Source: Datamonitor

Norway

Norway is the smallest market in the Nordic region, with just under one fifth of the region's total confectionery consumption. The Norwegian confectionery market grew in 2017.

Share of Cloetta's sales:

6%

NORWAY

Population:

5.3 million

Top-selling brands:

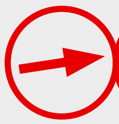
Market size:

Consumer sales of approx. SEK9.1bn

Cloetta's largest customers:

Coop, NorgesGruppen and Rema 1000

CAGR 2011–2016:



1.8%

Cloetta's presence

✓	Candy
✓	Chocolate
✓	Pastilles
	Chewing gum
✓	Nuts
✓	Pick & mix

Source: Datamonitor

Cloetta's sales and competitors

Cloetta is the third largest player in the Norwegian confectionery market, with a market share of 9 per cent (10). The market leaders are Mondelez with 38 per cent (39) and, Nidar (owned by Orkla) with 22 per cent (22). Brynild has 7 per cent (6). In the market for candy, Cloetta is the leading player. The retail chains' private labels have a share of around 5 per cent (5) of confectionery sales in the Norwegian market. Cloetta is the leading pick & mix concept provider with approximately one third of the market.

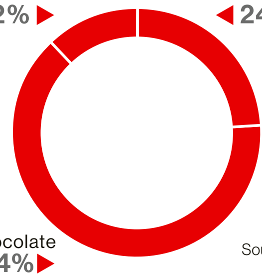
Sales channels

The Norwegian grocery retail market is consolidated, with three dominant chains. The discount or soft discount channel has been growing and capturing market shares from the traditional supermarket chains.

Organization

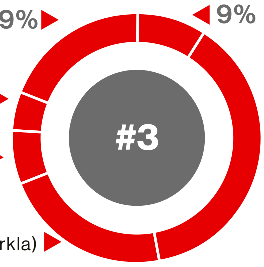
In Norway, Cloetta has around 65 employees at the office in Høvik just outside of Oslo and in the sales and merchandising organization.

Categories, Norway
Confectionery market excl. pick & mix



Source: Datamonitor

Largest players, Norway
Confectionery market excl. pick & mix



Source: Datamonitor

UK

The UK is the second largest market in Western Europe. UK is characterized by fierce competition from all international confectionery companies.

UK

Market size:

Consumer sales of approx. SEK**74.5**bn

Cloetta's largest customers:

Hancocks, Tesco and Wilco

Top-selling brands:

Candyking
The Jelly Bean Factory
Chewits
Lonka
Goody
Good Stuff

Cloetta's position and organization

Cloetta is the market leader in pick & mix in the UK with the Candyking concept. However, pick & mix is still a very small segment of the confectionery market in the UK. In addition, Cloetta is a strong niche player with the premium brand The Jelly Ben Factory and the Chewits brand. Cloetta also sells Lonka and Goody Good Stuff in the UK.

In the UK, Cloetta has a dedicated sales and merchandising organization for Candyking with about 125 employees. All other brands are sold through distributors.

Germany

Germany is the largest market in Western Europe. Germany is characterized by its large proportion of discounters and hard discounters.

GERMANY

Market size:

Consumer sales of approx. SEK**90.0**bn

Cloetta's largest customers:

Lekkerland, Edeka and Rewe

Top-selling brands:

Red Band
The Jelly Bean Factory
Lonka
Nutisal

Source: Datamonitor

Cloetta's position and organization

Cloetta is primarily active with the wine gum brand Red Band and the premium brand The Jelly Bean Factory. In addition, Lonka and Nutisal are sold in Germany.

In Germany, Cloetta has its own small organization with 8 employees that takes care of both customer contacts and the brands, while distribution of the products is handled by agents.

Other markets

Other markets accounted for 8 per cent of Cloetta's sales in 2017.

Other markets consist primarily of sales to countries where Cloetta has no own sales and marketing organization, a total of more than 50 markets. The main markets are Canada, the Middle East, the Baltics, Switzerland and Southeast Asia.

External distributors

In all other markets, external distributors handle sales of Cloetta's products. In 3 of the countries, Cloetta has its own local staff that handles the distributors.

SALES IN **40** COUNTRIES

Top-selling brands:

Supply chain

At year-end 2017 Cloetta had 8 factories in Sweden, Slovakia, the Netherlands, Belgium and Ireland. All in all, Cloetta produced approximately 95,600 tonnes of candy, chocolate, chewing gum, pastilles and nuts in 2017.

Cloetta's supply chain is responsible for production, purchasing, planning, logistics, quality, technology and safety. The top priorities during the year have been to implement and drive the Lean 2020 programme in order to increase efficiencies, prepare and initiate the insourcing of volumes from Candyking, drive the safety culture and to finalize the integration of the factories that came with the acquisition of Lonka in 2015.

Fire in factory

In June 2017, an explosion and a fire destroyed one of the lines in the factory in Turnhout, Belgium, and one person was injured. This led to production capacity constraints, and significantly lower volumes were produced after the incident. It also created ripple effects in the factory network when new shifts were set up in some factories and production was outsourced to compensate for lost volumes. This led to higher complexity and additional cost. The effects of the incident impacted the factory network in the second half of 2017 through production of lower volumes. A new production line is expected to be installed during the second quarter of 2018.

95.6 thousand tonnes produced 2017

8

1,580 FACTORY EMPLOYEES

Lean 2020

Lean 2020

Roadmap to Lean 2020

Increase reliability and flexibility
- Learn to improve and eliminate the root causes of problems.
- Faster and more flexible changeovers.
- Better understanding and maintenance of machinery.
- Reduce waste.

Improve the flow
- Achieve base stability (continued improvement in machine efficiency and output).
- Value stream mapping: reduce bottlenecks.
- Provide operators with ongoing training and give them greater responsibility.
- Shorter lead times and increased frequency.

Deliver according to demand (pull)
- Achieve balanced delivery.
- Reduce dependency on external parties through training and support of operators so that they do things right the first time to a greater extent.
- Be a world class producer.

Goal
- **Improve resource-efficiency per line.**
- **Reduce waste.**
- **Improve energy-efficiency.**
- **Lower inventory levels.**
- **Balance between direct and indirect costs.**

Cloetta works constantly to decrease costs and reduce waste. Key success factors in the production process include long-term and day-to-day efforts to achieve continuous improvements and create a learning-driven culture. This is conducted through a systematic focus on lean processes and value engineering. The production strategy has been shaped into a long-term vision – "Lean 2020".

This vision is based on benchmarking against world-class production with the aim of achieving operational excellence. To clarify this ambition, clear targets have been set for areas such as machine efficiency, energy consumption and reduction of inventories. The targets will be met through lean processes and tools.

In 2017 Cloetta continued its journey to move from building capabilities to utilizing them in order to meet these targets. The Lean programme continued with Lean Training Academy and 40 key people in the Supply Chain were trained in Lean Leadership. The concept of Repetitive Flexible Supply has been introduced, which is a concept that will enable Cloetta to further reduce inventories and maximize flexibility and reliability in the Supply Chain.

In 2017 the Lean programme contributed to improvements in the areas of inventory and waste reduction and increased efficiencies.

The eight principles of Lean

1 Have a long-term, sustainable customer focus that is shared by all employees.

2 Maintain a continuously even process flow from raw material to customer delivery, with the lowest possible inventories and waiting times.

3 Have standardized processes to maximize safety and quality and to create opportunities for continuous improvement.

4 Encourage people to do things right the first time, i.e. have a culture where the individual operator immediately stops a machine or process that is not working correctly in order to find the root causes of problems.

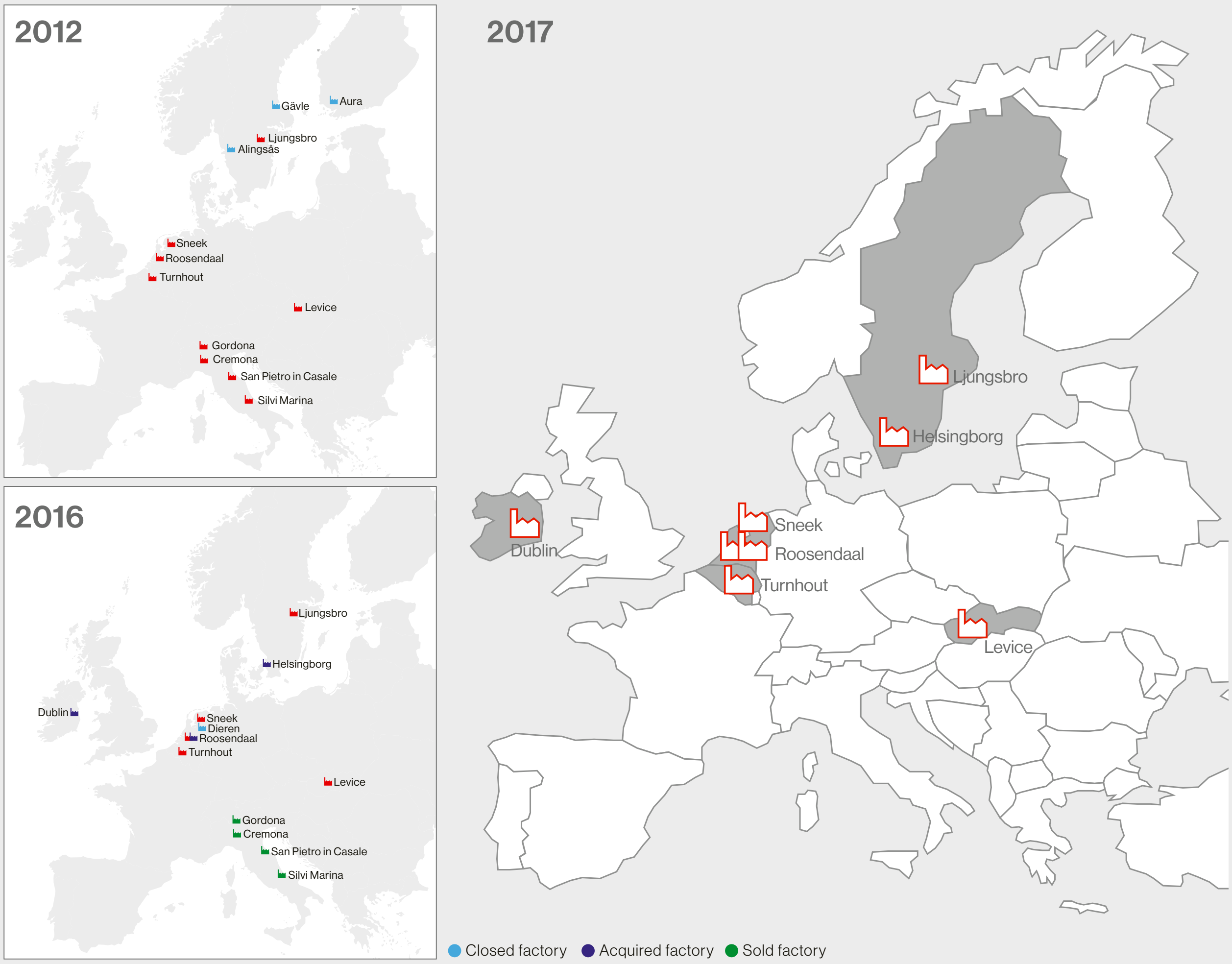
5 Have operators and teams that understand the processes and the company's values, who grow in their jobs and teach others.

6 Have a culture in which each individual identifies how problems arise and what improvements can be made. Decisions shall be based on observations.

7 Develop a learning-driven and empowering organization and utilize reflections and follow-up to optimize operations.

8 Make fact- and team-based decisions after weighing different possibilities, but implement decisions quickly. Focus on discussing how, not whether, to improve.

Changes in the production structure 2012–2017



Production rationalizations and transfers

Between 2012 and 2014 Cloetta implemented a factory restructuring programme in which three factories were closed and production was insourced from third-party suppliers. Moving a production line is a complex process that requires extensive documentation, careful planning, knowledge transfer, technical adaptations and fine-tuning. A physical relocation of machinery is often required. In total, the restructuring programme meant that 40 per cent of the total volume in the Group was transferred in some way.

During 2017 the integration of the factories that came with the acquisition of Lonka was finalized.

In September 2017, Cloetta sold its Italian business including the four factories. Most of the production in the Italian factories was intended for the Italian market, but the products produced on behalf of Cloetta are still being made in the Italian factories but now under a contract manufacturing agreement.

Occupational safety

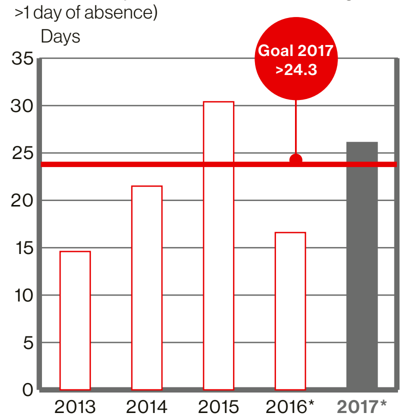
Employee safety is fundamental to Cloetta and the top priority in every production facility. The focus is on a program to improve the safety culture that will alter the attitudes and behaviour of employees. Cloetta also works with continuous injury and risk reduction programmes based on real safety data that is translated into specific safety projects with a focus on employee involvement. By increasing safety awareness and encouraging good safety behaviour by everyone in the organization, Cloetta will continue to transform its safety culture and performance.

In 2017, the number of occupational injuries fell and the interval between LTAs (Lost-Time Accidents resulting in absence of more than one day) improved by 57 per cent to an average of 26.1 days, compared with 16.6 days in 2016. This outperformed the target of 23.4 days. In total, there were 13 LTAs in 2017, compared with 21 in 2016. The focus for 2018 will continue to be the top four safety risks: machine isolation, hazardous chemical management, fork lift trucks and ATEX (EU Directive regarding explosive atmospheres such as flammable gas and dust, in Cloetta's case dust from flour, for example). The new safety tools and training developed in 2017 will be deployed to support the factories in their work with daily risk reduction. In 2018, Cloetta will also start to track injuries linked to contractors and use Lost Time Injury Rate (LTIR) as the primary safety KPI (LTIR is the number of occupational accidents (an employee's work stopped more than 24 hours) arisen during a 12-month period for each million hours worked by a group of employees or workers) instead of LTA. This indicator allows Cloetta to make internal comparisons and external benchmarks. The Lost Time Injury Rate target for 2018 is 4.6.

The numbers presented for 2016 and 2017 exclude the Italian factories.

Days between occupational accidents

(number of days between accidents leading to >1 day of absence)



*Excluding the sold Italian operations.

Management systems

Cloetta has a central management system to ensure standardized working methods in its operations. Each production unit has a locally adapted management system that is linked to the central system. Central policies, goals and procedures are broken down and implemented at the factory level.

The management systems cover occupational health and safety, quality, product safety and the environment. These systems are based on international standards (BRC Global Standard for Food Safety, ISO 14001 and OHSAS 18001), recurring risk assessments and continuous improvements.

One important aspect of this working method is a systematized meeting structure for monitoring of results against targets, to detect both positive and negative deviations. Goals and results are visualized for example on displays in the facilities to provide knowledge about the current situation, which contributes to promoting awareness and engagement among the employees. Action can be taken immediately in the event of deviations and systematic follow-up creates scope for proactive improvements.

Read more about Cloetta's environmental work on pages 44–45.

Quality and product safety

Cloetta places rigorous demands on quality and product safety. First class raw materials and correct treatment and processing methods are essential for manufacturing of high quality confectionery.

Continuous efforts are made to ensure that the products meet the requirements and expectations of consumers and retailers. For each product there is a quality specification describing the required flavour, aroma, appearance, consistency and package. No azo food colourings are used in Cloetta's products.

All of Cloetta's factories are certified according to the BRC Global Standard for Food Safety. BRC is a standard for assurance of product safety and quality, and is one of the cornerstones of Cloetta's quality management.

The product safety work is based on the HACCP method (Hazard Analysis Critical Control Points). With the help of the HACCP method it is possible to analyze potential risks to the consumer. This provides a basis for steering and control of the entire process, from purchasing of raw materials to delivery of finished products, in order to eliminate and minimize all conceivable consumer risks.

Both the BRC standard and EU food product legislation require traceability of raw materials and products. This traceability has been assured and is tested regularly. Cloetta has a detailed action plan to enable rapid recall of a product from the market if needed.

Planning and logistics

Effective production planning leads to lower capital tied up in the form of inventories of both raw materials and finished products, at the same time that it increases the service level. Delivery reliability is one of the most critical parameters for the retail trade. Cloetta has a well-developed planning system that integrates the entire value chain from supplier to production and final customer. The system also integrates financial planning and prices.

Cloetta works continuously to optimize its flows and working methods, both internally and externally, together with customers and suppliers.

Purchasing

Cloetta's largest cost items in production, accounting for around 70 per cent of total costs, are raw materials, finished goods and packaging.

Raw materials are purchased only from suppliers that can be verified against Cloetta's ethical, quality, product, safety and environmental requirements. Suppliers to Cloetta are evaluated and approved before they are permitted to deliver raw 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.

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

Cloetta's range includes products that are produced by other manufacturers. External production is outsourced only to manufacturers following approval by Cloetta, according to the same high quality standards that apply to production in Cloetta's own factories. External manufacturers are evaluated and tested regularly.

Consumer and customer feedback

Feedback from individual consumers is extremely valuable in Cloetta's pursuit of continuous improvements.

Each market has a Consumer Service unit that receives, investigates and responds to consumer and customer feedback and complaints. In case of possible quality defects, Consumer Service always contacts the factory in question. The affected factory then uses the information provided by the consumer to systematically find the root causes of any defects and thereby eliminate them. Many of the complaints are related to the mix of products in the bags and damaged packaging.

Complaints, feedback per million sold consumer units

*Excluding the sold Italian operations.

The result for 2017 was an improvement compared to last year due to an increased focus on Cloetta's product quality management system.

Success factors for production

Engaged employees

Good communication about processes and goals creates engaged employees who understand the business and how their work contributes to the Group's overall results.

Employee safety

A safe working environment is a fundamental right for each employee. Being and feeling safe on the job is essential in order to develop and perform well in the workplace.

Flexibility

A production line is often used for several different products. Rapid changeovers and cleaning are vital for high machine capacity utilization. Flexibility also means that each employee is able to work on more than one line.

High and consistent quality

The goal is to always deliver safe products with the right flavour, appearance and consistency according to their respective specifications.

Delivery reliability

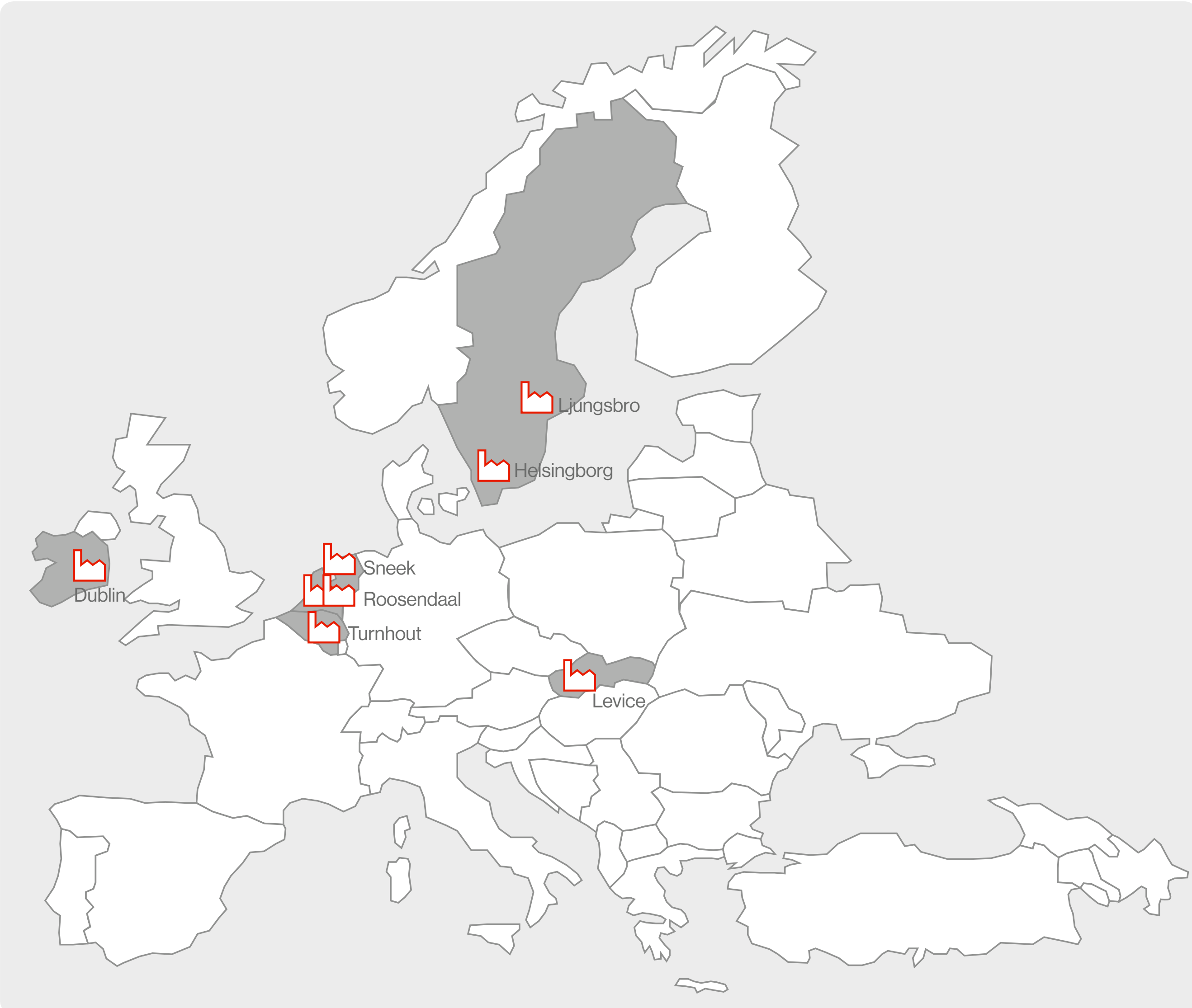
Good production planning is decisive for effective production and low warehousing costs, but also for delivery reliability to the customers.

Cost-efficiency

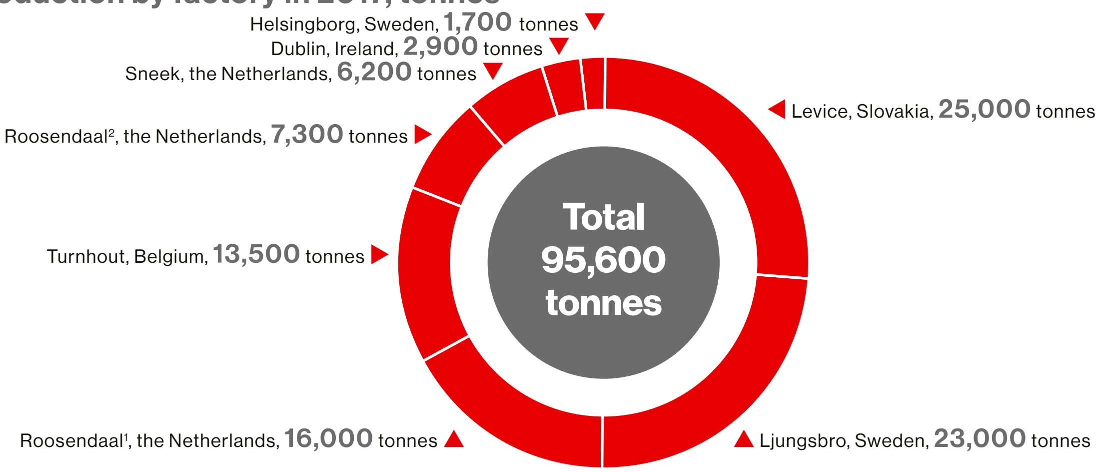
Cloetta's sales are based on large volumes. Cost-efficiency is necessary in order to stay competitive.

Factories

Production at eight factories



Production by factory in 2017, tonnes



1) Spoorstraat
2) Borchwerf

In total, Cloetta produced 111,600 tonnes in its owned factories during 2017, whereby 16,000 tonnes were produced in the Italian factories that Cloetta owned until September, 2017. In addition, Cloetta has sourced volumes from third party manufacturers.

Levice, Slovakia
Production volume 2017: **25,000 tonnes**
Number of plant employees: **Approx. 700**
Number of machine lines: 11 production lines, 31 packaging lines
Largest brands: Malaco, Red Band, Läkerol, Chewits, Venco, Läkerol Dents, Mynthon
Manufacturing methods: Starch moulding, extrusion, coating, hard- & soft-boiled candy and toffee
Certifications: BRC Global Standard for Food Safety

Ljungsbro, Sweden
Production volume 2017: **23,000 tonnes**
Number of plant employees: **Approx. 300**
Number of machine lines: 12 production lines with in-line packing, 3 separate packaging lines and 1 chocolate production center
Largest brands: Kexchoklad, Ahlgrens bilar, Center, Polly, Plopp, Sportlunch, Juleskum, Tupla
Manufacturing methods: Chocolate moulding, starch moulding, coating and wafer production
Certifications: BRC Global Standard for Food Safety and ISO 14001

Roosendaal (Spoorstraat), the Netherlands
Production volume 2017: **16,000 tonnes**
Number of plant employees: **Approx. 175**
Number of machine lines: 5 production lines, 10 packaging lines
Largest brands: Red Band, Malaco, Venco, Lakrisal
Manufacturing methods: Starch moulding, coating and compression of pastilles
Certifications: BRC Global Standard for Food Safety

Turnhout, Belgium
Production volume 2017: **13,500 tonnes**
Number of plant employees: **Approx. 110**
Number of machine lines: 2 production lines, 4 packaging lines
Largest brands: Malaco, Red Band
Manufacturing methods: Starch moulding
Certifications: BRC Global Standard for Food Safety and ISO14001

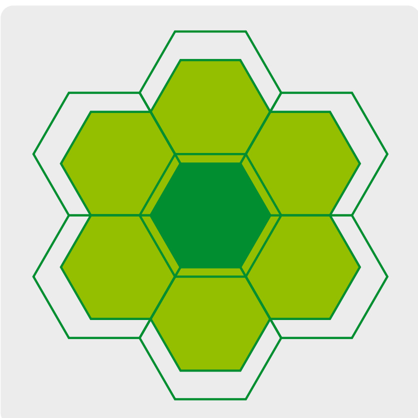
Roosendaal (Borchwerf), the Netherlands
Production volume 2017: **7,300 tonnes**
Number of plant employees: **Approx. 90**
Number of machine lines: 7 production lines, 14 packaging lines
Largest brands: Lonka, Red Band
Manufacturing methods: Toffee, fudge and nougat manufacturing
Certifications: BRC IFS GMP and BRC Global Standard for Food Safety

Sneek, the Netherlands
Production volume 2017: **6,200 tonnes**
Number of plant employees: **Approx. 100**
Number of machine lines: 5 production lines, 14 packaging lines
Largest brands: Sportlife, Jenkki, XyliFresh, King
Manufacturing methods: Chewing gum, coating, hard-boiled candy and lozenge manufacturing
Certifications: BRC Global Standard for Food Safety, IFS and ISO 14001

Dublin, Ireland
Production volume 2017: **2,900 tonnes**
Number of plant employees: **Approx. 75**
Number of machine lines: 1 production line, 10 packaging lines
Largest brands: The Jelly Bean Factory
Manufacturing methods: Starch moulding and coating
Certifications: BRC Global Standard for Food Safety

Helsingborg, Sweden
Production volume 2017: **1,700 tonnes**
Number of plant employees: **Approx. 30**
Number of machine lines: 6 production lines, 4 packaging lines
Largest brands: Nutisal
Manufacturing methods: Dry roasting, frying and coating of nuts
Certifications: BRC Global Standard for Food Safety

Reduced environmental impact



REDUCED
ENVIRONMENTAL
IMPACT

The Paris Agreement was signed in 2016. The agreement provides a pathway and a direction not only for governments but also for companies around the world.

It also sends a signal that it is urgent – we must act now to avoid serious climate change for future generations.

Fighting climate change

Cloetta's primary focus in the fight against climate change is within the following three areas:

- reduction of greenhouse gases,
- increased energy efficiency and
- reduction of waste.

The scope of reducing Cloetta's environmental impact lies within the production network – the emissions and waste generated by Cloetta's operations.

For the three areas above, Cloetta has defined long-term goals to be reached by 2020. The action programme in place to reach the 2020 goals is incorporated into Cloetta's Lean programme, where the vision is to benchmark against world class production with the aim of achieving operational excellence.

All of Cloetta's production units conduct systematic environmental management that includes action plans and monitoring in several different areas.

By 2020 Cloetta will reduce energy consumption and CO_2 emissions in relation to produced volume (MWh/tonne) by 5 per cent and the volume of waste in relation to produced volume (kg/tonne) by 25 per cent.

Sustainable packaging

Waste is also generated in the final stage of the life cycle of a Cloetta product – disposal of packaging material. To reduce the environmental impact of this final stage, Cloetta has defined a sustainable packaging programme.

By 2020 all PVC will be phased out and by 2025 all of Cloetta's packaging material will be 100% recyclable/recoverable. By 2019 Cloetta will launch its first bio-based packaging material.

5% energy reduction by 2020

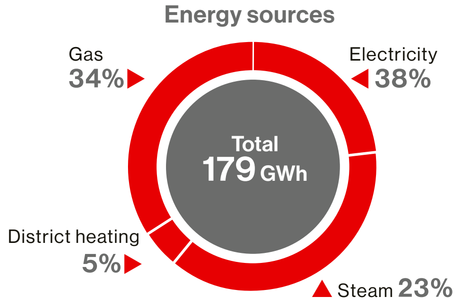
5% CO_2 reduction by 2020

25% waste reduction by 2020

100% recyclable/recoverable packaging material by 2025

Environmental key performance indicators

	2017[1]	2016[1]	2015	2014
Total energy consumption, GWh[2]	179	180	215	216
Energy consumption per produced tonne, MWh[2]	1.85	1.80	1.85	1.88
CO_2 per produced kilo, kg[2]	0.29	0.30	0.35	0.34
Waste per produced tonne, kg[3]	67	64	67	66
Recycled waste, %[3]	82	81	81	80
Wastewater per produced tonne, m[3],[3]	1.7	1.5	2.9	2.9
COD* per produced tonne, kg[3]	14.2	15.0	17.6	16.6



1) Excluding the sold Italian operations. Roosendaal Borchwerf is included as of 2016. For this reason, the Group's targets have been adjusted slightly.
2) Compared to the 2016 report, comparative figures for 2014 and 2015 have been adjusted, since Roosendaal Borchwerf is now included.
3) The factories in Dublin, Helsingborg and Roosendaal Borchwerf are included as of 2016.

Energy and CO_2 emissions

Alongside efforts to reduce energy consumption, Cloetta is also working to choose energy types with the smallest possible negative impact on the environment. For that reason, the total amount of energy used is converted to the amount of CO² equivalents generated by the chosen energy types.

As a result of efficiency improvements the total amount of energy used in the factories decreased. Due a lower produced volume during the year the energy consumption per produced tonne increased to 1.85 MWh/tonne (1.80). In 2017 Cloetta had emissions of 0.29 kg CO_2 per produced kg (0.30). CO_2 emissions within scope 1 (direct emissions) amounted to around 11,700 tonnes in 2017, while the corresponding figure for scope 2 (indirect emissions) was 16,600 tonnes in 2017. Cloetta purchases renewable electricity for some of the factories, and assumes 0 kg in CO_2 emissions for this power. During the year a large proportion of renewable energy was purchased which, despite a lower produced volume, means that the amount of CO_2 per produced kg fell.

Transports

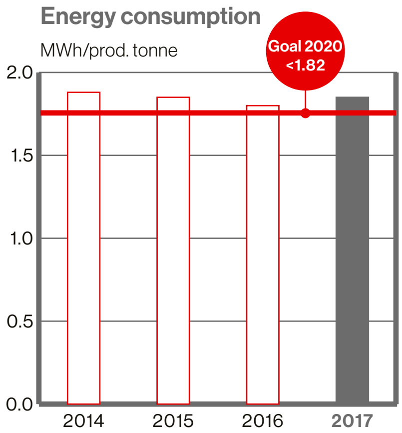
Cloetta calculates CO_2 emissions from transports that Cloetta is responsible for. In 2017 38 kg of CO_2 were released per transported tonne. To reduce both freight costs and CO_2 emissions, Cloetta uses stackable pallets and chooses transporters that have a higher load capacity and who use a combination of road/rail/water transports, when possible. If viable, without jeopardizing product quality, refrigerated transports are avoided.

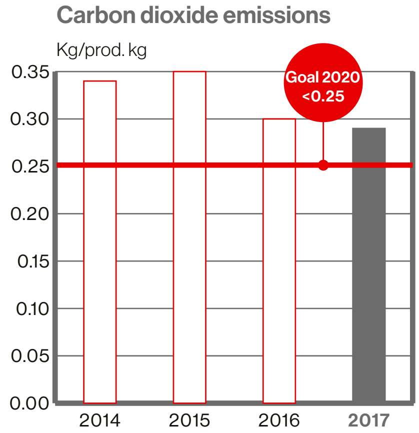
Waste management

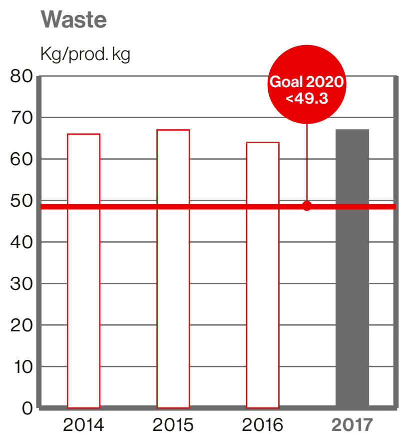
All of Cloetta's production units pre-sort their waste. A reduction in raw material waste has a positive impact on both the environment and the Group's total costs. Due to more efficient sorting, 82 per cent (81) of waste is recovered/recycled. The volume of hazardous waste is very minor and consists of fluorescent light tubes and similar.

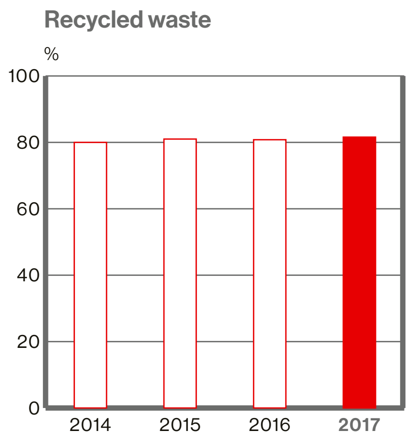
Wastewater

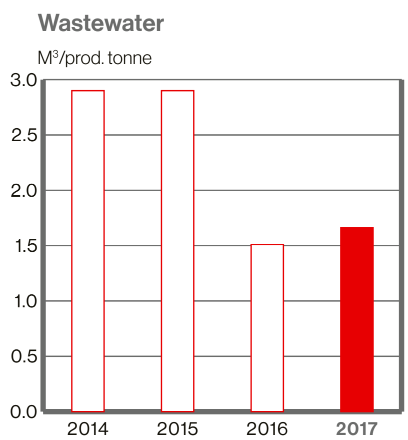
The volume of wastewater was 1.66 m³ (1.51) per produced tonne. In addition to the three prioritized goals, Cloetta is working to improve the wastewater quality. Cloetta rates this quality among other things in terms of COD (Chemical Oxygen Demand), which measures the amount of oxygen consumed in complete chemical decomposition or organic compounds in water. More efficient cleaning routines have reduced COD emissions in relation to produced volume. There are several projects in progress to improve the quality of the wastewater.

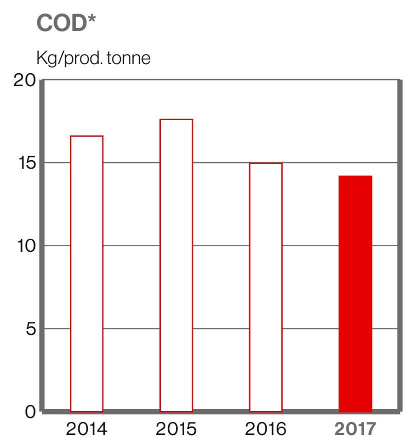












* COD (Chemical Oxygen Demand), is a measure of the amount of oxygen consumed in complete chemical decomposition or organic compounds in water.

Raw material costs

Raw materials and packaging account for around 60 per cent of total production costs. In terms of value, the most significant raw materials are sugar, glucose syrup, polyols, cocoa, nuts and milk powder. The purchase prices for several of Cloetta's raw materials changed during 2017 and the total cost was up somewhat.

The prices of Cloetta's most important raw materials are set on the international European commodities exchanges, either directly as in the case of cocoa or indirectly as for glucose syrup, whose price is mainly determined by the price of wheat and corn. This means that Cloetta's purchasing costs for these items are dependent on market pricing. Aside from the production volume, the total cost for raw materials is also affected by more efficient use in the factories.

Cloetta has a central purchasing unit that can carry out more effective purchasing both by consolidating and by exploiting local purchasing opportunities. As a rule, the central purchasing unit pre-purchases the most important raw materials so that they are accessible for a period equal to 6–9 months of production. This also creates predictability in prices and financial outcomes, since cost changes affect Cloetta's purchasing costs at a certain delay. By doing so, Cloetta can most often avoid temporary price swings in the commodities market.

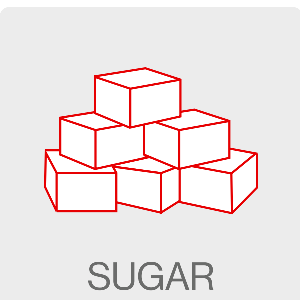
Agricultural policy

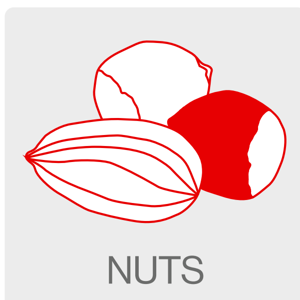
The prices of many of Cloetta's raw materials are affected by agro-political decisions regarding subsidies, trade barriers, etc. The EU's new agricultural policy reform, which among other things ended the systems of sugar quotas, was implemented in 2017.

The prices of agricultural commodities are naturally also 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, which has contributed to greater price volatility.

Suppliers

Cloetta uses several suppliers for the majority of its raw materials, but significant consolidations have taken place among the suppliers and this has sometimes made it difficult to





find alternative suppliers. The ten largest suppliers of raw materials and packaging account for around 35 per cent of the total purchasing volume.

Suppliers to Cloetta are evaluated and approved before they are permitted to deliver to the factories. Read more on page 48.

Cost trend

Sugar

After rising sugar prices in 2016, prices started to decline in 2017 due to the abolition of the European sugar quota system. The European sugar prices are now more closely aligned with the development of global market prices for sugar, although import duties to Europe are unchanged.

Cocoa

The price of cocoa fell during 2017 as a result of good crop and stock, as well as a positive exchange rate development. The cocoa price is often subject to sharp fluctuations that 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 and trends in demand. Furthermore, the cocoa bean price has been affected by a long-term deficit perspective, the Ebola threat and El Niño risk in Côte d'Ivoire, from which most of Europe's cocoa is sourced.

Milk powder

After a substantial price decrease in 2015 due to stock surplus, the Russian embargo, as well as the abolition of the European quota system, milk powder prices increased in 2016 but decreased in 2017 mainly for skimmed milk powder that Cloetta uses.

Nuts

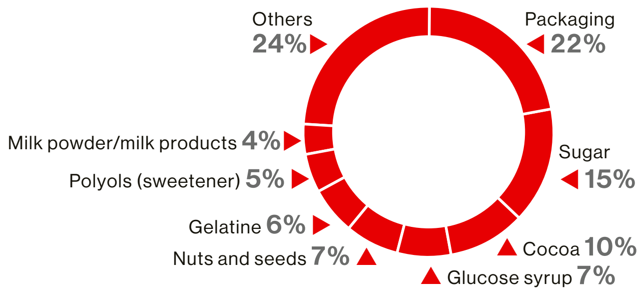
Nut prices are affected mainly by supply/demand, the harvest (weather conditions) and exchange rates, since most of the nuts are quoted in US dollars. The cost of nuts, particularly hazelnuts and almonds, decreased somewhat during 2017 while cost of cashew nuts were higher then in 2016 due to high demand from China and no exports out of India.

Other raw materials and packaging

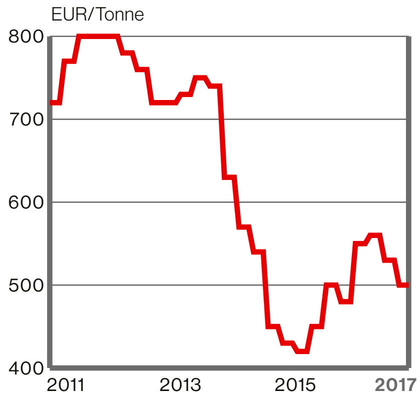
The price of wheat and corn has a powerful influence on the price of glucose syrup. The supply of and demand for glucose were balanced during 2017, leading to minor price movements. The price of polyols (sweetener) is less affected by grain prices. The price of Xylitol rose substantially during 2017 due to a lower supply.

Purchase costs for packaging materials, especially paper-based packaging material, like corrugated, increased during 2017.

Breakdown of raw material and packaging costs

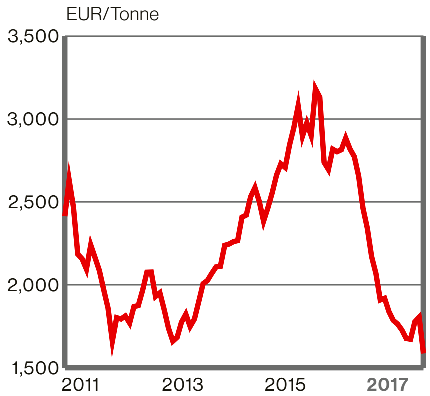


Sugar
Cost trend



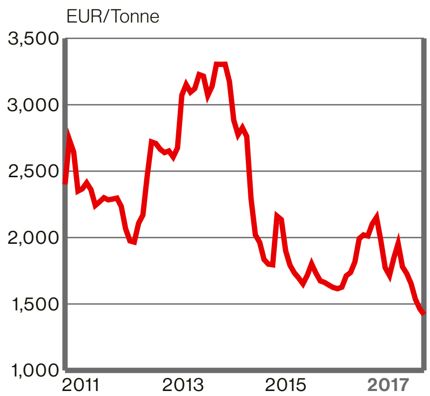
Source: Data Commodity

Cocoa beans
Cost trend



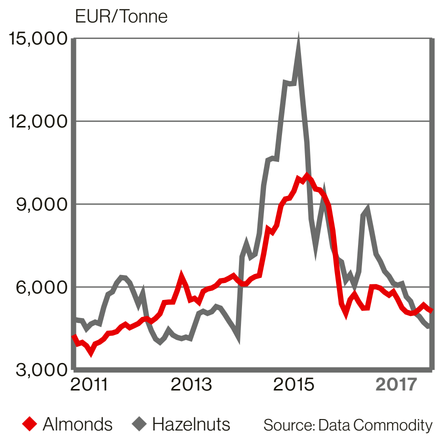
Source: Data Commodity

Milk powder
Cost trend



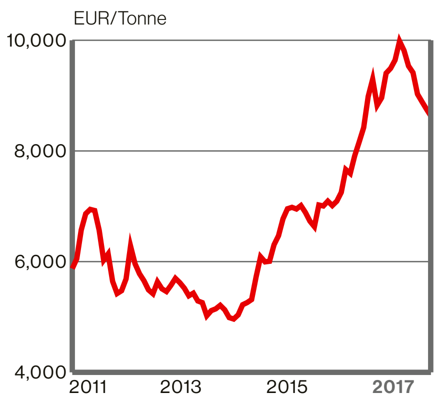
Source: Data Commodity

Almonds and hazelnuts
Cost trend



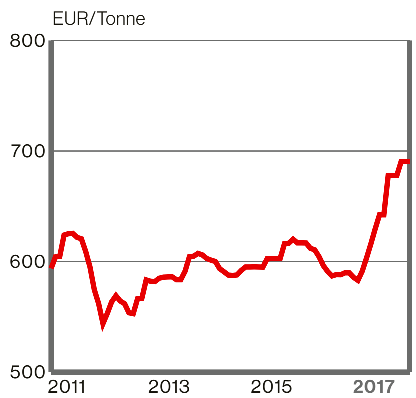
Source: Data Commodity

Cashew nuts
Cost trend



Source: Data Commodity

Corrugated
Cost trend



Source: Data Commodity

Sustainable sourcing

SUSTAINABLE
SOURCING

By incorporating sustainability aspects into the sourcing strategy, Cloetta creates a platform for ensuring the supply of high quality raw materials to the factories while at the same time improving opportunities for the growers in the countries of origin to develop sustainable farming methods.

Supplier approval process

First of all, sustainable sourcing at Cloetta is about having control one step back in the supply chain, i.e. to the first line of suppliers. Raw materials are purchased only from suppliers that can be verified and approved against Cloetta's Code of Conduct for suppliers.

Based on a risk assessment, certain suppliers are physically audited according to an established schedule. Cloetta's Code of Conduct for suppliers is based on the 10 principles in the UN Global Compact.

Sustainability programmes for prioritized raw materials

Secondly, sustainable sourcing at Cloetta is aimed at directly addressing different types of social, environmental and economic challenges in the countries of origin for prioritized raw materials. Cloetta's sustainable sourcing programme for prioritized raw materials is based on external certifications and/or verification according to the guidelines defined in Cloetta's Code of Conduct.

So far, Cloetta has a sustainability programme in place for cocoa, palm and shea butter. By 2020, Cloetta will also have sustainability programmes in place for cane sugar, gum arabic and cashew nuts.

Goal
100%
suppliers approved according to the principles of UN Global Compact

Sustainability programs developed for cocoa, palm and shea butter

By 2020 sustainability programs in place for prioritized materials

Sustainable cocoa farming through UTZ

Through UTZ the cocoa farmers are given

- Training in new farming methods.
- Support in buying better plants, which leads to a higher yield.
- UTZ-certified cocoa growers produce more than growers not affiliated with UTZ.

UTZ Certified cocoa

COCOA

Cocoa is cultivated by around 5 million farmers and employs some 40 million people, of whom close to 70% are found in West Africa, primarily Ghana and Cote d'Ivoire.

Source: UTZ impact report 2016

Greater knowledge results in higher quality crops

- UTZ-certified cocoa farmers in Cote d'Ivoire have higher knowledge levels than those who are not UTZ-certified, and **83%** have shared this knowledge with their families, their employees and others.

UTZ-certified cocoa growers produce more

Cocoa farmers in Cote d'Ivoire

UTZ-certified
467 kg/hectare

Not UTZ-certified
315 kg/hectare

A better life for cocoa growers in Cote d'Ivoire

92% of UTZ certified farmers experienced positive changes from certification.

82 % mentioned living conditions had improved.

49 % of UTZ farmers use increased cocoa revenues to send their children to school.

Sustainable cocoa

Since 2014 Cloetta buys only sustainable cocoa from UTZ-certified farmers. For Cloetta it is vital to address the challenges facing the cocoa growers in West Africa. By switching to sustainable cocoa from UTZ-certified farmers, Cloetta creates a platform for securing a supply of high quality cocoa to the factories while providing better possibilities for West African cocoa growers to develop sustainable farming.

Sourcing of cocoa

West Africa accounts for around 70 per cent of the total global harvest of cocoa beans. Local intermediaries then distribute the raw materials to the international cocoa wholesalers, after which the cocoa is sent to Europe. Every year, Cloetta buys approximately 3,000 tonnes of cocoa in the form of cocoa liquor, cocoa butter and cocoa powder from suppliers in Europe.

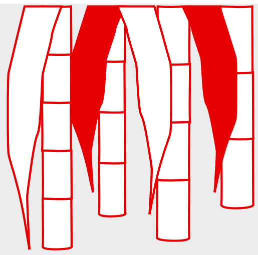
Low productivity for the cocoa farmers

The West African cocoa farmers face a number of economic, social and environmental challenges, of which low productivity on the farms is one of the most critical. Limited knowledge about how to grow high quality cocoa in an efficient manner is a root cause behind the farmers' low productivity. The farmers are also struggling with aging cocoa trees and declining soil fertility at the same time that they often lack the means to finance investments in new plants, fertilizers, etc.

Bonsucro certifies for sustainable sugarcane production

BON SUCRO The global sugarcane platform | Proud member of Bonsucro

470
Members



SUGARCANE

Bonsucro's global standard for sustainable sugarcane is based on

1. Legal compliance.
2. Biodiversity and environmental impact.
3. Human rights.
4. Production and processing.
5. Continuous improvements.

Source: Bonsucro outcome report 2017

Over
800,000 hectares
are certified according to Bonsucro's standard

Worker wages are on average
19%
higher than minimum wage
(at farms and mills)

Better yield
An analysis performed on Brazil's Centre-South productivity has shown that certified mills in the region achieve on average
18 %
higher yields compared to non-certified mills.

Sugarcane

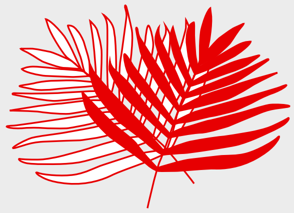
There are a number of sustainability challenges in the sugarcane industry. Deforestation is one of the most acute, but other problems related to the rights of indigenous peoples and the work environment also exist.

To address the sustainability challenges found in the sugarcane industry, Cloetta has become a member of Bonsucro. Most of the sugar purchased by Cloetta is of European origin and comes originally from sugar beets. As a result of the current market dynamics in Europe, Cloetta also buys sugar derived from sugarcane.

Sustainable palm oil through RSPO-certification

8
principles that growers must respect

1. Commitment to transparency.
2. Compliance with laws and regulations.
3. Commitment to long-term economic and financial viability.
4. Use of appropriate best practices by growers and millers.
5. Environmental responsibility and conservation of natural resources and biodiversity.
6. Responsible consideration of employees, and of communities and individuals affected by growers and mills.
7. Responsible development of new plantings.
8. Commitment to continuous improvement in key areas of activity.

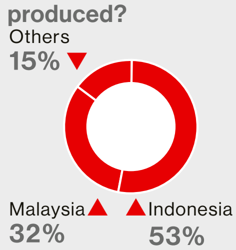


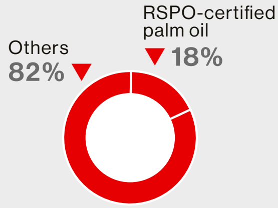
PALM OIL

In certain regions, cultivation of palm oil has caused and continues to cause destruction of rain forest.
By respecting eight key principles, it is possible to reduce the negative impacts of palm oil cultivation on the environment and communities.

Around
85%
of all palm oil in the world comes from Malaysia and Indonesia.

Where is palm oil produced?





Palm oil

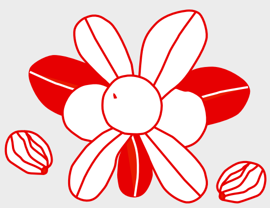
Some of Cloetta's products contain small amounts of palm oil. However, Cloetta does not buy pure palm oil but only oils and fats that contain derivatives of palm oil to a varying extent.

Cloetta's palm oil policy

In order to improve traceability, Cloetta started moving to 100% RSPO-segregated palm oil in 2017 in Cloetta's chocolate and fudge range. Certification towards the standard will be done in 2018. This means that Cloetta will know which mills, and related plantations, the palm oil comes from. Cloetta's suppliers must accept Cloetta's requirement not to permit palm oil extraction in primary forest, peatlands, areas with protected forest or areas where slash and burn farming is used in plantation operation.

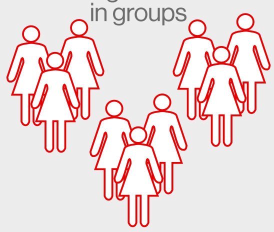
In 2017, the majority of the amount of palm oil that is found in Cloetta's glazing agents was also replaced. This means that the vast majority of Cloetta's products were free from palm oil at the end of 2017.

Sustainable shea butter – empowering women in rural West Africa



SHEA BUTTER

Women organized in groups



More than
100,000
women engaged.

In 2017 Cloetta decided to partner up with AAK (a specialist in oils and fats solutions) for sustainable shea butter. In a number of West African countries, AAK has set up a sustainability programme for direct sourcing of shea kernels that empowers rural women. The partnership means that from July 2018 and onwards, Cloetta will only source segregated and traceable shea butter that falls under the scope of the AAK direct sourcing programme.

The programme setup

From Tamale (Ghana), AAK is running a programme office for sustainable shea kernels. The basic principle of the programme is to establish a direct relationship with the rural West African women. Traditionally, the supply chain contains a series of middlemen who give the women the status of price-takers in the market.

One prerequisite for the programme is that AAK helps the women to organize themselves into producer groups, normally consisting of women from the local village. By organizing the women in producer groups, AAK can build a direct buying relationship with the women. AAK then trains the women in business management and in good post-harvest practices. The main advantage for the women is a higher return, as they will be paid the same price that AAK would otherwise have paid to the middlemen. It is also a guaranteed outlet for all of their shea kernels. The advantage for AAK and Cloetta is a more secure, transparent and sustainable supply chain with increased opportunities to impact the quality of the shea kernels.

Another important benefit for the women is the possibility of obtaining pre-financing. At the beginning of the season, AAK extension officers visit the producer groups to discuss the women's outlook for the season. Part of the volume is then pre-financed and the women are paid this money at a time of year when they have little or no other source of income. It is also a guarantee that AAK will come back and buy all their shea kernels. The pre-financing is interest-free – it´s an advance payment, not a loan.

The programme has been running since 2009 in Burkina Faso and since 2015 in Ghana. More than 100,000 women are engaged in the programme, which has had a major impact on the lives of the many women and their families.

Employees

GREATER WELL-BEING EMPLOYEES

Greater well-being, employees

Cloetta is driven by a conviction that value is created by the employees, and that the ability to attract, retain and develop the best and most competent people is crucial for the company's success. It is also very important that the safety of our employees is continuously improved.

Safety first

In production, employee safety is always the top priority. Feeling safe in the workplace is a prerequisite for performing well. For this reason, all factories carry out continuous risk assessments to minimize the risk for accidents. All incidents and injuries are followed up and reported. The Lean method is used to prevent and minimize production-related occupational injuries. Thanks to these systematic efforts, the number of occupational injuries has been reduced in recent years. The metric for occupational accidents with effect from 2018 will be Lost Time Injury Rate (LTIR), that is the number of accidents resulting in absence. LTIR is defined as the number of occupational accidents (measured as 24 hours absence) for each million hours worked by a group of employees or contractors. The Injury Rate target for 2018 is 4.6.

Working environment

Efforts to improve and develop the working environment are a natural aspect of operational development and the goal is to create a good physical working environment and a healthy working climate where everyone can feel secure and pursue personal development.

One essential part of a secure working environment is to ensure that no one is subject to discrimination or sexual harassment. Cloetta aims to be a workplace where diversity and the different qualities, knowledge and skills of all employees are respected regardless of gender, religion, ethnic background, age, race and sexual orientation.

An attractive workplace

To create an attractive workplace for all employees, it is essential that there is a genuine interest in understanding how the employees see their place of work, i.e. what they appreciate and what they find lacking or are simply dissatisfied with. On a bi-annual basis Cloetta therefor conducts the Great Place to Work survey, where the results are analyzed and corrective action plans are set into place.

√

FACTORY SAFETY PROGRAMS

Zero accidents vision

SAFETY

< 4.6 Lost Time Injury Rate by 2018

Improve Great Place to Work trust index

Cloetta is driven by a conviction that value is created by the employees, and that the ability to attract and retain the best and most competent people is decisive for the company's future.

Cloetta works determinedly to create an attractive workplace for all employees and promote the development of a high-performing organization by continuously developing and training its staff, designing competitive remuneration systems, upholding an inspiring corporate culture and building a clear corporate identity.

Employee survey – Great Place to Work

To create an attractive workplace for all employees, it is essential that there is a genuine interest in understanding how the employees see their place of work, i.e. what they appreciate and what they find lacking or are simply dissatisfied with.

According to Great Place to Work, the best workplaces are built through day-to-day relationships. From the employees' perspective, a good workplace is one where you:

- trust the people you work for,
- have pride in what you do, and
- enjoy the people you work with.

The goal is that Great Place to Work – the Trust Index will be in line with or exceed the previous year's level. During the year Cloetta conducted the recurring employee survey "Great Place to Work" in the supply chain. The response rate was as high as in 2014, when 80 per cent of the employees participated. One thing that is certain is that the results in the production organization are lower than in the commercial units, where the survey was conducted last year. This is not unique to Cloetta. The combined result for Cloetta's production units was lower than the previous measurement since the so-called Trust Index result amounted to 46 per cent compared to 52 per cent. In general, the production organization faced challenges in 2017 and also worked hard with changes where the efficiency improvement tool and training in various Lean tools were in focus. This climate of change has had an impact on the results for Great Place to Work.

Follow-up

In 2017 Cloetta has therefore made an in-depth analysis of each factory's and department's results for "Great Place to Work". This work has been done to ascertain the underlying factors for the current results and what can be improved ahead of 2018 and onwards with regard to attitudes, working methods and communication. This is an important collaboration with joint responsibility between managers, employees and trade unions.

To improve handling and communication related to the survey and to maintain the focus on ongoing improvement initiatives, the survey is conducted every other year in the commercial units and every other year in the supply chain.

So, in 2018 it is once again time for the commercial units to carry out their "Great Place to Work" survey. The base will be somewhat different at that time, since Candyking will be included in the different countries. The goal is to improve the Trust Index for the commercial units by 2 per cent per country.

Relationship between the company and the employees

Cloetta strives to uphold a relationship of mutual respect and trust between the company and its employees. This also steers the company's way of working with the European Works Councils, local company councils and trade unions organizations. Cloetta complies with the applicable laws and regulations in the countries where the Group is active and respects local norms and values. In addition, the Group's principles are consistent with the relevant International Labour Organization (ILO) conventions.

Cloetta encourages a good balance between professional and personal life. It is important to help both men and women combine the demands of their jobs with responsibility for home and family. The Group therefore supports flexible work arrangements like flextime and part-time hours, when possible.

Cloetta's whistleblower service gives all of Cloetta's employees the opportunity to report, either anonymously or via a manager, concerns about conduct that is not in line with the company's values or ethical principles. Read more on page 151.

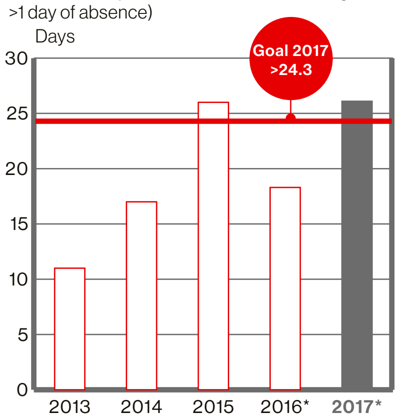
A good and safe working environment

Efforts to improve and develop the working environment are a natural aspect of operational development and the goal is to create a good physical working environment and a healthy working climate where each individual can feel secure and pursue personal development.

In production, employee safety is always the top priority and all of the factories perform continuous risk assessments to minimize the risk for accidents. All incidents and injuries are followed up and reported. The Lean method is used to prevent and reduce production-related occupational injuries. Managers are responsible for preventing occupational illnesses and accidents through monitoring and active measures. Cloetta's HR department has developed a tool that makes it possible, together with managers that have staff responsibility, to detect early signals that can lead to illness and thereby indicate a risk for long-term sickness absence. After a couple of years with a steady decrease in occupational injuries, the trend was broken in 2016 and the target was not met. A new safety standard was therefore drawn up for immediate implementation in all factories, an effort that has had high priority in 2017. This paid off during 2017 and led to a decrease in occupational injuries compared to 2016. Read more on page 39.

In the past two years the "Cloetta Energy" programme was rolled out in certain parts of the organization – a health promotion program utilizing different activities that include lectures and training with a focus on exercise, diet and sleep as key components for achieving a healthy work/life balance. This programme will continue in 2018.

Days between occupational accidents
(number of days between accidents leading to >1 day of absence)



*Excluding the sold Italian operations.

Diversity

One vital part of a safe working environment is that no one should be subject to discrimination or sexual harassment. Cloetta aims to be a workplace where diversity and the different qualities, knowledge and skills of all employees are respected regardless of gender, religion, ethnic background, age, race and sexual orientation. Questions about whether anyone feels that they have been harassed or discriminated against are included in the employee survey "Great Place to Work".

The right expertise

Cloetta is committed to continuously renewing and utilizing the Group's aggregated expertise. Competent employees that are given scope to realize their full potential create the conditions for Cloetta to maintain its position as an attractive and innovative partner not only for the employees but also for customers, suppliers and business partners. A learning-driven organization that works in project form and the use of cross functional teamwork in day-to-day activities are important components of Cloetta's skills development. All skills development is designed to support Cloetta's strategies, to be business-oriented and to promote the individual's professional interests and needs.

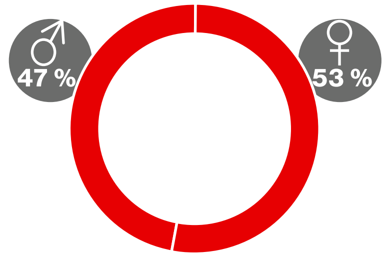
The main focus areas are to develop the right people for the right jobs and to continuously clarify and improve roles, responsibilities and working methods throughout the organization. In recent years there has been a major initiative, primarily in production, to work according to Lean. Read more on page 38.

Employer branding

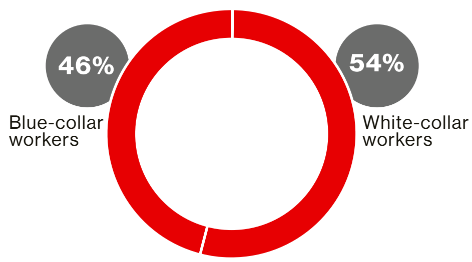
Cloetta strives to be an attractive employer in the markets where the company is active and thereby retain valuable employees.

All recruitment takes place locally with the support of centrally developed tools that include both skills tests and self-assessment tests. For all positions, the selection is based on a job description with specific set of competencies against which the candidates'

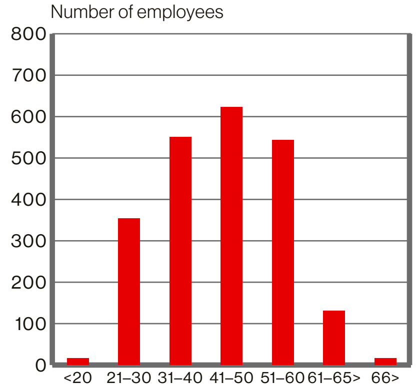
Gender distribution
31 December 2017



Employee categories
31 December 2017



Age distribution*
Number of employees



* Excluding Candyking

performance is measured, in combination with analysis of the various tests and interview material.

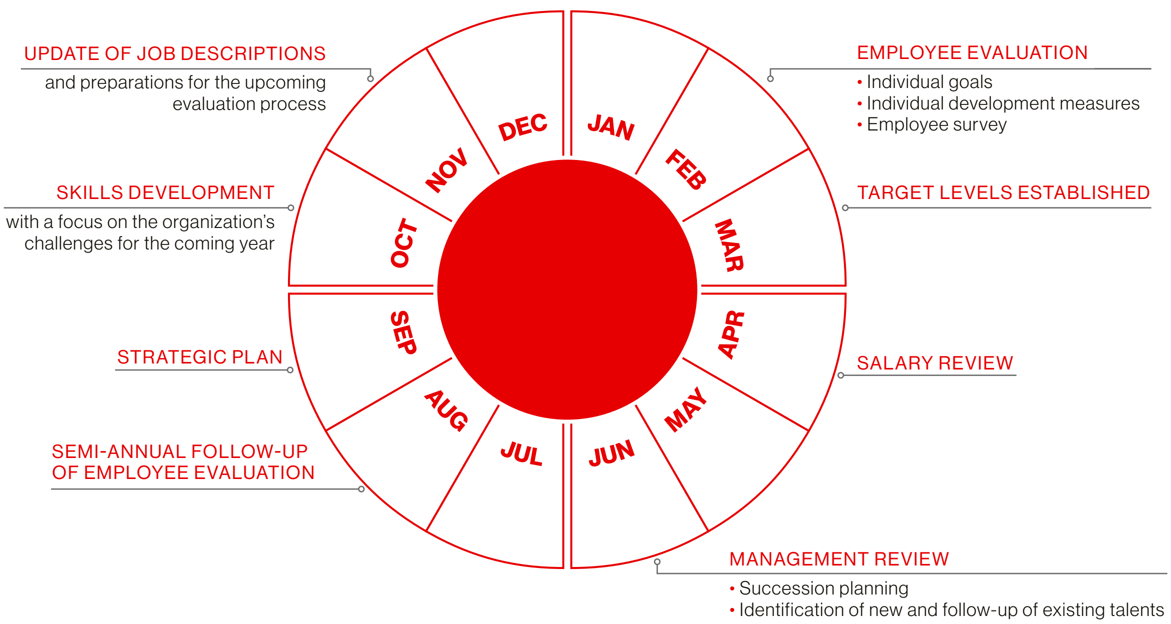
In 2016 an internal survey was conducted with questions about why people have chosen to work at Cloetta and what makes them want to stay. People who have been employed by Cloetta for no more than one year were invited to take part. The results show that a majority of employees feel they have been given far-reaching personal responsibility and scope to work independently.

With the help of feedback from the internal survey, Cloetta has initiated a joint platform for communication about Employer Branding, which is planned to be launched in 2018.

Cloetta's leadership

As a leader, it is vital that you dare to trust in both your own leadership and in others. It is

Cloetta's HR wheel



Cloetta's HR work follows an annual cycle of activities aimed at building and raising the level of expertise in the organization. Most of the activities in Cloetta's HR wheel as described apply primarily to salaried employees.

also essential to understand each other and why different individuals act differently in similar situations.

For some time Cloetta has worked with the leadership tool Management Drives, which is based on the use of a questionnaire that among other things identifies the drives for each employee, what energizes them and what drains them of energy. By using this leadership tool, both managers and employees are made aware of their own profiles and thereby which working methods suit them best. In 2016 the company further developed its leadership tool through the launch of Cloetta's Leadership Dimensions.

Cloetta's Leadership Dimensions

- Visionary Leadership
- People Leadership
- Entrepreneurial Leadership
- Structured Leadership
- Committed Leadership
- Trusted Leadership

Each dimension is briefly described with the help of several competencies and behaviours that are tied together with Management Drives. By combining the concepts in Management Drives with Cloetta's Leadership Dimensions, the company has created a set of concepts that show who Cloetta's employees are and what type of leaders and employees Cloetta wants to be. Good leadership is essential in inspiring maximum motivation and performance in the various teams and plays a vital role in realizing Cloetta's vision and goals.

In 2016–2017, 100 managers were trained in Cloetta's Leadership Dimensions at the central level, where the Group Management Team also took part. Since then, the focus has been on the ongoing local rollout in a number of countries. Cloetta's Leadership Dimensions, connected to Management Drives, have given Cloetta a common language and working tools that can be handled in areas such as development, conflict management and team building activities.

Framework for remuneration

One major factor in how employees perceive the attractiveness of their workplace is the feeling that they are fairly paid and that there is a well-designed salary structure in the company.

For several years Cloetta has made comparisons with other companies to ensure a clear framework and strategy for Cloetta's remuneration/ salary structure. All positions at Cloetta have been evaluated and plotted on a matrix where comparable jobs are ranked similarly regardless of company or function. This has then been supplemented with a salary structure that is benchmarked against other consumer goods companies in each country. The results provide an excellent basis for upcoming salary reviews, where the existing salary level and the year's performance are key parameters in the framework that has been established.

Number of employees

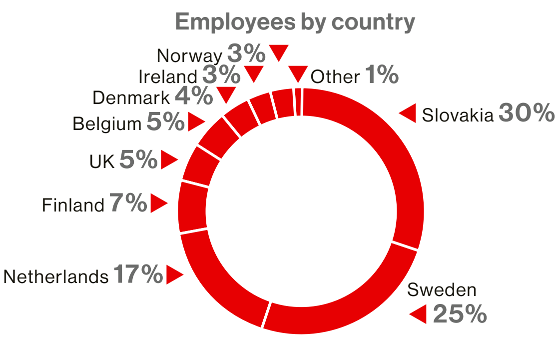
The average number of employees in 2017 was 2,467 (2,115). 70 per cent of the employees are covered by collective agreements. The employees at Cloetta's factory in Levice, the factory not covered by a collective agreement, are instead covered by a separate agreement. Of the average number of employees, 46 per cent are employed under collective agreements and 54 per cent are salaried employees.

In production there are certain periods with a higher workload, such as the spring run-up to Easter and the autumn run-up to Christmas, when extra staff is hired. Other areas of operation also use temporary and extra staff. Temporary staff accounted for approx. 9.7 per cent.

Flat organization for shorter decision-making processes

Cloetta has employees in 14 countries who are active in sales and marketing, production, innovation and support functions. Cloetta's head office is located in Stockholm.

Cloetta is organized according to function and its commercial activities are organized separately from the supply chain organization. As of 2018, finance and human resources will report by function and not directly in the line organization. One of the foremost tasks is to build and strengthen uniform processes and routines. Responsibility for business development, corporate communications, business control, marketing strategies, HR and certain financial activities like tax, financial administration, insurance and financial control are handled by central staffs.



Average number of employees and sickness absence

Employees	Slovakia	Sweden	The Netherlands	Finland	UK	Belgium	Denmark	Ireland	Norway	Italy	Germany	Other	Total
Average number of employees	744	610	415	168	128	124	104	83	67	10	8	6	2,467
– of whom, women	502	315	129	132	86	24	52	34	31	6	3	5	1,319
Sickness absence, %*	8.4	4.8	5.4	2.3	0.0	6.2	1.7	2.0	6.8	0.0	2.4		

* Excluding Candyking

Share and shareholders

Cloetta's class B share has been listed on Nasdaq Stockholm since 16 February 2009, but Cloetta was originally introduced on the stock exchange in 1994 and has been listed in various owner constellations since then. The Cloetta share is quoted on the OMX Stockholm Mid Cap index and the Nordic and Swedish indexes for Food Producers, Food & Beverage and Consumer Goods.

Six reasons to invest in Cloetta

Strong local brands 1

Cloetta has an extensive portfolio of strong local brands that are well established in the minds of the consumers. The brands have been cherished for generations and consumers have a personal relationship with the brands they have grown up with.

Clear strategy to deliver growth 2

In order to drive growth, daily activities to broaden distribution, updating of packaging, promotional and advertising activities, line extensions and the launch of seasonal products are the most important. Added to these are strategic activities such as innovations, geographical roll-outs, brand extensions and brand relaunches. Acquisitions are also part of the growth strategy.

Attractive non-cyclical market 3

The confectionery market is relatively insensitive to economic fluctuations and shows stable growth that is primarily driven by population trends and price increases. Historically, annual market growth has been between 1 and 2 per cent.

Focus on continued margin expansion 4

Cloetta's profitability has improved over the past few years. In order to push towards Cloetta's financial target to reach an EBIT margin, adjusted, of 14 per cent, there will be a continued focus on cost-effectiveness, growth and profitability.

Strong market positions and distribution 5

In its core markets, Cloetta has strong sales and marketing organizations that have excellent relations with the retail trade. The wide portfolio of market leading products creates economies of scale and the brands are often highly important for the retail trade.

Attractive cash flow generation and dividend 6

Cloetta's business has a very strong cash generating capacity. Low and stable capital expenditures combined with effective management of working capital generate robust cash flows and thereby allow for share dividends in accordance with the goal to distribute 40–60 per cent of profit after tax.

Shareholders[1]

At 31 December 2017 Cloetta AB (publ) had 20,125 (16,236) shareholders, an increase of 24 per cent since year-end 2016. Of the shareholders, 1,058 were financial and institutional investors and 19,067 were private investors. Financial and institutional investors held 91.0 per cent of the votes and 89.4 per cent of the share capital. There were 732 foreign shareholders who held 45.6 per cent of the votes and 53.7 per cent of the share capital. The 15 largest shareholders accounted for 69.4 per cent of the votes and 64.0 per cent of the share capital. At 31 December 2017, AB Malfors Promotor was Cloetta's largest shareholder with a holding representing 36.7 per cent of the votes and 25.4 per cent of the share capital in the company. The second largest shareholder was Wellington Management, with 8.6 per cent of the votes and 10.2 per cent of the share capital, and the third largest shareholder was Franklin Templeton with 6.0 per cent of the votes and 7.1 per cent of the share capital.

Share price and trading[2]

Between 1 January to 31 December 2017, 181,962,630 Cloetta shares were traded on Nasdaq Stockholm for a total of SEK 5,722m, equal to around 64 per cent of the total number of class B shares on Nasdaq Stockholm at the end of the period. Trading on Nasdaq Stockholm accounted for 49.3 per cent, and other markets where the Cloetta share was traded include BOTC 20.8 per cent, Cboe Global Markets 11.8 per cent, LSE Group 6.8 per cent, ITG 3.2 per cent, UBS 2.4 per cent, Aquis 2.0 per cent, Liquidnet 1.5 per cent, BOAT 1.2 per cent, Nomura Group 0.7 per cent, XLOM 0.2 percent and DSTO 0.1 per cent. The highest quoted bid price during the period from 1 January to 31 December 2017 was SEK 38.80 on 5 June 2017 and the lowest bid price was SEK 26.00 on 15 September and 26 October 2017. The share price on 31 December 2017 was SEK 29.70 (last price paid). During the period from 1 January to 31 December 2017, Cloetta's share price increased by 3 per cent, while Nasdaq Stockholm PI rose by 6 per cent.

The share's beta and standard deviation[3]

The price volatility of an individual share compared to the market as a whole is known as its beta. A beta of greater than 1 indicates that the share price is more volatile than the market average. The Cloetta share's beta in 2017 was 0.69 (0.52), which means that the Cloetta share was less volatile than the average on Nasdaq Stockholm. The Cloetta share had a standard deviation of 1.9 per cent (1.4) in 2017. Standard deviation is a measure of the share's variability from its average value for the measurement period, i.e. how volatile the share was during the year.

Share capital and capital structure

Cloetta's share capital at 31 December 2017 amounted to SEK 1,443,096,495. The total number of shares is 288,619,299, divided between 5,735,249 class A shares and 282,884,050 class B shares, equal to a quota value per share of SEK 5. According to the Articles of Association, the share capital shall amount to not less than SEK 400,000,000 and not more than SEK 1,600,000,000, divided between not fewer than 80,000,000 shares and not more than 320,000,000 shares.

Dividend policy

Cloetta's long-term goal is a dividend payout of 40–60 per cent of profit after tax. Neither the Swedish Companies Act nor Cloetta's Articles of Association contain any restrictions regarding the right to dividends for shareholders outside Sweden. Aside from any limitations related to banking or clearing activities in the affected jurisdictions, payments to foreign shareholders are carried out in the same manner as to shareholders in Sweden. A dividend of SEK 216m was transferred to the shareholders in 2017. The ambition is for future cash flows to be used for investments and also complementary acquisitions. For 2017 the Board proposes an ordinary dividend of SEK 0.75 per share, which is equal to 54 per cent of the profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability and a special dividend of SEK 0.75 per share. The dividend is resolved on by the Annual General Meeting (AGM) and disbursement is handled by Euroclear Sweden AB. The right to a dividend is granted to those persons who are listed as shareholders in the share register maintained by Euroclear Sweden AB on the record date.

Articles of Association

Cloetta's Articles of Association contain a Central Securities Depository (CSD) provision and its shares are affiliated with Euroclear Sweden AB, which means that Euroclear Sweden AB administers the company's share register and registers the shares to owners. Each A share grants 10 votes and each B share one vote in shareholder meetings. All shares grant equal entitlement to the company's profits and an equal share in any surplus arising on liquidation. Should the company issue new shares of class A and class B through a cash or set-off 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 shares of only class B, all holders of class A and class B shares have the right to subscribe for new class B shares 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.

1 Source: Euroclear and Monitor
2 Source: Nasdaq Stockholm and Fidessa
3 Source: SIX

Undertaking by Malfors Promotor

In connection with the merger between Cloetta and Leaf in December 2011, Malfors Promotor undertook, in relation to Cloetta and Leaf Holding S.A. (CVC and Nordic Capital), to convert parts of its holding of class A shares to B shares so that Malfors Promotor's share of the total number of votes in Cloetta after conversion is equal to 39.9 per cent in the first phase and 33.34 per cent in the second phase. Conversion to 40.2 per cent (39.9 per cent after full exercise of the outstanding option programme issued by the three principal shareholders) was carried out in December 2012 and conversion to 33.34 per cent took place in 2017 when Cloetta's net debt/EBITDA was lower than a multiple of 2.7, according to the stipulations in the previous loan agreement between Cloetta and Svenska Handelsbanken AB (publ). The stated percentages for Malfors Promotor's conversion undertaking apply on a fully diluted basis for the outstanding incentive schemes in Cloetta. Furthermore, the shares that have been acquired by Malfors Promotor after 15 March 2012 (the settlement date for the rights issue that was carried out in connection with the merger between Cloetta and Leaf) will not be included in the calculation. The net debt/EBITDA ratio of 2.7x or lower was realized at 31 December 2016.

Shareholder agreement

Oy Karl Fazer Ab, Conclo Ab, Oy Cacava Ab and certain private individuals affiliated with Oy Karl Fazer Ab have in relation to Hjalmar Svenfelt Foundation (which owns shares in Cloetta through AB Malfors Promotor), previously undertaken to refrain from acquiring, directly or indirectly, shares in Cloetta during a 10-year period. The 10-year period starts on the first date of trading for Cloetta's class B shares on Nasdaq OMX First North on 8 December 2008, provided that the Hjalmar Svenfelt Foundation does not reduce its direct or indirect holding during this period to a level of less than 30 per cent of the votes in Cloetta.

Individuals with an insider position

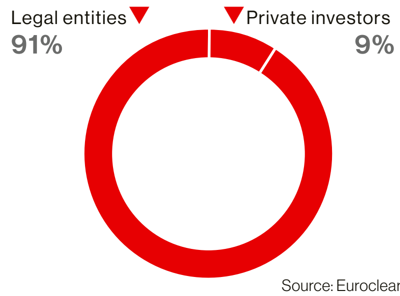
Persons discharging managerial responsibilities for Cloetta and persons or legal entities closely associated with them are obliged to notify Cloetta and the Swedish Financial Supervisory Authority of every transaction conducted related to changes in their holdings of Cloetta shares once a total amount of EUR 5,000 has been reached within a calendar year according to the regulation of the European parliament and of the council on market abuse. Listed companies are required to record a logbook of individuals who are employed or contracted by the company and have access to insider information relating to the company. These can include insiders, but also other individuals who have obtained inside information. Cloetta records a logbook for each financial report or press release containing information that could affect the share price. The Board adopted a new, stricter insider policy in 2017.

Silent periods

Cloetta maintains a silent period of at least 30 days prior to the publication of its quarterly financial reports. During this period, representatives of the Group will not meet with financial media, analysts or investors.

Shareholder categories, % of votes

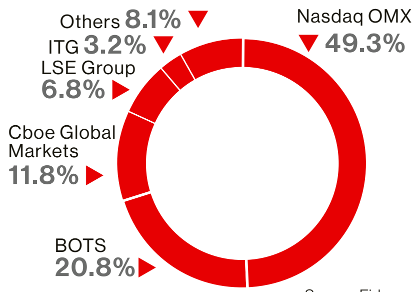
31 December 2017



Source: Euroclear

Marketplaces, %

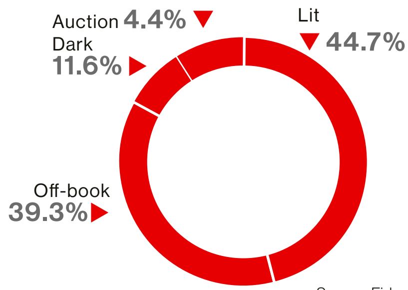
1 January–31 December 2017



Source: Fidessa

Trading categories, %

1 January–31 December 2017

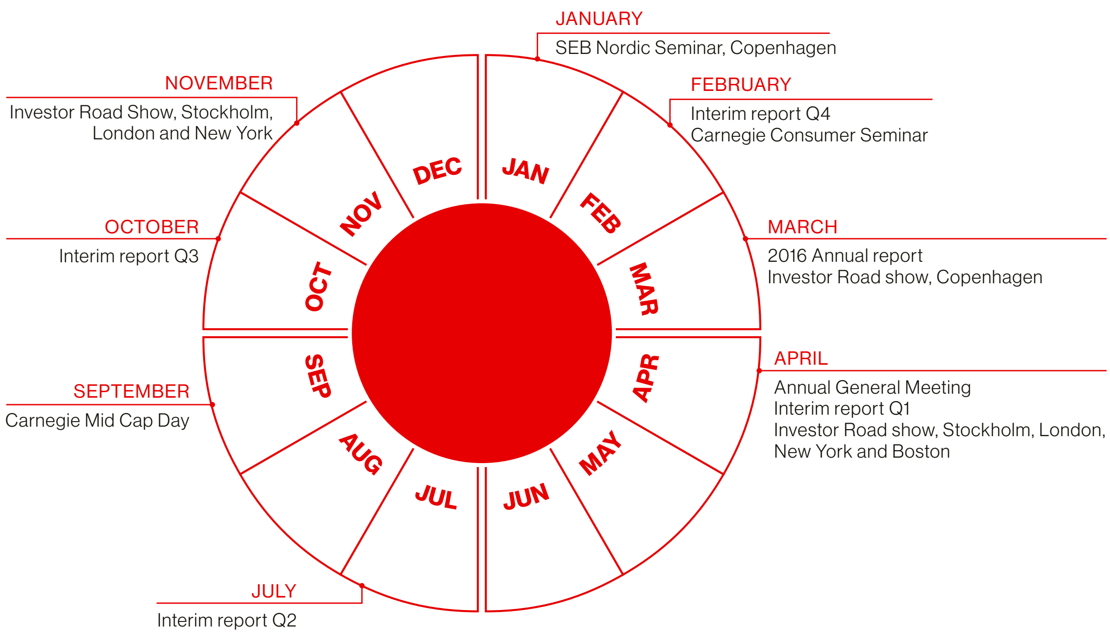


Source: Fidessa

LIT, i.e. buy and sell orders are public. Traditional exchange trading.
Off-book, stock trades that are executed away from the exchange and are registered later.
Dark, buyers and sellers trade shares anonymously, without public transparency. Not registered on any public exchange.
Auction, auction trading process on an exchange

Investor relations 2017

Cloetta meets regularly with investors and analysts. In 2017, Cloetta had more than 130 individual investor meetings in which the CEO, CFO or IR took part. At least twice a year, trips are made to Europe and the USA to meet investors and shareholders. In addition, Cloetta regularly attends major investor club meetings, lunches and evening meetings organized by banks and the Swedish Shareholders Association (Aktiespararna).



15 largest shareholders at 31 December 2017

	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
AB Malfors Promotor	36.7	25.4	73,196,750	5,729,569	67,467,181
Wellington Management	8.6	10.2	29,324,729	0	29,324,729
Franklin Templeton	6.0	7.1	20,396,000	0	20,396,000
Columbia Threadneedle	4.5	5.3	15,327,854	0	15,327,854
Dimensional Fund Advisors	2.2	2.6	7,364,274	0	7,364,274
AXA	1.5	1.8	5,265,683	0	5,265,683
Ulla Håkansson	1.5	1.7	5,000,000	0	5,000,000
Vanguard	1.4	1.7	4,846,503	0	4,846,503
Florida Retirement System	1.3	1.5	4,354,331	0	4,354,331
BNP Paribas Investment Partners	1.2	1.4	4,093,948	0	4,093,948
Carnegie Fonder	1.1	1.3	3,841,494	0	3,841,494
Norges Bank	1.1	1.3	3,701,544	0	3,701,544
Transamerica Asset Management, Inc	0.9	1.1	3,182,558	0	3,182,558
Olof Svenfelt	0.7	0.9	2,500,030	30	2,500,000
Brown Advisory	0.7	0.8	2,281,603	0	2,281,603
Total, 15 largest shareholders	**69.4**	**64.0**	**184,677,301**	**5,729,599**	**178,947,702**
Other shareholders	30.6	36.0	103,941,998	5,650	103,936,348
Total	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

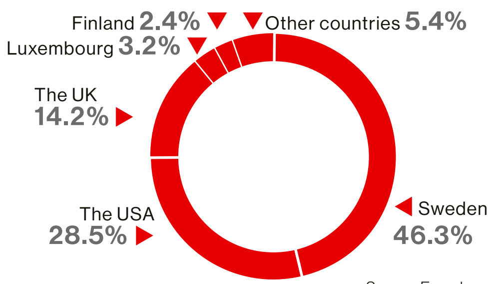
Source: Monitor by Modular Finance AB. Data collated and processed from among others Euroclear, Morningstar and Finansinspektionen.

Trustee-registered accounts/shareholders are not included in this list.

Current holdings for the 15 largest shareholders can be found at www.cloetta.com

Shareholder countries, % share of capital

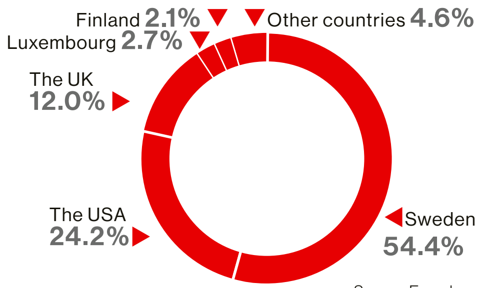
31 December 2017



Source: Euroclear

Shareholder countries, % of votes

31 December 2017



Source: Euroclear

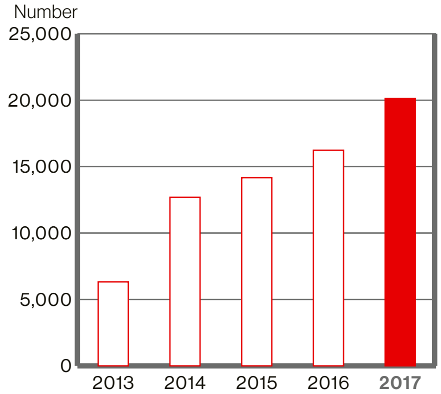
Size categories at 31 December 2017

	No. of share-holders	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
1–500	14,884	0.6	0.7	1,878,622	2,173	1,876,449
501–1,000	2,022	0.5	0.6	1,707,074	500	1,706,574
1,001–5,000	2,272	1.6	1.9	5,558,973	2,350	5,556,623
5,001–10,000	397	0.9	1.0	2,975,156	500	2,974,656
10,001–15,000	113	0.4	0.5	1,459,923	0	1,459,923
15,001–20,000	58	0.3	0.4	1,072,073	0	1,072,073
20,001 –	379	95.7	94.9	273,967,478	5,729,726	268,237,752
Total	**20,125**	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Euroclear

Number of shareholders

31 December



Source: Euroclear

Shareholders by country at 31 December 2017

	No. of share-holders	% of votes	% of share capital	Total no. of shares	No. of A shares	No. of B shares
Sweden	19,393	54.4	46.3	133,618,439	5,735,249	127,883,190
USA	95	24.2	28.5	82,199,472	0	82,199,472
UK	62	12.0	14.2	40,961,270	0	40,961,270
Luxembourg	25	2.7	3.2	9,178,837	0	9,178,837
Finland	155	2.1	2.4	6,992,977	0	6,992,977
Other countries	395	4.6	5.4	15,668,304	0	15,668,304
Total	**20,125**	**100**	**100**	**288,619,299**	**5,735,249**	**282,884,050**

Source: Euroclear

Shareholder categories at 31 December 2017

	No. of share-holders	% of share-holders	% of votes	% of share capital
Private investors	19,067	94.7	9.0	10.6
Of which, Swedish residents	*18,954*	*94.2*	*8.9*	*10.5*
Legal entities	1,058	5.3	91.0	89.4
Of which, Swedish residents	*439*	*2.2*	*45.5*	*35.8*
Total	**20,125**	**100**	**100**	**100**
Of which, Swedish residents	*19,393*	*96.4*	*54.4*	*46.3*

Source: Euroclear

Development of the share at 31 December 2017

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 the 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	Share split, quota value of the share changed from SEK 100 to SEK 4	–	100,000,000	23,119,196	24,119,196
2008	Bonus issue, quota value of the share changed from SEK 4 to SEK 5	20,595,980	120,595,980	–	24,119,196
2011–2012	Conversion of convertible debenture loan	2,836,395	123,432,375	567,279	24,686,475
2012	Issue in kind	825,934,620	949,366,995	165,186,924	189,873,399
2012	Rights issue	493,729,500	1,443,096,495	98,745,900	288,619,299

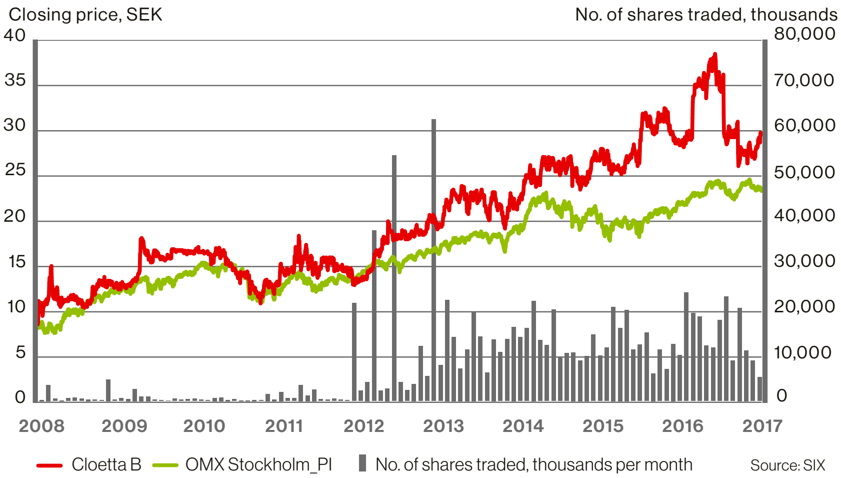
Source: Euroclear

Incentive schemes

The table below represents the main characteristics of the share-based long-term incentive plans that have been approved by the AGM. For more information about the incentive plans, see page 81, and Note 25 on page 120.

	LTI 2017	LTI 2016	LTI 2015	LTI 2014	LTI 2013
AGM approval date	4 April 2017	12 April 2016	23 April 2015	29 April 2014	11 April 2013
Maximum number of B shares to be allocated	1,221,698	1,524,100	2,000,000	1,773,840	1,920,000
as percentage of total shares	0.4	0.5	0.7	0.6	0.7
as percentage of voting rights	0.4	0.4	0.5	0.5	0.5
Number of employees offered the opportunity to participate	70	73	74	66	68
Number of participants at inception date	49	49	46	49	45
Estimated number of B shares to be allocated, subject to possible recalculation	747,600	456,936	412,423		
as percentage of total shares	0.3	0.2	0.1		
as percentage of voting rights	0.2	0.1	0.1		
Number of participants at reporting date	44	39	32		
Vesting date				8 May 2017	18 May 2016
Realized performance target, %				39.4	12.4
Actual number of matching shares granted on vesting date				151,053	166,500
Actual number of performance shares granted on vesting date				210,976	61,380
Total number of B shares granted on vesting date				**362,029**	**227,880**
as percentage of total shares				0.1	0.1
as percentage of voting rights				0.1	0.1
Number of participants at vesting date				36	38

Share price performance



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NASDAQ STOCKHOLM

Share data

Marketplace	Nasdaq Stockholm
Date of listing	16 February 2009
Segment	Mid cap
Sector	Food Producers, Food & Beverage and Consumer Goods
Ticker symbol	CLA B
ISIN code	SE0002626861
Currency	SEK
Standard trading unit	1 share
No. of shares in issue	278,757,685
Highest price paid in 2017	SEK 38.80 (5 June)
Lowest price paid in 2017	SEK 26.00 (15 September and 26 October)
Last price paid 2017	SEK 29.70
Share price growth in 2017	3 per cent
The share's beta against SIXGX	0.69 (0.52)
The share's standard deviation	1.9 (1.4)

Frequently asked questions to Cloetta

Why don't you sell product X or Y anymore, and do you have any plans to launch product Z?
If we no longer sell a product, this is unfortunately often due to insufficient demand for the product in question. In certain cases, it could also be because the product's profitability has been too low or even negative. The launch of new product types can sometimes be difficult if we lack a brand that can carry them, at the same time that the necessary marketing investments would be so high that the products wouldn't be profitable.

How will you meet your margin target?
Profitable growth and increased cost efficiency will contribute to higher earnings. The integration of Candyking will create substantial synergies and we are currently also implementing the Lean 2020 programme in the supply chain that will help to boost profitability.

When will you meet your 14 per cent margin target for adjusted operating profit?
In the last few years we have gradually strengthened our margin, although it declined in 2017 due to the inclusion of Candyking and a lower EBIT as a result of lower production volumes. Our EBIT margin target remains intact, but we have never set a specific timeline for reaching the target.

What is your pricing strategy?
We adjust our prices based mainly on fluctuations in raw material costs and exchange rates. This means that over time, Cloetta will hopefully avoid the impact of cost trends on raw materials. Sometimes we also adjust prices in connection with initiatives such as new product launches or changes in packages.

Do you plan to make additional acquisitions, and if so, in which countries?
We aim to pursue acquisitions that are consistent with our Munchy Moments strategy. This means that we acquire companies with impulse-driven brands that are well suited to our categories and our distribution chain.

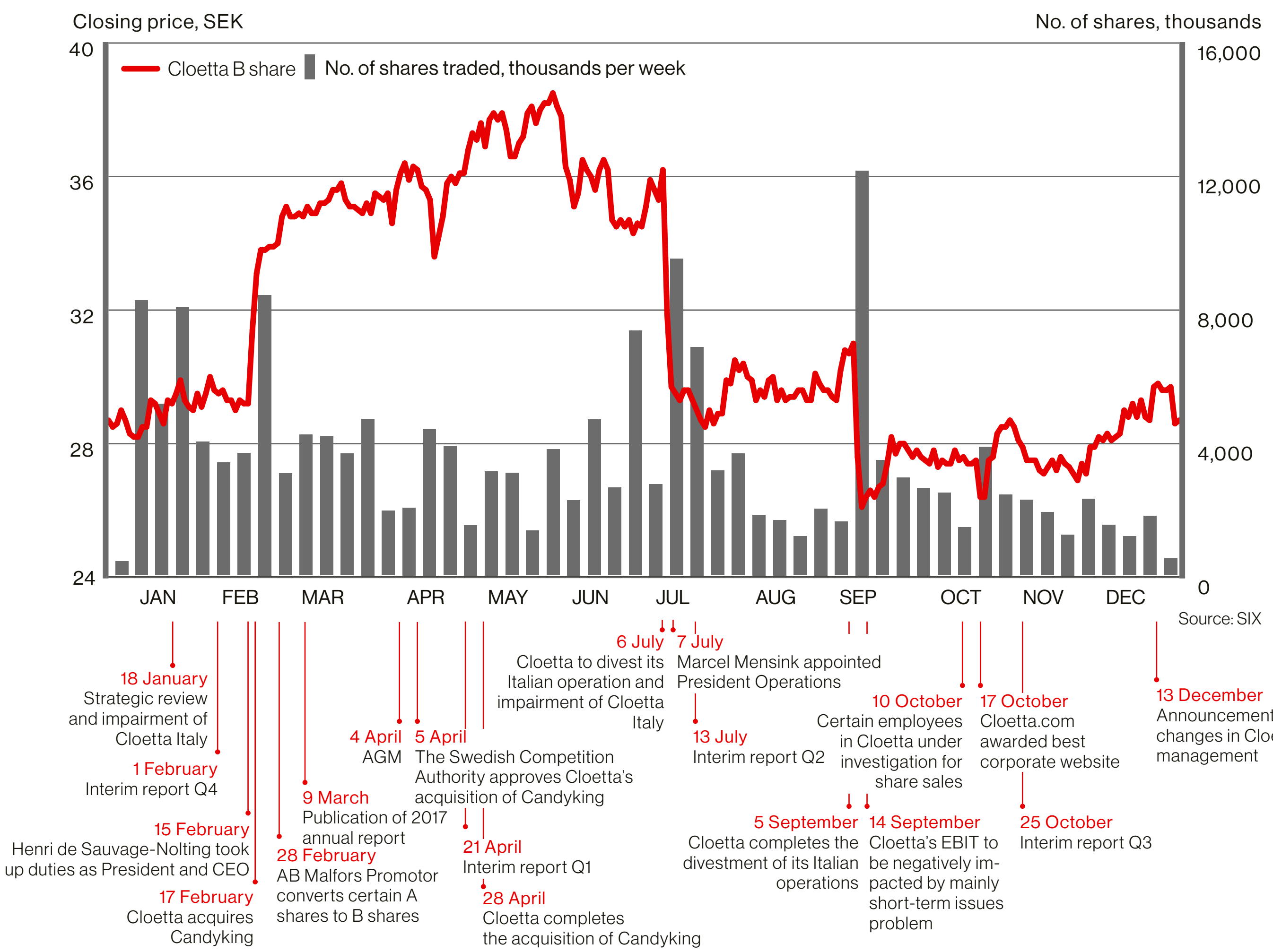
Will you use the strong cash flow for acquisitions, to reduce debt or to pay dividends to the shareholders?
In 2017 we reached our targeted net debt/EBITDA ratio of 2.5x and we feel that we have the capacity for both acquisitions and share dividends. The dividend payout ratio should be 40 – 60 per cent of net profit. However, we see no reason to reduce the net debt/EBITDA ratio to a level much lower than 2.5x.

How is Cloetta affected by the ongoing debates about sugar, health and childhood obesity?
The major challenge in this context is hidden sugar, i.e. the sugar hidden in everyday food products like breakfast cereals, yoghurt, bread, etc., and to a certain extent also carbonated beverages. The discussion should focus on consumption of these "sugar traps". Cloetta's products are among the most honest, since all consumers are aware that they contain sugar. Furthermore, for those seeking an alternative to products with sugar, Cloetta offers options such as nuts, chewing gum with xylitol and pastilles. In addition, we are developing candy with lower sugar and no sugar.

How big is the risk that various sugar taxes will be introduced, and how will that affect you?
In general, we have to reckon with the possibility that different countries will both introduce and abolish sugar and confectionery taxes from time to time. When different taxes are introduced it naturally affects our sales, but only to a fairly minor extent since our products are of a type that consumers want, and can afford, to treat themselves to despite price increases.

Why do you use palm oil in your products?
As of 2018, we will have eliminated palm oil from all products with the exception of certain chocolate and fudge products and some products from the recently acquired Candyking. In those products where there is no satisfactory alternative to palm oil, mainly chocolate, we will use RSPO-segregated palm oil.

Share price performance during 2017



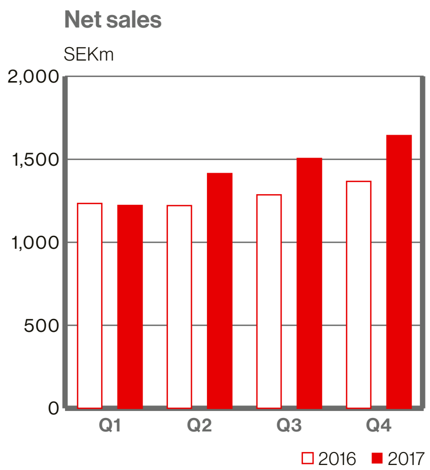
Financial performance

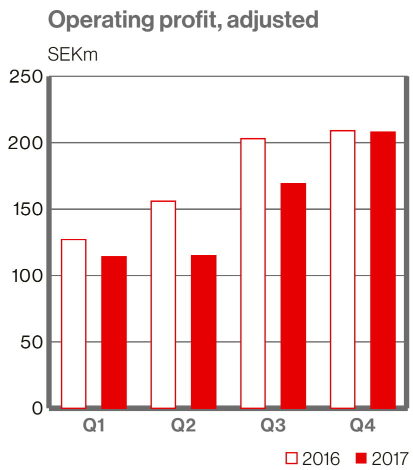
Net sales and profit

As a result of the sale of Cloetta S.r.l. on 5 September 2017, the divestment of Cloetta Italia S.r.l. has been accounted for as discontinued operation. The comparative figures in the consolidated profit and loss account and the profit and loss account related disclosure notes have been restated to present the discontinued operation separately from continuing operations. The comparative figures in the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the hereto related disclosure notes have not been restated.

Condensed consolidated profit and loss account

SEKm	2017	2016
Net sales	5,784	5,107
Cost of goods sold	–3,678	–3,084
Gross profit	**2,106**	**2,023**
Other income	6	–
Selling expenses	–972	–806
General and administrative expense	–613	–582
Operating profit	**527**	**635**
Net financial items	**–84**	**–166**
Profit before tax	**443**	**469**
Income tax	–206	–122
Profit from continuing operations	**237**	**347**
Loss from discontinued operation, net of tax	**–334**	**–538**
Loss for the year	**–97**	**–191**





Net sales

Net sales for the year rose by SEK 677m to SEK 5,784m (5,107) compared to last year. Organic growth was –1.2 per cent, acquisitions accounted for 13.9 per cent and changes in exchange rates accounted for 0.6 per cent.

58 per cent (57), of Cloetta's sales consist of candy and 17 per cent (16) of chocolate. Pastilles account for 12 per cent (14), chewing gum for 7 per cent (7), nuts for 4 per cent (4) and other products for 2 per cent (2). The largest increase compared to the previous year was seen for candy mainly due to the acquisition of Candyking.

Sales in seven main markets

Cloetta has seven main markets, of which Sweden is the largest with around 34 per cent (35) of the Group's sales. The second largest market is Finland with 21 per cent (20). The Netherlands accounts for 14 per cent (16), Denmark for 7 per cent (6), Norway for 6 per cent (5), Germany for 5 per cent (5) and the UK for 5 per cent (1). Including Candyking, Cloetta's sales were up in all markets. Cloetta's sales, excluding Candyking, increased or were unchanged in Finland and the Netherlands but decreased in all other main markets.

Other markets

In addition to the main markets, Cloetta's products are sold through distributors in some 40 additional markets. Other markets accounted for 8 per cent of the Group's sales. In 2017, sales increased. Contract manufacturing declined.

Price strategies

In Cloetta's main markets the grocery trade is consolidated with few, very large retail chains. In total, Cloetta's ten largest customers accounted for around 42 per cent (43) of the Group's sales.

Concentration of the grocery retail trade exerts strong price pressure on all of its suppliers. To a large extent, Cloetta has handled this through efficiency improvements. To offset changes in raw material costs and exchange rates, Cloetta's strategy is to pass these on by adjusting its prices.

Gross profit

Gross profit amounted to SEK 2,106m (2,023), which corresponds to a gross margin of 36.4 per cent (39.6). The decline in gross margin is due to lower production volumes mainly due to the consequences from a fire on a production line in the factory in Turnhout, Belgium, and the inclusion of Candyking.

Raw material costs, finished goods and packaging material account for 70 per cent (63) of production costs. The increase is due to Candyking. In terms of value, the most significant raw materials are sugar, cocoa, glucose syrup, polyols, gelatine, milk powder and packaging material. The purchase prices for several of Cloetta's raw materials changed during 2017 and the total cost rose somewhat compared to the previous year. Prices of milk powder, sugar and cocoa fell. The price of nuts and almonds continued to fall during the year, while the price of cashew nuts has continued to rise. In addition, exchange rate changes have affected the purchasing costs for certain products.

Purchase costs for packaging materials, especially paper-based packaging material, like corrugated, increased during 2017.

Operating profit

Operating profit amounted to SEK 527m (635). Operating profit, adjusted for items affecting comparability, amounted to SEK 604m (695).

Items affecting comparability

Operating profit for the year includes items affecting comparability of SEK –77m (–60) mainly related to the acquisition and integration of Candyking but also to one-off costs related to supply chain activities.

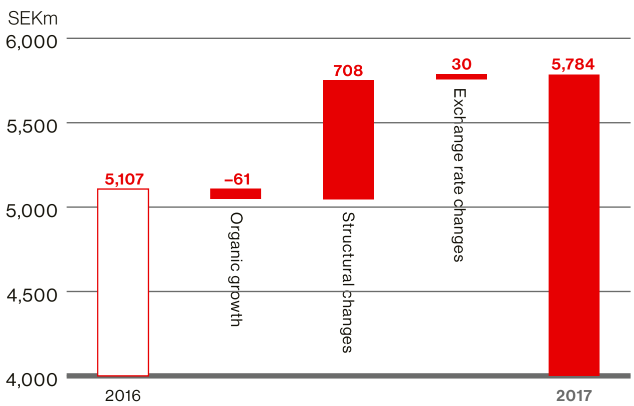
Employees

The average number of employees was 2,467 (2,115). The increase is mainly attributable to the impact of the acquisition of Candyking Holding AB and its subsidiaries.

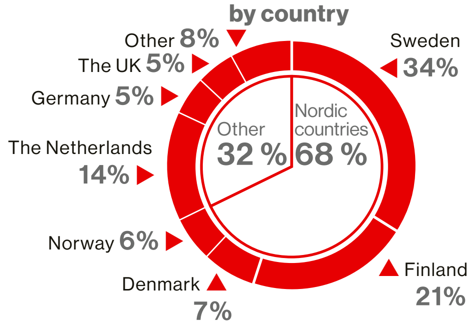
Research and development

Costs for research and development (R&D) were charged to operating profit in an amount of SEK 37m (34) and are primarily attributable to the development of new product and brand varieties as well as packaging solutions within the framework of the existing product range. No expenses for research and development have been capitalized.

Net sales – change

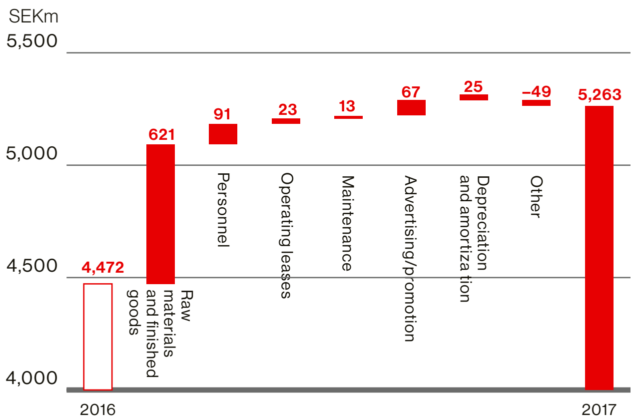


Cloetta's net sales by country

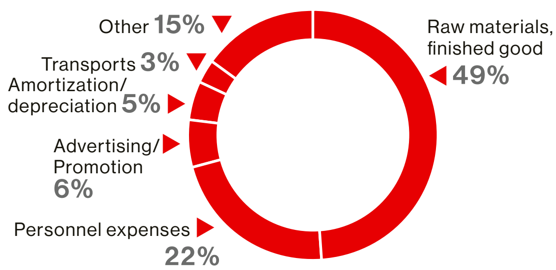


Total operating expenses – change

including cost of goods sold and excluding impairment losses



Operating expenses, excluding impairment losses



Total operating expenses, excluding impairment losses

Cost of goods sold

Quarterly data

	2017	Q4	Q3	Q2	Q1	2016	Q4	Q3	Q2	Q1
Net sales, SEKm	5,784	1,643	1,505	1,414	1,222	5,107	1,367	1,285	1,221	1,234
Operating profit/loss, SEKm	527	171	169	90	97	635	180	195	148	112
Operating profit, adjusted, SEKm	604	206	169	115	114	695	209	203	156	127
Operating profit/loss margin, %	9.1	10.4	11.2	6.4	7.9	12.4	13.2	15.2	12.1	9.1
Operating profit margin, adjusted, %	10.4	12.5	11.2	8.1	9.3	13.6	15.3	15.8	12.8	10.3

Seasonal variations

Cloetta's sales and operating profit are subject to some seasonal variations. Sales in the first and second quarters are affected by the Easter holiday, depending on in which quarter it occurs. In 2017, Easter was in the second quarter and in 2016 in the first quarter. In the fourth quarter, sales are usually higher than in the first three quarters of the year, which is mainly attributable to the sale of products in Sweden in connection with the holiday season.

Net financial items

Net financial items for the year amounted to SEK –84m (–166). Interest expenses related to external borrowings were SEK –33m (–79) and other financial items amounted to SEK –51m (–87). The net financial items in 2016 were negatively impacted by one-off costs related to the call-option fee for the redemption of the senior secured notes and the full amortization of the capitalized transaction costs. Of the total net financial items SEK –47m (–63) is non-cash in nature. The net financial items were positively impacted by the refinancing of the Group in July 2016.

Net financial items

SEKm	2017	2016
Exchange differences in borrowings and cash and cash equivalents in foreign currencies	–17	–8
Unrealized gains on single currency interest rate swaps	4	16
Other financial income	3	1
Interest expenses on third-party borrowings and realized losses on single currency interest rate swaps	–33	–79
Interest expenses, contingent earn-out liabilities	–15	–10
Call option fee for redemption of senior secured notes	–	–30
Amortization of capitalized transaction costs	–4	–31
Other financial expenses	–22	–25
Total	**–84**	**–166**

Profit/loss for the year

Profit for the year from continuing operations was SEK 237m (347) which corresponds to basic and diluted earnings per share of SEK 0.83 (1.21). Income tax for the period was SEK –206m (–122). The effective tax rate from continuing operations for the year is 46.5 per cent (26.0). The main reason for the higher effective tax rate is the recognition of a valuation allowance on deferred tax assets in Slovakia. Loss for the year was SEK –97m (–191), which corresponds to basic and diluted earnings per share of SEK –0.34 (–0.67).

Key ratios

%	2017	2016
Gross margin	36.4	39.6
Operating profit/loss margin	9.1	12.4
Operating profit margin, adjusted	10.4	13.6
Return on capital employed	8.2	11.1
Return on equity	6.2	–4.5

For definitions, see page 147.

Financial position

Condensed consolidated balance sheet

SEKm	31 Dec 2017	31 Dec 2016
ASSETS		
Non-current assets		
Intangible assets	5,490	5,354
Property, plant and equipment	1,338	1,700
Deferred tax asset	20	54
Other financial assets	11	13
Total non-current assets	**6,859**	**7,121**
Current assets		
Inventories	745	780
Trade and other receivables	881	988
Current income tax assets	8	36
Derivative financial instruments	0	4
Cash and cash equivalents	759	298
Total current assets	**2,393**	**2,106**
Assets held for sale	–	9
TOTAL ASSETS	**9,252**	**9,236**
EQUITY AND LIABILITIES		
Equity	**3,818**	**4,199**
Non-current liabilities		
Long-term borrowings	1,715	2,666
Deferred tax liability	703	586
Derivative financial instruments	2	12
Other non-current liabilities	138	–
Provisions for pensions and other long-term employee benefits	374	396
Provisions	5	22
Total non-current liabilities	**2,937**	**3,682**
Current liabilities		
Short-term borrowings	999	2
Derivative financial instruments	71	54
Trade and other payables	1,394	1,196
Provisions	3	64
Current income tax liabilities	30	39
Total current liabilities	**2,497**	**1,355**
TOTAL EQUITY AND LIABILITIES	**9,252**	**9,236**

Assets

Total assets at 31 December 2017 amounted to SEK 9,252m (9, 236), which is an increase of SEK 16m compared to the previous year.

Non-current assets

Intangible assets totalled SEK 5,490m (5,354). The change consists of the acquisition of Candyking of SEK 349m (–), impairment of divested operation of SEK –159m (–771), divested operations of SEK –100m (–), investments for the year of SEK 21m (15) and amortization of SEK -45m (–42). Exchange differences related to intangible assets recognized in foreign subsidiaries amounted to SEK 81m (197). Other changes amounted to SEK –11m (7).

Of total intangible assets, 97 per cent (98) or SEK 5,306m (5,225) pertained to goodwill and trademarks at 31 December 2017. Goodwill and trademarks are tested at least yearly for impairment. Cloetta recorded an impairment loss of SEK 159m (771), of which SEK 159m (505) refers to trademarks and SEK 0m (266) refers to goodwill relating to the Italian operations sold in 2017.

Property, plant and equipment amounted to SEK 1,338m (1,700). The decrease mainly consists of divestment and impairment of divested operations totalling SEK–403m (–). The year's investments amounted to SEK 136m (155). The year's investments in property, plant and equipment referred primarily to continuous efficiency-enhancing and replacement investments on the existing production lines. Depreciation amounted to SEK –201m (–203). Acquired property, plant and equipment resulting from business combinations totalled SEK 80m (–). Exchange differences related to tangible assets recognized in foreign subsidiaries amounting to SEK 32m (60). Other movements account for in total SEK 6m (–10).

Current assets

Current assets amounted to SEK 2,393m (2,106). The increase is mainly due to increased cash and cash equivalents of SEK 461m. Mainly as a result of the divestment of the Italian operations, inventories and trade and other receivables decreased by SEK 142m.

Equity and liabilities

Equity

Consolidated equity decreased in 2017 from SEK 4,199m to SEK 3,818m. On the balance sheet date the share capital amounted to SEK 1,443m (1,443). The equity/assets ratio on the same date was 41.3 per cent (45.5).

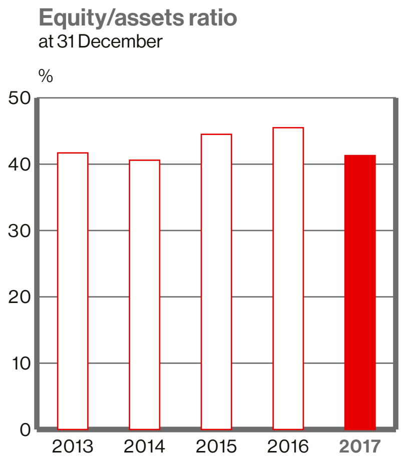
Liabilities

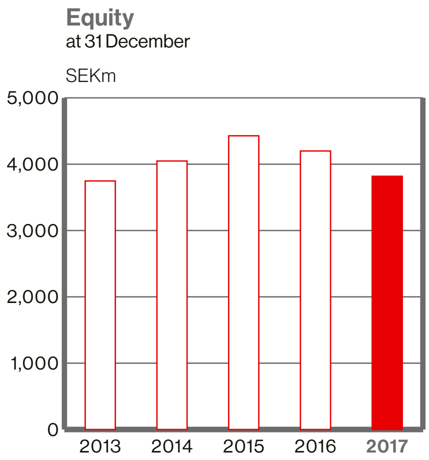
Non-current liabilities, consisting mainly of loans from credit institutions, amounted to SEK 2,937m (3,682), which is a decrease of SEK 745m compared to the previous year and SEK 1,263m compared to three years ago. Long-term borrowings totalled SEK 1,715m (2,666) and consisted of SEK 1,719m (2,677) in gross loans from credit institutions and SEK –4m (–11) in capitalized transaction costs. Deferred tax liability increased by SEK 117m to SEK 703m. Other non-current liabilities of SEK 138m consisted of contingent considerations related to the acquisition of Candyking.

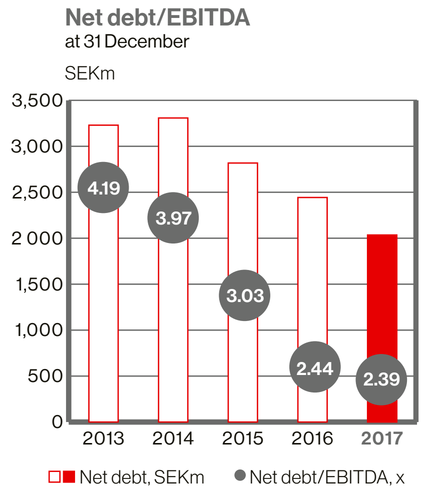
Total short-term borrowings amounted to SEK 999m (2) and consisted of SEK 1,000m (0) in gross loans from credit institutions, accrued interest on loans from credit institutions for an amount of SEK 2m (2), and SEK –3m (0) in capitalized transaction costs.

Borrowings

In July 2016 Cloetta entered into a new term and revolving facilities agreement with a group of four banks, in total amounting to the equivalent of SEK 3,700m. The new facilities







have been used to refinance existing bank loans and to redeem the senior secured notes.

The facilities agreement bears variable interest at a rate based on STIBOR plus an applicable fixed margin for loans in SEK and variable interest at a rate based on EURIBOR plus an applicable fixed margin for loans in EUR. The applicable margin at 31 December 2017 was 1.0 per cent for the outstanding loans in SEK (0.5) and 1.0 per cent (1.0) for the outstanding loans in EUR.

The combined effective interest rate for loans from credit institutions (and the senior secured notes) was 0.94 per cent (2.32) for the year.

35 per cent (35) of the fixed applicable margin on the unutilized amounts of the credit revolving loans is paid as a commitment fee.

Change in capital employed

The Group's capital employed during the year fell from SEK 7,329m to SEK 6,979m, a decrease of SEK 350m.

Net debt

Interest-bearing liabilities exceeded cash and cash equivalents and other interest-bearing assets by SEK 2,035m (2,443). The net debt/equity ratio on the balance sheet date was 53.3 per cent (58.2).

Net debt

SEKm	31 Dec 2017	31 Dec 2016
Non-current borrowings, gross	1,719	2,677
Current borrowings, gross	1,000	–
Derivative financial instruments (current and non-current)	73	62
Interest payable	2	2
Gross debt	**2,794**	**2,741**
Cash and cash equivalents	–759	–298
Net debt	**2,035**	**2,443**

Comments on the cash flow statement

Condensed consolidated cash flow statement

SEKm	2017	2016
Cash flow from operating activities before changes in working capital	532	813
Cash flow from changes in working capital	180	76
Cash flow from operating activities	712	889
Cash flow from acquisition of subsidiaries	–249	–154
Cash flow from divestment of subsidiaries	378	–
Cash flow from other investing activities	–151	–168
Cash flow from investing activities	–22	–322
Cash flow from operating and investing activities	690	567
Cash flow from financing activities	–238	–534
Cash flow for the period	452	33
Cash and cash equivalents at beginning of period	298	246
Cash flow for the period	452	33
Foreign exchange differences	9	19
Cash and cash equivalents at end of period	759	298

Operating activities

Cash flow from operating activities before changes in working capital was SEK 532m (813). The decrease compared to the previous year is mainly the result of a lower operating profit and higher corporate income tax payments mainly related to a tax settlement in Italy, partly offset by lower interest payments as a result of the refinancing. Furthermore, the positive cash flow from the operating activities in the discontinued operations were included for the full year 2016 but only until 5 September 2017, which is the date of the divestment. The cash flow from changes in working capital was SEK 180m (76).

Working capital

The cash flow from changes in working capital was positively impacted by the increase in payables of SEK 140m (43) and a decrease in receivables in an amount of SEK 80m (3) this is partly offset by an increase in inventories in an amount of SEK –40m (30).

Investing activities

Cash flow from investing activities was SEK –22m (–322) of which SEK 378m (0) is related to the divestment of Cloetta Italia S.r.l., SEK –249m (0) related to the acquisition of Candyking Holding AB and its subsidiaries and SEK –157m (–170m) is related to investments in tangible and intangible assets.

In the third quarter of 2016 the settlement of the contingent consideration arising from the option agreement regarding Cloetta Ireland Ltd. (former Aran Candy Ltd.) resulted in a cash outflow of SEK –106m.

In the fourth quarter of 2016 the settlement of the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB resulted in a cash outflow of SEK –48m. Other cash flows from investing activities amounted to SEK 6m (2).

Financing activities

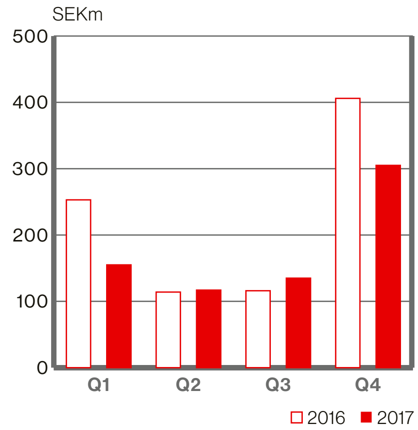
Cash flow from financing activities was SEK –238m (–534). Total repayments of loans including the senior secured notes amounted to SEK 347m (3,568). The net proceeds from new loans amounted to SEK 325m (3,176). In addition, a dividend of SEK 216m (144) was paid during the year. Other cash flows from financing activities amounted to SEK – (2).

The net cash flow was SEK 452m (33), which together with exchange differences increased cash and cash equivalents by SEK 461m (52) to SEK 759m, compared to SEK 298m in the previous year.

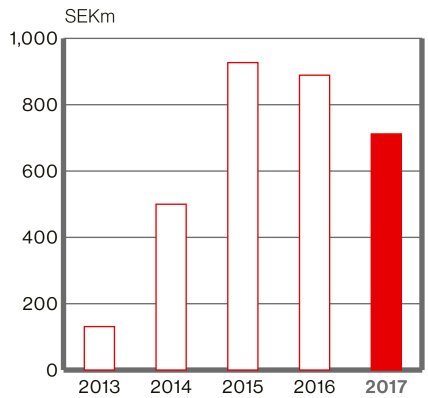
Cash and cash equivalents

Cash and cash equivalents and short-term investments excluding overdraft facilities on the balance sheet date amounted to SEK 759m (298). In addition, Cloetta had unutilized overdraft facilities for a total of SEK 1,179m (1,150). Cloetta's working capital requirement is exposed to seasonal variations, partly resulting from a build-up of inventories in preparation for increased sales ahead of the Christmas holiday. This means that the working capital requirement is normally highest during the autumn and lowest at year-end.

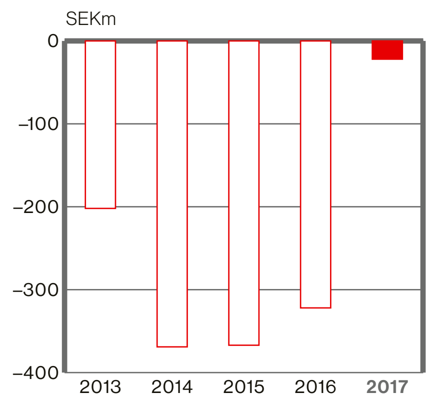
Cash flow from operating activities



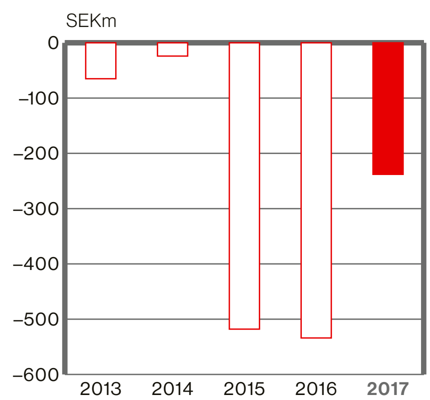
Cash flow from operating activities



Cash flow from investing activities



Cash flow from financing activities



Future outlook

2017 was a year of major change for Cloetta. Candyking was acquired and Cloetta Italy was divested. In addition, a fire at the factory in Turnhout, Belgium, created challenges in the production network that resulted in lower volumes. All in all, this led to a decline in organic growth and substantially lower operating profit, adjusted, for the full year.

Goal attainment

The Group's target is an EBIT margin, adjusted, of at least 14 per cent. In 2017, the EBIT margin, adjusted, fell to 10.4 per cent (13.6). The decline is attributable to lower profit and the inclusion of Candyking, which, before synergies, had a lower margin but also due to lower production volumes and sales. For growth, the target is to increase sales organically at least in line with market growth. Historically, annual growth in the markets has been 1–2 per cent. In 2017, organic growth was –1.2 per cent. Another of the Group's long-term targets is to keep the net debt/EBITDA ratio at around 2.5x. In 2017 the net debt/EBITDA ratio was 2.39x (2.44) at 31 December 2017.

Profitable growth

The strategy and financial targets for Cloetta stand firm. The focus in 2018 will be on profitable organic growth, the integration of Candyking, stabilization and efficiencies in the production network through Lean 2020 and cost savings throughout the organization. The Board proposes an ordinary dividend of SEK 0.75 (0.75) per share which equals 54 per cent (53)of profit for the year excluding the impact of the impairment loss on discontinued operation including income tax effects and other items affecting comparability. In addition, the Board of Directors, due to the consideration from the divestment of Cloetta Italy, is proposing a special dividend of SEK 0.75 per share. The ambition is to continue using future cash flows for payment of dividends while at the same time providing financial flexibility for complementary acquisitions. The long-term target of a payout ratio of 40–60 per cent of profit after tax remains unchanged.

Financial outlook

As in earlier years, Cloetta is not issuing any financial forecast for 2018.

Environmental impact and environmental management

Cloetta works to reduce its environmental impact through systematic environmental management. Cloetta's greatest environmental impact comes from water and energy consumption, wastewater emissions, waste and transports. Viewed over the entire life cycle of the products, the most significant environmental impact arises in raw material and packaging production. Cloetta complies with the statutory environmental requirements and the Group is not involved in any environmental disputes. At 31 December 2017, Cloetta conducted operations at 8 factories in five countries. The two Swedish factories in Ljungsbro and Helsingborg 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.

The manufacturing units outside Sweden adapt their operations, apply for the necessary permits and report to the authorities in accordance with local legislation.

All of Cloetta's factories conduct systematic environmental management that includes action plans and monitoring in a number of areas. Environmental management is an integral part of Cloetta's operations and environmental aspects are taken into account when making decisions. Frequent evaluation and follow-up of measures increase awareness about the effects of different working methods on the environment.

The Group's environmental policy and environmental management are described in more detail on pages 44–45 and 150–151.

Sustainability Report

Pursuant to the Swedish Annual Accounts Act, chapter 6, §11, Cloetta AB (publ) has chosen to prepare the statutory sustainability report as a separate report from the annual report with contents specified on page 10.

Risks and risk management

Uncertainty about future events is a natural part of all business activities. Future events can have a positive impact on operations through opportunities to create increased value, or a negative impact through risks that can have an adverse effect on Cloetta's business and results.

Risks can arise as a result of events or decisions that are beyond Cloetta's control, but they can also be an effect of incorrect handling within Cloetta or among its suppliers or customers.

Organization for risk management

Cloetta's Board of Directors is responsible to the shareholders for handling the company's risk management. Decisions regarding risks associated with business development and long-term strategic planning are prepared and discussed by the Group Management Team and decisions are made by the Board of Directors.

The Group Management Team continuously reports to the Board of Directors on risk areas such as the Group's financial status and compliance with the Group's finance policy. The operational risk management that is handled at all levels in the organization is regulated by Cloetta's Code of Conduct and a number of central policies.

Identification of risks

The identification of risks and proactive measures to limit them or prevent them from materializing and having a negative impact on operations are of fundamental importance for operations and are a central part of every manager's responsibility at Cloetta. Cloetta works continuously to assess and evaluate the risks to which the Group is, and can be, exposed. All events that could affect confidence in Cloetta or lead to operating disturbances are vital to monitor and minimize. This takes place among other things through business intelligence and dialogue with various stakeholders.

Risk management

Effective handling of risks is an integral part of Cloetta's management and control. Rapid distribution of relevant information is ensured via the company's management structures and processes. If possible, risks are eliminated and undesired events are minimized through proactive measures. Alternatively, risks can be transferred for example through insurance or agreements. However, certain risks are not possible to be eliminated or transferred. These are often an active part of business operations.

Risk overview

In Cloetta's risk management process, a number of risk areas have been identified. A selection of these and a brief description of how each risk area is handled are presented on the following pages. The Group's financial risk management is also described in more detail in Note 29, on page 122.

Pages 82–83 contain a description of the internal control processes and risk assessment aimed for preventing misstatements in the financial reporting.

Management of risks in the working environment is described on page 39.

Industry and market-related risks

Cloetta works continuously to assess and evaluate the risks to which the Group is, and can be, exposed. Critical external risks are handled both strategically through business and product development and operationally through day-to-day purchasing, sales and marketing activities.

	Risks Probability	Management Impact
Market climate	Financial crises can have a negative impact on consumption patterns. Operations are affected in that Cloetta's customers are suffering from lower profitability, which leads to price pressure.	From a historical perspective, the confectionery market has been comparatively mildly affected by market downturns among consumers. This applies to a large extent to Cloetta's products, which most people can afford to buy. To support the customers' business and promote sound price development, Cloetta cooperates with the customers among other things through in-store sales activities.
Competition	The confectionery market is highly competitive with several major players. Furthermore, grocery retailers offer private labels that compete with certain Cloetta products. This competition can limit Cloetta's opportunities for price increases to compensate for higher raw material costs. Cloetta may also need to increase its investments in marketing and product development in order to maintain or expand its market shares. Cloetta is a significant player in pick & mix, which by nature often consists of multi-year contracts that must be continuously renewed. Competition from other players, including the grocery retail chains, can cause Cloetta to lose major contracts.	Cloetta competes in the market through active pricing, product innovation, product quality, brand recognition and loyalty, marketing and the ability to predict and satisfy customer preferences. It is important that Cloetta's products are perceived as providing the consumers with greater value added than the cheaper alternatives. Cloetta strives for effective marketing. Cloetta strives to offer the best pick & mix concepts with regard to the customer and consumer experience. Furthermore, the integrated production chain enables Cloetta to be cost-effective in pick & mix.
Retail trade development	The European grocery and service trade has undergone a process of consolidation leading to the establishment of large, sophisticated players with substantial purchasing power. These major players are not necessarily dependent on individual brands and can hold back price increases and demand higher investment in marketing initiatives. They can also take over shelf space that is currently used for Cloetta's products for their own brands.	Cloetta's strong brands and market position, together with a strong sales force and close cooperation with the trade, contribute to its ability to maintain good relations with the retail trade. Cloetta also works actively with new sales channels. Cloetta has a relatively wide and diversified customer base. In 2017 Cloetta's ten largest customers accounted for around 42 (43) per cent of the Group's total sales.
Consumer trends **Health** **Social responsibility**	Changes in consumer behaviour give rise to both opportunities and risks. Health trends and the debate on health, weight and sugar can have a negative impact on confectionery consumption. The health trend has also spurred a growing interest in natural raw materials. In the wake of rapid globalization, individual consumers are more aware of how their consumption patterns affect the environment and social/ethical conditions around the world. Consumers want to know more about product origins, manufacturing methods and raw materials. Information that Cloetta, or Cloetta's suppliers, are not taking adequate environmental or social responsibility could damage Cloetta's brand.	Health trends have not affected confectionery sales to a great extent, since confectionery is often eaten as a small luxury in everyday life. Cloetta works continuously to satisfy consumer preferences. In addition, Cloetta offers both sugar-free products and products with less sugar, as well as products that promote dental health. In the long-term, Cloetta's goal is for all products to be free from artificial colours and additives (NAFNAC). Cloetta strives to include supplier codes of conduct in all agreements as far as possible, but as an individual company Cloetta is unable to influence international development on its own. Cloetta's goal is to be open and, through cooperation with other confectionery producers and via various organizations, to identify problem areas and contribute to improvements.
Laws and taxes	Cloetta conducts operations through companies in a number of countries. New laws, taxes or rules in various markets may lead to limitations in operations or place new and higher demands. There is a risk that Cloetta's interpretation of the applicable tax laws, tax treaties and regulations in the different countries is not entirely correct or that such rules will be changed, possibly with retroactive effect.	Cloetta continuously assesses legal issues in order to predict and prepare its operations for possible changes. The introduction of confectionery taxes and fat taxes often has a short-term impact on sales. Provisions for legal disputes, tax disputes, etc., are based on an estimation of the costs, with the support of legal advice and based on the information that is available.
Raw material prices	Price development for raw materials is steered mainly by supply and demand, and is beyond Cloetta's control. The prices on sugar and many of the other raw materials purchased by Cloetta are also affected by agro-political decisions in the EU regarding quotas, support, subsidies and trade barriers, but also by rising living standards and the activity of financial investors on the commodities exchanges.	Cloetta continuously monitors the development of raw material prices and all purchasing is carried out through a central purchasing function. To ensure access and price levels, Cloetta normally enters into supplier contracts that cover the need for raw materials for a period of 6–9 months forward. If the average raw material prices had been 10 per cent higher/lower at 31 December 2017, profit before tax for the year would have been around SEK 150m lower/higher. Cloetta's policy is to compensate for higher raw material costs by raising prices to its customers.

Operational risks

Operational risks can often be influenced, for which reason they are normally regulated by policies, guidelines and instructions. Operational risks are part of Cloetta's day-to-day work and are handled by the operating units. The operational risks include among others risks related to the brand, relocation of production, insurable risks and environmental, health and safety-related risks.

	Risks Probability	Management Impact
Business ethics and brand risks	Demand for Cloetta's well known brands is driven by the consumers' association of these with positive values. If Cloetta or any of the Group's partners takes any measures in conflict with the values represented by the brands, the Cloetta brands could be damaged.	Cloetta takes a proactive approach to its sustainability responsibility by implementing a Code of Conduct, ethical guidelines and routines.
Sustainability risks in the supply chain	Cloetta uses several raw materials originating from countries with risks regarding the working environment, social conditions and corruption. In addition, political instability can have a negative impact on costs.	As far as possible, Cloetta strives to include supplier codes of conduct in all agreements. Cloetta has evaluated all raw material groups and prioritized them based on the existing sustainability challenges and Cloetta's opportunities to address these challenges. Cloetta purchases UTZ-certified cocoa for its entire range of chocolate products. All products aside from parts of the chocolate and fudge range are free from palm oil (parts of the range from the recently acquired Candyking are not yet free from palm oil). During the year Cloetta started switching to segregated palm oil in accordance with RSPO principles in the entire range of chocolate and fudge products. Certification according to this standard will take place in 2018. During 2018 Cloetta will change over to sustainable and traceable shea butter. Cloetta is a member of Bonsucro, which is a multi-stakeholder initiative that works to achieve a sustainable sugarcane industry.
Product safety risks	Handling of food products places high demands on traceability, hygiene and safety. In a worst-case scenario, inadequate control can lead to contamination or allergic reactions. Deficiencies in handling of food products can lead to lower confidence in Cloetta and the Group's brands.	Cloetta works with first-class raw materials and in accordance with international quality standards. Analyses through chemical and physical tests are performed on both raw materials and finished products. Issues of importance for product safety are gathered in special policies and there are plans for information or product recalls in the event of deficiencies.
Insurable risks	Assets such as factories and production equipment can be seriously damaged, for example in the event of a fire or power outage. Product recalls can give rise to substantial costs, resulting from both direct costs and of damage to Cloetta's reputation.	Cloetta has an insurance programme, among other things for property and liability risks, and works systematically to reduce the risk for incidents and to have robust contingency plans in place to limit the effects of any incidents.
Relocation of production lines	To optimize efficiency, Cloetta continuously monitors capacity utilization in production. Moving production from one factory to another is a complex process that can result in disruptions and delays in production, which can in turn lead to delivery problems.	Cloetta has an experienced and efficient organization with well-established routines for handling relocation of production lines.
Access to the right expertise	To a large extent, Cloetta's future is dependent on its capacity to recruit, retain and develop competent senior executives and other key staff.	Cloetta endeavours to continue to be an attractive employer. Employee development and follow-up plans, together with market-based and competitive compensation, contribute to Cloetta's ability to recruit and retain employees.
Environmental risks	Environmental risks arise mainly through water and energy consumption, wastewater emissions, raw material and packaging waste, production waste and transports.	Cloetta sets environmental requirements for its production and regularly monitors the company's impact on the environment, and conduct systematic efforts to reduce its environmental impact.

Financial risks

The primary financial risks are foreign exchange, financing, interest rate and credit risks. Financial risks are managed by the Group's central finance function according to the guidelines in the financing policy established by Cloetta's Board of Directors. The objective is to identify the Group's risk exposure and, with a certain degree of foresight, to attain predictability in the financial outcome and minimize possible unfavourable effects on the Group's financial results in close cooperation with the Group's operating units. By consolidating and controlling these risks centrally, it is possible to minimize the level of risk while at the same time reducing the cost of measures like currency hedging. Financial risk management is described in detail in Note 29, on pages 122–124.

	Risks Probability	Management Impact
Foreign exchange risks	Exchange rate fluctuations affect Cloetta's financial results partly in connection with buying and selling in different currencies (transaction exposure), and partly through translation of the profit and loss accounts and balance sheets of foreign subsidiaries to Swedish kronor (translation exposure). Cloetta's presentation currency is the Swedish krona, while many subsidiaries have the euro has the euro as their functional currency, for which reason translation exposure is significant. Aside from SEK and EUR, Cloetta also has some exposure to DKK, NOK, GBP and USD.	The objective for Cloetta's foreign exchange management is to minimize the effects of exchange rate fluctuations by utilizing incoming currency for payments in the same currency. If the Swedish krona had weakened/strengthened by 10 per cent against the euro, the year's profit before tax would have been around SEK 27m lower/higher. The Group hedges parts of its translation exposure through borrowing in EUR. In addition, the Group has hedges in USD to some extent.
Refinancing risks	Refinancing risk refers to the risk that it will not be possible to obtain financing or that financing can be obtained only at a significantly higher cost.	In 2017 Cloetta met the financial target related to a net debt/EBITDA ratio of 2.5x. In 2016 the Group also refinanced its entire debt (bank loans and senior secured notes) and entered into a new term and revolving facilities agreement with a group of four banks. This means that Cloetta now has a favourable situation for access to financing, among other things, potential acquisitions.
Interest rate risks	Cloetta is exposed to interest rate risks in interest-bearing current and non-current liabilities. Although some of the Group's bank loans are hedged, there is still exposure to interest rate risk for the parts that are not hedged or when hedges expire.	The Group continuously analyzes its exposure to interest rate risk and performs regular simulations of interest rate movements. Interest rate risk is reduced by hedging a share of future interest payments through interest rate swaps. If the interest rate had been 1 percentage point higher with all other variables held constant, profit before tax for the year would have been approximately SEK 7m lower. If the interest rate had been 1 percentage point lower with all other variables held constant, profit before tax for the year would have been approximately SEK 6m lower due to some interest rate swaps that do not include a zero-floor clause.
Credit risks	Credit risk refers to the risk that a counterparty to Cloetta will be unable to meet its obligations and thereby causes a loss. Financial transactions also give rise to credit risks in relation to financial and commercial counterparties.	Credit risk in trade receivables is relatively limited in that the Group's customer base is diverse and consists mainly of large customers, and that distribution takes place primarily through the major grocery retail chains. The customers are subject to credit assessments in accordance with the credit policy and the receivables balance is monitored continuously. The Group's counterparties in financial transactions are banks and credit institutions with good credit ratings (between AA– and A-3).
Valuation risks	The Group has a number of assets and liabilities that have been valued with the help of various experts. These include goodwill and brands/trademarks on the asset side and the pension liability and tax liabilities on the liability side.	Assets and liabilities are tested for impairment yearly or when there is an indication that such testing may be necessary. Read more in Note 12, Intangible assets on page 107 and Note 33, Critical accounting estimates and judgements on page 127.

Letter from the Chairman

Lilian Fossum Biner
Chairman of the Board of Directors

2017 was a year of major change for Cloetta. The acquisition of Candyking and the divestment of Cloetta have changed Cloetta's structure.

Corporate governance creates order and systems

The Board's foremost responsibility to Cloetta's shareholders is to ensure that the company is managed as effectively as possible, but also that Cloetta complies with the laws and regulations required by legislators, regulatory authorities and the stock exchange. Corporate governance is aimed at creating order and systems for both the Board and Group Management. By having a clear structure, with well-defined rules and processes, we can also ensure that management and employees focus on developing the business and strengthening the company.

Work of the Board

The work of the Board during the year focused on three main areas.

First, the work of supporting our newly appointed CEO has been important.

Second, the focus has been on the major structural changes that resulted from the acquisition of Candyking and the divestment of Cloetta Italy. These are changes that mean that the company today is more focused on Northwest Europe at the same time as we create synergies by taking a step into the growing market for pick & mix candy.

Third, the Board, together with the CEO and Group Management, has worked to improve and clarify the business strategy. Today, we have clearer focus areas aimed at both growth and increased profitability. A stable foundation has therefore been laid for the development of Cloetta in the years ahead.

In addition to these three areas, during the year the Board also had to deal with the fact that some senior executives have been investigated under suspicion of illegal insider trading. In order to avoid similar situations in the future, the Board has therefore adopted an even stricter insider policy with a clearer set of rules.

More and new shareholders

Cloetta also gained many new shareholders in 2017. A total of 4,000 were added and at the end of the year Cloetta had more than 20,000 shareholders. This means that the number of shareholders has increased for the sixth consecutive year. It is gratifying that so many people wish to continue to invest in Cloetta shares and it is the Board's intention to manage this trust well in order to ensure that all shareholders continue to have confidence in Cloetta.

Cloetta has a firm foundation for the future

Cloetta's development was weak during the year with reduced profitability and slightly negative organic sales development. Following the structural changes in 2017, the company will now focus on profitable growth.

Cloetta is basically a stable company that operates in a strong market, something that is also proven by our stable cash flow. The fact that we achieved our net debt/EBITDA ratio target for the second consecutive year and that our cash flow remains good means that, despite lower profitability, we can propose an unchanged share dividend. In addition, the sale of Cloetta Italy allows us to propose a special dividend to shareholders. The aim is to continue to provide a dividend in line with our policy of a dividend payout ratio of 40–60 per cent of profit after tax at the same time providing scope for tactical and strategic acquisitions.

I would like express my heartfelt gratitude to the CEO, Group Management and employees for their major efforts during the year to both ensure continuity and lay the foundation for a future, even stronger Cloetta. I would also like to thank my Board colleagues for their excellent work during the year.

Stockholm, March 2018

Lilian Fossum Biner
Chairman of the Board of Directors

Corporate governance report

The purpose of corporate governance is to ensure that the company is managed as effectively as possible in the interests of the shareholders, but also that Cloetta complies with the applicable rules. Corporate governance is also aimed at creating order and systems for both the Board and the Group Management. By having well defined structures, rules and processes, the Board can ensure that the Group Management and employees are focused on developing the business and thereby creating shareholder value.

Cloetta AB (publ) is a Swedish public limited company, with corporate identification number 556308-8144, whose class B shares are traded on the Mid Cap list of Nasdaq Stockholm. The company is domiciled in Ljungsbro, Linköping, and its head office is in Stockholm.

Framework for corporate governance

Cloetta's corporate governance is regulated by external steering instruments that include the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm's Rules for Issuers and the Swedish Corporate Governance Code, as well as internal steering instruments such as the Articles of Association, instructions, policies and guidelines. The Swedish Corporate Governance Code is available at www.bolagsstyrning.se, where a description of the Swedish model for corporate governance is also provided. During the year, Cloetta complied with Nasdaq Stockholm's Rules for Issuers and good stock market practice.

Application of the Swedish Corporate Governance Code

In 2017 Cloetta complied with the Code.

1 Share and shareholders

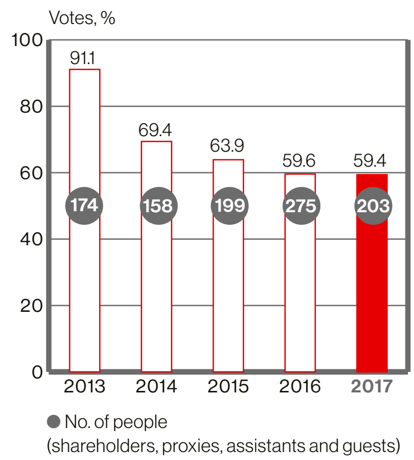
The class B shares in Cloetta AB (publ) have been listed on Nasdaq Stockholm since 16 February 2009 and are traded on the Mid Cap list since 2 July 2012. However, Cloetta was originally introduced on the stock exchange in 1994 and has since then been listed in a number of different owner constellations. The number of shares at 31 December 2017 was 288,619,299 of which 282,884,050 were of class B and 5,735,249 were of class A. 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. The number of shareholders at 31 December 2017 was 20,125 (compared to 16,236 at 31 December 2016). On 31 December 2017 AB Malfors Promotor was Cloetta's largest shareholder, with a holding corresponding to 36.7 per cent of the votes and 25.4 per cent of the share capital in the company. For more information about Cloetta's shares and shareholders, see section "Share and shareholders" on pages 56–60.

2 General meeting of shareholders

The general meeting of shareholders is Cloetta'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 among other things by the Swedish Companies Act and the Articles of Association.

Cloetta's financial year runs from 1 January to 31 December. The Annual General Meeting shall be held within a period of six months after the end of the financial year. The date and location of the AGM shall be communicated on the company's website at the latest in connection with publication of the third quarter report. Notice of the AGM shall be given no earlier than six weeks and no later than four weeks prior to the AGM through publication in Post- och Inrikes Tidningar (the Swedish Official Gazette) and on the company's website. At the same time, information confirming that notification has taken place shall be published in Dagens Industri. Every shareholder has the right to request that a matter be taken up at the AGM and in such case 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 seven weeks prior to the AGM. In accordance with Chapter 7, 32 §, of the Swedish Companies Act, all shareholders have the right, at a general meeting of shareholders, to pose questions to the company about the matters that are taken up at the meeting and the financial situation of the company and the Group.

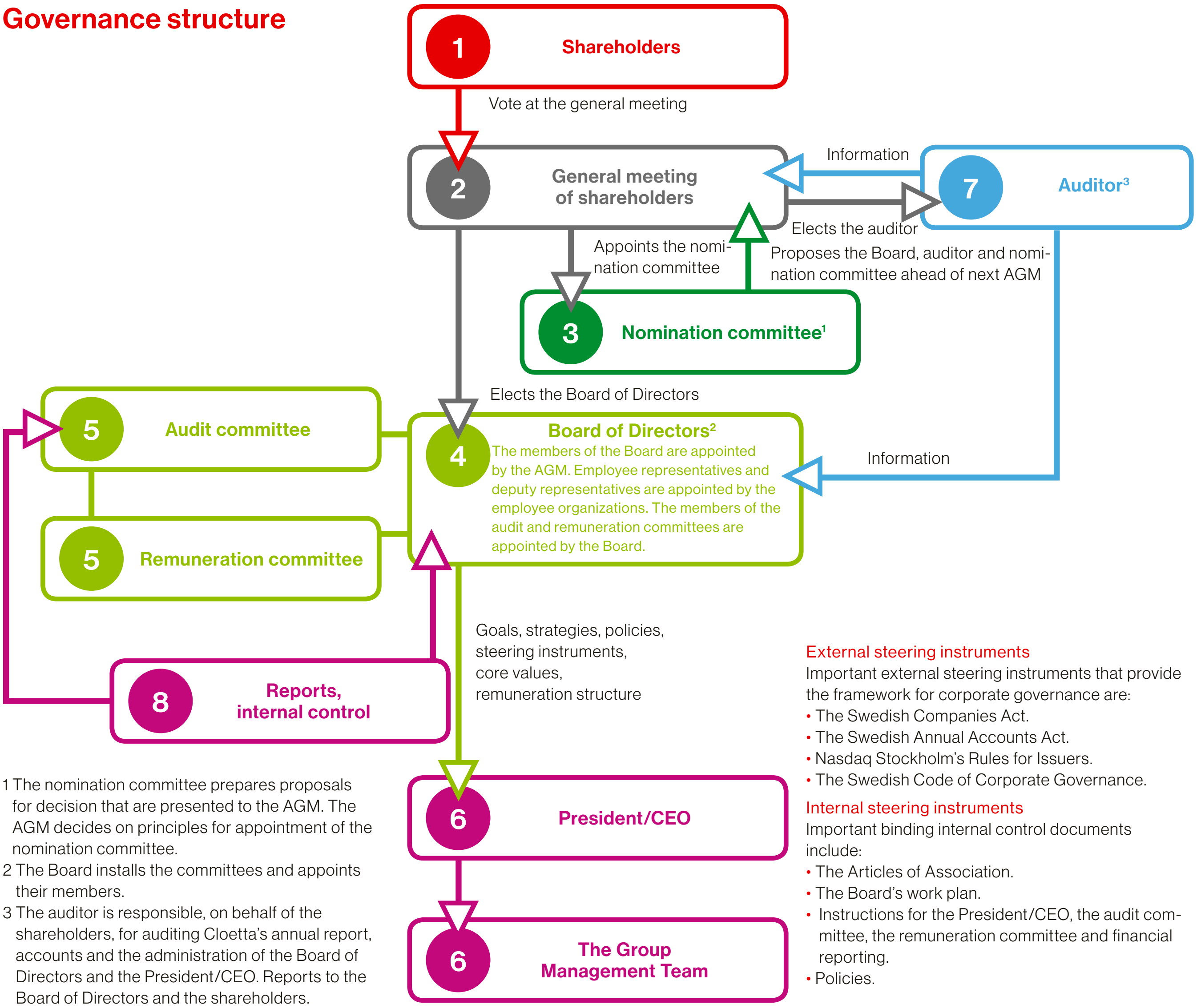
Attendance at AGMs/EGMs



2017 AGM

The latest AGM was held on 4 April 2017 in Stockholm. The AGM was attended by 203 individuals representing 59.4 per cent of the votes in the company. The President/CEO, the majority of the Board members, the company's independent auditor, the chairman of the nomination committee, and the Group's

Governance structure



1 The nomination committee prepares proposals for decision that are presented to the AGM. The AGM decides on principles for appointment of the nomination committee.
2 The Board installs the committees and appoints their members.
3 The auditor is responsible, on behalf of the shareholders, for auditing Cloetta's annual report, accounts and the administration of the Board of Directors and the President/CEO. Reports to the Board of Directors and the shareholders.

External steering instruments
Important external steering instruments that provide the framework for corporate governance are:
- The Swedish Companies Act.
- The Swedish Annual Accounts Act.
- Nasdaq Stockholm's Rules for Issuers.
- The Swedish Code of Corporate Governance.

Internal steering instruments
Important binding internal control documents include:
- The Articles of Association.
- The Board's work plan.
- Instructions for the President/CEO, the audit committee, the remuneration committee and financial reporting.
- Policies.

CFO and SVP Corporate Communications and Investor Relations were also present at the AGM. The AGM approved the proposals of the Board and the nomination committee regarding:

- Adoption of the balance sheet and the profit and loss account;
- Appropriation of the earnings of the company through a dividend of SEK 0.75 per share;
- Discharge from liability for the Board of Directors and President/CEO;
- That the number of Board members elected by the AGM shall be seven, with no deputies;
- Re-election of sitting Board members Lilian Fossum Biner, Camilla Svenfelt, Adriaan Nühn, Mikael Svenfelt, Lottie Knutson and Mikael Norman. Mikael Aru was elected as new Board member. The AGM elected Lilian Fossum Biner as Chairman of the Board. Former Board member Hans Porat resigned in connection with the AGM. Aside from the members elected by the AGM, the employee organizations PTK and LIVS each appointed an employee representative and a deputy representative to the Board;
- Board fees were set at SEK 620,000 for the Board Chairman and SEK 285,000 for each of the other Board members elected by the AGM. Fees for work on the Board committees were set at SEK 100,000 for each member of the audit committee and SEK 100,000 for each member of the remuneration committee;
- Fees to the auditor are to be paid according to approved account;
- Re-election of KPMG AB as the company's auditor to serve for the period until the end of the next AGM;
- Rules for the nomination committee;
- Guidelines for remuneration to the Group Management Team;
- The implementation of a share-based long-term incentive plan.

The complete minutes from the AGM can be viewed at www.cloetta.com.

2018 AGM

The 2018 AGM will be held on Monday, 16 April 2018, at 3:00 p.m. at Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, in Stockholm. The Notice of the Annual General Meeting was published in March 2018 and contained the Board's proposals. For more information, see section on "Annual General Meeting" on page 161 and www.cloetta.com.

3 Nomination committee

Work of the nomination committee

The task of the nomination committee is to prepare recommendations to be put before the AGM for decisions regarding election of Board members and the Board Chairman, fees to the Board of Directors, potential remuneration for committee work, election of a chairman of the AGM, election of auditors, auditing fees and rules for the nomination committee. The Board Chairman presents an annual evaluation of the Board's performance during the year to the nomination committee, which provides a basis for the nomination committee's work together with the provisions in the Swedish Corporate Governance Code and Cloetta's own company-specific requirements. The nomination committee's recommendations for election of Board members, Board fees and auditors are presented in the notice to attend the AGM and at www.cloetta.com.

Composition of the nomination committee

In accordance with the decision of the AGM, Cloetta's nomination committee shall consist of at least four and at most six members. Of these, one shall be a representative of the Board and three shall be members appointed by the three largest shareholders in terms of voting power. The members appointed may themselves appoint one additional member.

Independence of the nomination committee

The majority of the nomination committee's members shall be independent in relation to the company and its Group Management, and at least one of these shall also be independent in relation to the company's largest shareholder in terms of voting power. Of the appointed members, all four are independent in relation to the company and its Group Management and three are independent in relation to the company's largest shareholder in terms of voting power.

Shareholder proposals

All shareholders have the right to contact the nomination committee to propose candidates for election to the Board. Proposals shall be sent to the chairman of the nomination committee by e-mail to nominationcommittee@cloetta.com.

Meetings of the nomination committee

During 2017, the nomination committee ahead of the 2018 AGM held one meeting. No fees have been paid for work on the committee.

4 Board of Directors

Work of the Board

The primary task of the Board is to serve the interests of the company and the shareholders, appoint the President and ensure that the company complies with the applicable laws, the Articles of Association and the Swedish Corporate Governance Code. The Board is also responsible for making sure that the Group is suitably structured so that the Board can optimally exercise its governance over the subsidiaries and that the company's financial accounting, financial management and financial circumstances in general can be controlled satisfactorily. At least once a year the Board shall meet with the company's auditor without the presence of the Group Management Team, and shall continuously and at least once a year evaluate the performance of the President/CEO.

Composition of the Board

According to the Articles of Association, Cloetta's Board of Directors shall consist of at least three and at most ten members that are elected annually at the AGM for a period until the next AGM has been held. The AGM on 4 April 2017 resolved that the Board shall have seven members appointed by the AGM. To serve for the period until the end of the next AGM, to be held on 16 April 2018, the AGM on 4 April 2017 elected Board members Lilian Fossum Biner (Chairman), Lottie Knutson, Mikael Norman, Adriaan Nühn, Mikael Svenfelt, Camilla Svenfelt and Mikael Aru. In addition, the employee organization LIVS appointed one employee representative to the Board, Lena Grönedal, and one deputy representative, Shahram Nikpour Badr. The employee organization PTK appointed one employee representative to the Board, Mikael Ström, and one deputy representative, Christina Lönnborn. All Board members have attended Nasdaq's stock market training course for board and management. The average age of the Board members elected by the AGM was 54 at year-end 2017, and three of the seven are women. For information about the Board members' assignments outside the Group and holdings of shares in Cloetta, see pages 84–85 and cloetta.com.

Diversity policy

Through the nomination committee, Cloetta applies rule 4.1 of the Swedish Corporate Governance Code as its diversity policy to propose election of directors to the Board. According to this rule, the board composition must be set with regard to appropriateness to the company's operations, phase of development, and must collectively exhibit diversity and breadth of competence, experience and background among the directors elected by the annual general meeting. An equal balance between the genders is strived for. The objective of the diversity policy is to underline the importance of appropriate diversity within the Board with regard to gender, age, nationality and experience, professional background and business expertise. The nomination committee has confirmed that the Board of Cloetta has an almost equal gender balance and an appropriate composition in general.

Independence of the Board

In accordance with the Swedish Corporate Governance Code, the majority of the Board members elected by the AGM shall be independent in relation to the company and its Group Management and at least two of these shall also be independent in relation to the company's major shareholders. Of the Board's seven members, all are independent in relation to the company and its Group Management and five are independent in relation to the company's major shareholders.

Nomination committee ahead of the 2018 AGM

Member	Appointed by	Independent[1]	Share of votes at 31 Dec. 2017, %
Olof Svenfelt, Chairman	AB Malfors Promotor	No	36.70%
Dan Riff	Wellington Management	Yes	8.60%
John Strömgren	Carnegie Fonder	Yes	1.10%
Lilian Fossum Biner	The Board of Cloetta AB	Yes	0%

1) Independent from the company and its Group Management/from the company's largest shareholder in terms of voting power

Instructions and policies

The Board reviews and adopts the following instructions and policies on a yearly basis:

- Work plan for the Board.
- Instructions for the President.
- Instructions for financial reporting.
- Work plan and instructions for the audit committee.
- Work plan and instructions for the remuneration committee.
- Code of Conduct.
- Corporate Communications and IR policy.
- Finance policy.
- HR policy.
- Insider policy.
- Insurance policy.
- Policy for internal control.
- IT security policy.
- Mergers and acquisitions policy.
- Fraud and whistleblower policy. (anonymous reporting of violation of laws, the Code of Conduct or other rules at Cloetta).
- Anti-bribery and -corruption policy.
- Trade control policy.

The Board's instructions and policies

On a yearly basis, the Board reviews and adopts a work plan for its own activities and those of the Board's audit and remuneration committees. The Board also adopts instructions for the President/CEO and instructions for financial reporting. Among other things, these regulate the segregation of duties between the Board of Directors, the Board Chairman, the President/CEO and the auditor, quorum, conflict of interest, the work of the committees, internal and external reporting, routines for notice to attend general meetings, Board meetings and minutes. In addition, the Board has issued and adopted a Code of Conduct and policies for corporate communications and IR, finance, HR, insiders, insurance, internal control, IT security, mergers and acquisitions, fraud and whistleblower, trade controls and anti-bribery and -corruption.

Evaluation of Board performance

The performance of the Board is evaluated yearly in order to develop the Board's working methods and efficiency. The Board Chairman is responsible for carrying out the evaluation and presenting the results to the nomination committee. The purpose of the evaluation is to gather the Board members' views on the Board's performance, what measures can be taken to improve the efficiency of board work, and whether the Board has a well-balanced mix of competencies. The evaluation provides valuable input for the nomination committee ahead of the AGM. In 2017 the Chairman conducted a written survey among all Board members including the employee representatives. The results of the evaluation have been reported to and discussed by both the Board and the nomination committee.

Board meetings

In 2017 the Board held eight scheduled meetings, of which one statutory meeting, and four extra meetings and two per capsulum meetings. President/CEO, the CFO and the Senior Vice President Corporate Communications & IR, who is also the Board Secretary, take part in the Board's meetings. Other members of the Group Management Team take part as needed as rapporteurs for special items of business.

Organization for sustainability work

The overall strategies for Cloetta's corporate responsibility work are adopted by the Group Management Team and are controlled and monitored through business planning processes at several levels in the company. Ultimate responsibility for corporate responsibility matters lies with Cloetta's President/ CEO.

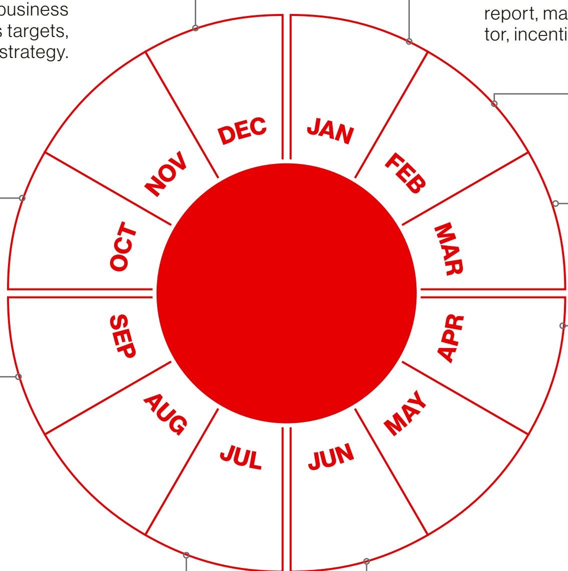
Cloetta's sustainability work is overseen by the Director Corporate Responsibility, who functions as a spokesman for issues related to corporate responsibility and is responsible for identifying prioritized areas, acting as the stakeholders' link to the management and supporting the implementation of Cloetta's corporate responsibility strategy. Environmental and occupational health and safety managers are found at all of the factories.

5 Board committees

Audit committee

In 2017 the Board audit committee consisted of members Mikael Norman (chairman), Camilla Svenfelt and Adriaan Nühn. The majority of the committee's members shall be independent in relation to the company and its Group Management, and at least one of these shall also be independent in relation

Board meetings in 2017



JANUARY
Extra Board meeting: potential acquisition of Candyking and impairment loss in Cloetta Italy.
Extra Board meeting: Strategic review of Cloetta Italy and potential acquisition of Candyking.
Scheduled Board meeting: year-end report, draft annual report, matters ahead of the AGM, report from the auditor, incentive scheme.

FEBRUARY
Extra Board meeting: per capsulum relating to reclassification of A shares.

MARCH
Scheduled Board meeting: annual report, notice to attend the AGM.

APRIL
Annual General Meeting
Statutory meeting: decision on authorized signatories, adoption of instructions and policies, election of the remuneration committee and audit committee, appointment of a Board representative to the nomination committee, decision on dates and locations for the upcoming scheduled Board meetings, the AGM and reporting dates.
Scheduled Board meeting: strategy, interim report for the period from January to March.

JUNE
Extra Board meeting: potential divestment of Cloetta Italy and integration of Candyking.

JULY
Scheduled Board meeting; interim report for the period from January to June.

SEPTEMBER
Extra Board meeting: visit to Cloetta's office in Turku, review of the commercial operations in Finland as well as customer visit and review of business strategy.
Extra Board meeting: evaluation of investigation relating to some share sales prior to profit warning.

OCTOBER
Extra Board meeting: per capsulum relating to raw material contracting.
Scheduled Board meeting: interim report for the period from January to September, Board evaluation, business strategy.

DECEMBER
Scheduled Board meeting: budget/business plan for the coming year, bonus targets, business strategy.

to the company's major shareholders. At least one member shall be independent and have accounting or auditing expertise. Of the audit committee's three members, all are independent in relation to the company and its management, and two are independent in relation to the company's major shareholders. The work of the audit committee is regulated by special instructions that have been adopted by the Board as part of its work plan. The audit committee is responsible for ensuring the quality of the financial reporting and the effectiveness of the company's internal control and risk management regarding financial reporting. In brief, the audit committee, without affecting the other tasks and responsibilities of the Board, shall regularly meet with the company's auditors to stay informed about the focus and scope of the audit. The company's auditor shall be invited to participate in the meetings of the audit committee. The audit committee shall meet at least four times every financial year. At least once a year, the committee shall meet without the presence of any member of the Group Management. All meetings of the audit committee are minuted. The audit committee shall inform the Board about the matters dealt with by the committee. In 2017 the committee held five meetings.

Remuneration committee

The remuneration committee shall have no more than four members who are appointed by the Board on a yearly basis. One of the members shall be chairman of the committee. The Board's remuneration committee consists of members Mikael Svenfelt (chairman), Lottie Knutson and Lilian Fossum Biner. The majority of the committee's members shall be independent in relation to the company and its management. Of the remuneration committee's members, all are independent in relation to the company and its management. The work of the remuneration committee is regulated by special instructions that are adopted by the Board as part of its work plan. The main tasks of the remuneration committee are to prepare recommendations to the Board for decision on remuneration principles, remuneration levels and other terms of employment for the Group Management, to monitor and evaluate programmes for variable remuneration completed during the year and ongoing programmes for the Group Management as adopted by the AGM and of the current remuneration structures and levels in the Group. The remuneration committee shall meet at least twice every financial year. In 2017 the committee held five meetings.

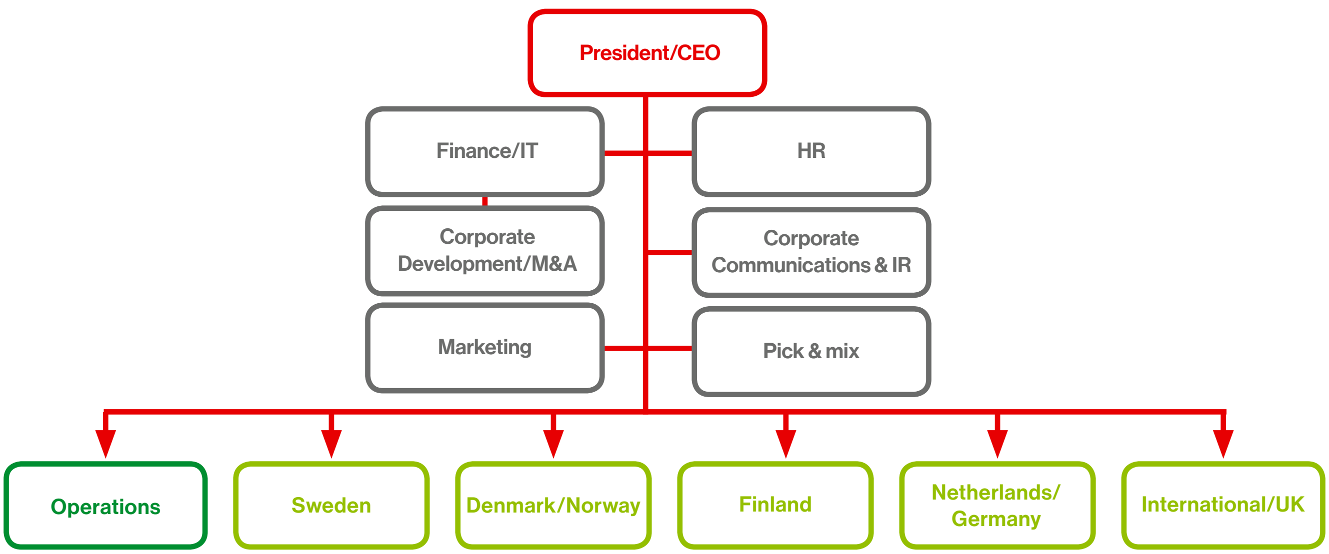
Board Chairman

The Board Chairman shall be elected by the general meeting of shareholders, and the AGM on 4 April 2017 elected Lilian Fossum Biner as Chairman of the Board. The Chairman shall supervise the work of the Board and ensure that the Board discharges its duties, and has special responsibility for ensuring that the work of the Board is well organized and effectively executed and for monitoring the Group's development. The Chairman oversees the effective implementation of the Board's decisions and is responsible for ensuring that the work of the Board is evaluated yearly and that the nomination committee is informed about the results of this evaluation.

6 President and Group Management Team

The President/CEO is appointed by the Board and supervises operations according to the instructions adopted by the Board and is responsible for day-to-day management of the company and the Group in accordance with the Swedish Companies Act. In addition, the President/CEO, together with the Chairman, decides which matters are to be dealt with at Board meetings. The Board regularly evaluates the President/CEO's duties and performance. The President/CEO is responsible for ensuring that the Board members are supplied with the necessary information and decision data and presents reports and proposals at Board meetings regarding issues dealt with by the Group Management Team. The President/CEO regularly informs the Board and Chairman about the financial position and development of the company and the Group. Henri de Sauvage-Nolting has been President/CEO of Cloetta since 15 February 2017, and until this date Danko Maras was Interim President/CEO. At 31 December 2017, aside from the President/CEO, the Group Management Team consisted of the three regional presidents, the President Operations (which includes purchasing and production) and the five heads of the central staff functions Finance/IT, Marketing, HR, Corporate Communications & IR and Chief Pick & mix officer. For information about the President/CEO and other members of the Group Management Team, see pages 86–87.

Organization*



* This organization chart applies from 1 March 2018.

The Group Management Team conducts management meetings at regular intervals and held ten meetings in 2017. The meetings are focused on the Group's strategic and operative development and financial performance. In addition to these meetings, the members of the Group Management Team work in close daily cooperation regarding various matters.

7 Auditor

The auditor is elected by the AGM for examination of the company's annual accounts and accounting records and the administration of the Board of Directors and the President/CEO. The auditor's reporting to the shareholders takes place at the AGM through presentation of the auditor's report. The AGM on 4 April 2017 re-elected the certified auditing firm KPMG AB as the company's independent auditor to serve during the period until the end of the next AGM. Authorized Public Accountant Tomas Forslund is Auditor in Charge.

8 Financial reporting

The Board of Directors is responsible for ensuring that the company's organization 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 is prepared in accordance with the legal requirements, relevant accounting standards and other requirements applicable to listed companies. The tasks of the Board are to oversee the Group's financial development, assure the quality of the Group's financial reporting and internal control and regularly monitor and evaluate operations. The task of the audit committee is to support the Board in assuring the quality of the company's financial reporting. However, the audit committee deals not only with the Group's financial reports and significant accounting matters, but also matters related to internal control, compliance, material uncertainty in reported values, events after the balance sheet date, changes in estimates and judgments and other conditions affecting the quality of the financial reports.

The President/CEO ensures that the 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 President/CEO 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. For each upcoming financial year, a profit, balance sheet and investment budget are prepared for the Group and are adopted at the scheduled Board meeting in December. External financial information is regularly provided in the form of:

- Interim reports
- The annual report
- Press releases about important news that is assessed to have a potential impact on the share price
- Presentations for financial analysts, investors and the media on the date of publication of the year-end and interim reports
- Meetings with financial analysts and investors

Awards for financial communication

Webranking by Comprend

Cloetta was named the best website in Comprend's Webranking survey among 100 largest Swedish listed companies.

Best Annual Reports in the World by Reportwatch

Cloetta took first place in Reportwatch's competition "Best Annual Reports in the World" among all global companies in the food and beverage sector.

Additional information

At www.cloetta.com, information such as the following can be found: The Articles of Association, the Code of Conduct, information from previous AGMs and corporate governance reports from previous years.

Press releases 2017

January
- Strategic review and impairment of Cloetta Italy.

February
- Interim report Q4, October – December 2016.
- Request to convert A-shares to B-shares.
- Proposal by the Nomination Committee regarding the Board of Directors of Cloetta AB.
- Cloetta acquires Candyking.
- Notice of the Annual General Meeting.

March
- Annual report 2016.

April
- Annual General Meeting.
- The Swedish Competition Authority approves Cloetta's acquisition of Candyking.
- Interim report Q1, January – March 2017.
- The acquisition of Candyking completed.

July
- Cloetta to divest its Italian operations.
- Marcel Mensink appointed President Operations.
- Interim report Q2, April – June 2017.

September
- Cloetta has completed the divestment of its Italian operations.
- Cloetta's EBIT to be negatively impacted by mainly short-term issues.

October
- Nomination committee appointed ahead of 2018 Annual General Meeting of Cloetta AB (publ).
- Certain employees under investigation for share sales.
- Cloetta awarded best Swedish corporate website 2017.
- Interim report Q3, July – September 2017.

November
- Management changes in Cloetta.

Remuneration to the Group Management Team

Guidelines for remuneration to Group Management Team

The current guidelines for remuneration to Group Management Team were adopted by the AGM on 4 April 2017. The total remuneration shall be market-based and competitive, and shall be proportionate to the individual's responsibilities and powers. In addition to base salary, remuneration to the President/CEO, other members of the Group Management Team and other executives reporting directly to the President/CEO can include:

Short-term variable compensation

Short-term variable compensation is linked to specific business targets and is derived from the annual business plan approved by the Board of Directors. The short-term variable compensation is delivered through a cash-based bonus program. Short-term variable compensation is based on three operating targets:

- Net sales growth
- Operating profit
- Cash flow

The short-term variable compensation structure is as follows:

	Short-term variable compensation as a percentage of base salary	
	Target level	**Maximum level**
President/CEO 2017	50%	100%
Other Group Management Team 2017, average	35%	70%
President/CEO 2016	50%	100%
Other Group Management Team 2016, average	35%	70%

Share-based long-term variable compensation

Share-based long-term variable compensation consists of the share-based long-term incentive plans, which are resolved on yearly by the AGM and is aimed at increasing the value for the Group's shareholders by promoting and upholding the senior management's commitment to the Group's development, and thereby aligning the interests of the shareholders with those of the Group Management Team and other key employees in order to ensure maximum long-term value creation. The targets for share-based long-term variable compensation are the compounded annual growth rate and operating profit.

Other benefits

Other benefits consist mainly of company car benefits.

Pension benefits

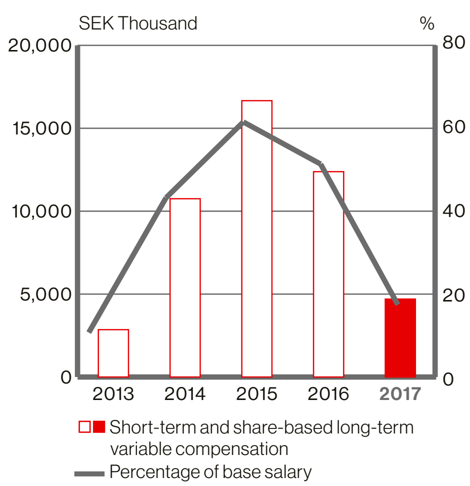
Pension benefits vary depending on the agreements and practices in the country where the individual is employed. Defined contribution plans are strived for, which means that pension benefits most often consist of defined contribution plans for which annual premiums are paid as a percentage of pension-qualifying salary up to the age of retirement. In almost all cases, variable salary and benefits are not pension-qualifying. The retirement age is not less than 60 years and not more than 67 years.

The Board has the right to deviate from these principles in individual cases where there is special reason to do so.

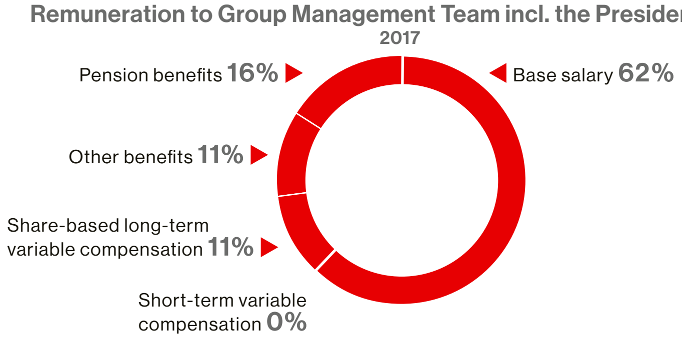
Termination benefits

Upon termination of employment on the part of the company, the notice period shall be no

Total variable remuneration to Group Management Team incl. the President/CEO



Remuneration to Group Management Team incl. the President/CEO



longer than 12 months. Any termination benefits may not exceed one fixed annual salary. Due to employment contracts entered into in Leaf prior to Cloetta's acquisition of the company, there are contracts with members of the Group Management Team granting termination benefits exceeding 12 monthly base salaries.

President/CEO

The retirement age is 65 years. The pension terms consist of a defined contribution plan for which annual premiums are paid up to the age or retirement in an amount corresponding to 30 per cent of pension-qualifying salary, consisting of base salary. Variable compensation and other benefits are not pension-qualifying.

The President/CEO has a notice period of six months. Upon termination on the part of the company, the notice period is 12 months.

Remuneration in 2017

Total remuneration to the Group Management Team including the President/CEO in 2017 amounted to SEK 42,877 thousand (44,581) including pension benefits and SEK 35,920 thousand (38,543) excluding pension benefits.

Share-based long-term incentive plan for senior executives

The Annual General Meeting on 4 April 2017 approved the Board's proposal for a share-based long-term incentive plan, similar to previous years. The plan aligns the interest of the shareholders with those of the Group Management Team and other key employees in order to ensure maximum long-term value creation.

A personal shareholding in Cloetta is required for all participants. See page 60 and Notes 25, 30 and 31 for more information about share-based payment.

The Board of Directors' report on the remuneration committee's evaluation of remuneration to Group Management Team

The Board of Directors has set up a remuneration committee consisting of three members who prepare recommendations for decision by the Board regarding remuneration principles, remuneration levels and other terms of employment for the Group Management Team. The recommendations have included the proportional distribution between base salary and variable compensation and the size of any salary increases. Furthermore, the remuneration committee has discussed pension terms and termination benefits.

The remuneration committee is also entrusted with the task of monitoring and evaluating programmes for variable remuneration to the Group Management Team, application of the guidelines for remuneration adopted by the AGM and the current remuneration structures and remuneration levels in the company. Pursuant to paragraph 9.1, points 2 and 3, of the Swedish Code of Corporate Governance, the Board hereby presents the following report on the results of the remuneration committee's evaluation:

The variable compensation that is payable according to the guidelines is linked to both the individual's responsibility for results and the Group's profitability targets, which contributes to value growth for the company's shareholders.

Market surveys are conducted regularly with respect to salary statistics, remuneration structures and levels for variable remuneration. In the opinion of the remuneration committee, Cloetta's remuneration structures and remuneration levels have allowed Cloetta to recruit and retain the right personnel to the Group Management Team.

Remuneration to the President/CEO for the financial year 2017 has been determined by the Board. Remuneration to other members of the Group Management Team and to other senior executives has been determined by the President/CEO. Since the 2017 AGM, the remuneration committee has met on four occasions. The proposed guidelines for remuneration to Group Management Team in 2018 that will be presented by the Board to the AGM on 16 April 2018 for approval are identical to the current guidelines.

Remuneration cost incurred for the Group Management Team

2017 SEK Thousand	**Base salary**	**Short-term variable compensation incurred in the year, expected to be paid in the next year**	**Share-based long-term variable compensation**	**Other benefits**	**Subtotal**	**Pension benefits**	**Total**
Henri de Sauvage-Nolting, President/CEO[1]	3,886	–	704	69	**4,659**	1,113	5,772
Danko Maras, Interim President and CEO/CFO[2]	378	–	143	41	**562**	114	676
Other Group Management[3]	22,322	–	3,825	4,552	**30,699**	5,730	36,429
Total	**26,586**	**–**	**4,672**	**4,662**	**35,920**	**6,957**	**42,877**
Of which, in the Parent Company	***13,221***	***–***	***3,050***	***1,327***	***17,598***	***3,752***	***21,349***

2016 SEK Thousand	**Base salary**	**Short-term variable compensation incurred in the year, expected to be paid in the next year**	**Share-based long-term variable compensation**	**Other benefits**	**Subtotal**	**Pension benefits**	**Total**
David Nuutinen, President/CEO[4]	3,516	–	–446[5]	306	**3,376**	–	3,376
Danko Maras, Interim President and CEO/CFO[2]	1,017	811	280	38	**2,146**	339	2,485
Other Group Management[6]	19,550	8,013	3,725	1,733	**33,021**	5,699	38,720
Total	**24,083**	**8,824**	**3,559**	**2,076**	**38,543**	**6,038**	**44,581**
Of which, in the Parent Company	***14,714***	***5,173***	***178***	***1,168***	***21,233***	***2,191***	***23,424***

1) Took up duties on 15 February 2017.

2) Took up duties as interim President and CEO from 1 September 2016 until 14 February 2017.

3) Other Group Management Team comprised 8 persons for the period 1 January 2017 up to 14 February 2017, 9 persons for the period 15 February until 28 April 2017, 10 persons for the period 29 April 2017 up to 30 September 2017 and 11 persons for the period 30 September 2017 up to 29 November 2017. As from 30 November 2017 the other Group Management Team consisted of 10 persons.

4) Resigned on 31 August 2016.

5) Refers to the release of the share-based long-term incentive plans for 2014, 2015 and 2016.The release is non-cash in nature.

6) Other Group Management Team comprised 10 persons for the period 1 January 2016 up to 1 June 2016. For the period 1 June 2016 up to 1 September 2016 the other Group Management Team consisted of 9 persons. As from 1 September 2016 the other Group Management Team consisted of 8 persons.

Internal control over financial reporting

Cloetta's internal control over financial reporting is based on the framework as published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO-framework). The key objectives of Cloetta's internal control environment for financial reporting are that it is appropriately structured and effective, provides reliable reports and complies with the applicable laws and regulations.

The Board of Directors has defined policies regarding processes, roles and responsibilities that are vital for financial reporting and the internal control environment of the company.

Roles and responsibilities

The Board of Directors is responsible for establishing fundamental rules and guidelines for internal control. The audit committee assists the Board with its oversight of the performance of the company's risk management function and internal control insofar these affect the company's quality and integrity of financial reporting. The Board of Directors and the audit committee interact directly with the external auditors.

Where the Board of Directors is responsible for establishing fundamental rules and guidelines, the President/CEO is responsible for the design effectiveness, implementation and supervision of monitoring of the internal control environment within the Group. The CFO is responsible for the design and operating effectiveness of the internal control environment within the Group. The design and operating effectiveness of the internal control environment at a local level is the responsibility of the respective area presidents and local CFOs.

Control environment

The foundation for Cloetta's internal control environment is the company's corporate culture and behaviour, amongst others, these are reflected in:

- Integrity and ethical values, with Cloetta's Code of Conduct, fraud and whistleblower policy, anti-bribery and -corruption policy and trade control policy as a platform for a set of guidelines and principles built on Cloetta's core values that amongst other things govern financial reporting.
- The management's conduct and working methods based on a clearly defined working process described in amongst others the:
  - Rules of procedures for the Board of Directors
  - Instructions for the CFO
  - Instructions for financial reporting
  - Finance policy, and
  - Rules of procedure for and instructions to the audit committee
- Rules for representations, commitments and disbursements towards third parties clearly defined in the Group's authorization framework.
- Processes for leading and developing employees in the organization and the attention devoted to these issues by Cloetta's Board of Directors.

Financial reporting competencies

The Group Management Team and local management teams ensure that the company has employees with the right competency in all key (financial) positions and that there are procedures in place to ensure that employees in key (financial) positions have the requisite knowledge and skills.

Human Resources (HR)

The guidelines and processes for management of human resources play a fundamental role in Cloetta's system of internal control and contribute to ensure the effectiveness of internal control. Key processes include compensation and benefits, HR development, recruitment, allocation of resources, performance management and routines for feedback to the employees.

Risk assessment

Periodically central and local risk assessments are prepared and monitored. In these assessments the likelihood that risks could occur and the potential impact are assessed. Furthermore, the velocity at which a risk could occur is considered. In the risk assessments business risks as well as financial reporting and other risks are considered.

Central and local financial reporting risks are assessed with respect to account balance assertions such as existence, completeness, rights and obligations, valuation and allocation, presentation and disclosure assertions and financial impact. The internal control environment is designed to mitigate risks identified to a level considered acceptable by management.

Certain specific risks, for example risks related to taxes and legal matters and other financial risks, are reviewed proactively on a periodic basis. Risks and risk management are reported on separately in more detail in the annual report, see the section "Risks and risk management". Tax, legal and other financial risks are reflected based on management's best estimate and judgement and in accordance with the applicable accounting standards in the consolidated financial statements.

Fraud risk

Cloetta's Group Management Team, local management teams are together with the central finance team responsible for addressing the risk of fraud and a continuous assessment of the risk for fraud with respect to the applicable attitudes, incentives and opportunities to commit fraud. The Board of Directors issued a fraud and whistleblower policy with the purpose to prohibit dishonest and/or fraudulent activity and to establish procedures for reporting fraudulent activities to Cloetta's management and/or audit committee.

In addition to the fraud and whistleblower policy, Cloetta has adopted an anti-bribery and -corruption policy. The purpose of the policy is to avoid bribery and corruption by any employee or third party acting on behalf of Cloetta.

The trade control policy summarizes potentially applicable sanctions and export control rules, and compliance procedures to be followed by all Cloetta employees. The

Basis for risk assessment

Existence, reported assets and liabilities exist on the reporting date.

Completeness, all transactions during the reporting period are recorded and reported.

Rights and obligations, assets are the rights of the organization and the liabilities are its obligations as of a given date.

Valuation and allocation, all items in the financial reporting are reported in conformity with IFRS valuation principles and are correctly calculated and summarized and appropriately recorded.

Presentation and disclosure, items in the financial reports are properly described, sorted and classified.

Process for financial reporting

Monthly

Collection of information	Controls	Processing and consolidation	Reporting
Local units report monthly according to an established timeframe in compliance with the applicable laws, regulations and accounting practices and the Group's accounting manual.	The Group's reporting system contains embedded controls. In addition, the central finance team carries out analytical controls as well controls of completeness and reasonability.	Any corrections are implemented in dialogue with the affected parties. Reconciliation occurs.	Reporting of operative and financial information to the Board of Directors and the Group Management Team.

Quarterly

Audit committee	External reporting
The auditor attends every quarterly meeting. Possible actions are carried out in respect of the audit report.	Cloetta publicly discloses its interim and year-end reports through press releases and publication on the company's website.

purpose of this policy is to provide guidelines to ensure compliance with all local trade control laws and regulations including countries through which shipments or financial transactions flow.

Control activities

Control activities are the policies and procedures that contribute to ensure that management's directives are carried out and that the necessary actions are taken to address risks that may hinder the achievement of the company's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Control activities are embedded in Cloetta's business processes and play a key role in ensuring effective internal control in the company. Local management is responsible for having all required control activities in place and maintained within their organizations. The CFO is responsible for ensuring that control activities are designed and operating effectively and are maintained at the central level. The control environment is based on a balanced mix of preventive and detective controls and of automated and manual controls. In addition to a standard set of automated controls embedded in Cloetta's central ERP system, local management teams are encouraged to have as much as possible automated controls especially for routine transactions. Nevertheless, there are also manual control activities in place to verify that the automated controls are functioning as intended and for non-routine transactions.

Continuous reviews are performed by the Group Management Team and local management teams to safeguard proper and accurate financial reporting. These reviews are incorporated into the business processes and are an important part of Cloetta's monitoring controls. The local management teams are responsible for ensuring compliance with relevant laws and regulations in their respective areas of responsibility. All identified financial reporting risks are covered by one or more control activities.

Monitoring and improvement

Cloetta is continuously strengthening its internal control environment by evaluating the design and operating effectiveness. During the year procedures are performed to verify the design and operating effectiveness in certain areas. These procedures are performed on a central and on a local level and are intended to address any weaknesses or inefficiencies in the internal control environment. Internal control deficiencies detected through the ongoing monitoring activities or separate evaluations are reported upstream and corrective actions are taken to ensure continuous improvement of the internal control environment. On a quarterly basis the follow up and status of any weaknesses identified by internal procedures or external audits are reported and discussed with the involved persons and members of Cloetta's Group Management Team.

Reporting routines

An effective system for internal control requires sufficient, up-to-date and reliable information both of a financial and non-financial nature. As far as possible, management reporting is directly linked to the financial reporting and to the consolidation tool.

Local management teams report their financial results periodically and in accordance with the Group's accounting and reporting policies. This reporting is the basis for Cloetta's internal and external reporting and serves as a basis for legal and business reviews. The business reviews are carried out according to a structure in which sales, earnings, cash flow and other key ratios and trends of importance to the Group are compiled and form a basis for analysis and actions by the management and controllers at different levels. Other important and group-wide components of internal control and reporting routines are the annual business planning process and the monthly and quarterly forecasts.

To ensure the efficiency of internal control over financial reporting, reviews are carried out by the Board, the audit committee, the President/CEO, the Group Management Team, the central finance and treasury team and the Group's various subsidiaries. Every month, financial reports are reviewed against budget and established targets, and the results of self-assessments in the Group's companies are reported. This review includes follow-up of observations that are reported by Cloetta's auditor.

The company's financial situation is discussed at each Board meeting. The Board's audit committee has important monitoring and control duties with regard to loans, investments, financial management, financial reporting and internal control. The audit committee and Board of Directors review and formally approve interim reports and the annual report prior to publication. In addition, the audit committee receives regular reports from the independent auditor.

Communication

Internal communication

Effective communication ensures the information flows in the organization. Separate communication channels are used to communicate internally, based on what is most effective.

External communication

It is also important to maintain communication about relevant policies with external parties such as customers, suppliers, regulators and shareholders.

External communication is carried out in accordance with legal requirements and the Corporate Communications and IR policy.

Evaluation of the need for a separate internal audit function

There is currently no internal audit function at Cloetta. The Board has reviewed this matter and determined that the existing structures for monitoring and evaluation provide a satisfactory basis for control. For certain special audit activities, external resources are used.

Board of Directors

Lilian Fossum Biner

Position: Chairman of the Board
Member of the Remuneration Committee
Elected: 2016
Born: 1962
Nationality: Swedish
Education: M.Sc. Stockholm School of Economics.
Other assignments: Board member of Nobia, LE Lundbergföretagen, a-connect and Givaudan.
Previous assignments: VP and CFO of Axel Johnson, Senior VP and HR Director at Electrolux.
Independency:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 20,000 class B shares
Related parties: –

Mikael Aru

Position: Board member
Elected: 2017
Born: 1953
Nationality: Swedish
Education: B.Sc., in Business Administration, Linköping University
Other assignments: Board Chairman of Paulig Group Ltd, Fuchs Gewurze Gruppe AG, CCS Healthcare Nordic AB and AB Axel Granlund. Board member of Electra Gruppen AB, Stenströms Skjortfabrik, Dr Per Håkanssons Stiftelse and Gorthon Stiftelsen.
Previous assignments: CEO of Procordia Food Sverige, as well as leading positions in Kraft Foods and Nestlé.
Independency:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 2,855 class B shares
Related parties: –

Lottie Knutson

Position: Board member
Member of the Remuneration Committee
Elected: 2015
Born: 1964
Nationality: Swedish
Education: Journalism at Stockholm University, L'Université Paris IV, Diplôme de culture Francaise.
Other assignments: Member of the board of Stena Line, STS Alpresor, Swedavia, Scandic Hotels and Talently. Active as a writer and advisor wihtin leadership, crisis management and tourism.
Previous assignments: Director of Communications at the Fritidsresor Group for the Nordic countries, the SAS Group's communication´s department, journalist at the Swedish newspaper Svenska Dagbladet and communications consultant at JKL among others.
Independency:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 1,200 class B shares
Related parties: –

Adriaan Nühn

Position: Board member
Member of the Audit Committee
Elected: 2012
Born: 1953
Nationality: Dutch
Education: M.B.A., University of Puget Sound, Tacoma, Washington, USA and B.A. of Business Administration, Hogere Economische School, Eindhoven, The Netherlands.
Other assignments: Board Chairman of Takeaway.com N.V. Board member of Anglovaal Industries Ltd., WWF the Netherlands and Hunter Douglas.
Previous assignments: CEO and Board chairman of Sara Lee International and has held a number of assignments within the Sara Lee Corporation and Procter & Gamble. Board Chairman of Plukon Foodgroup N.V. Board member of Kuoni AG.
Independency:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 198,363 class B shares
Related parties: –

Composition of the Board

				Fees[2]			Attendance[4]		
Elected by the AGM[1]	Nationality	Year elected	Born in	Board fees	Committee fees	Independent[3]	Board meetings	Audit committee	Remuneration committee
Chairman									
Lilian Fossum Biner	Swedish	2016	1962	620,000	100,000	Yes/Yes	11/11		4/4
Member									
Camilla Svenfelt	Swedish	2016	1981	285,000	100,000	Yes/No	11/11	5/5	
Mikael Aru	Swedish	2017	1953	285,000		Yes/Yes	10/11		
Lottie Knutson	Swedish	2015	1964	285,000	100,000	Yes/Yes	11/11		3/4
Mikael Norman	Swedish	2015	1958	285,000	100,000	Yes/Yes	10/11	5/5	
Adriaan Nühn	Dutch	2012	1953	285,000	100,000	Yes/Yes	11/11	5/5	
Mikael Svenfelt	Swedish	2008	1966	285,000	100,000	Yes/No	11/11		4/4

1) Education and other assignments are shown on pages 84–85.
2) The fees refer to set amounts during the period from the AGM on 4 April 2017 until the AGM on 4 April 2017. Board fees shall be paid in an amount of SEK 620,000 to the Board Chairman and SEK 285,000 to each other member elected by the AGM. Members of the audit committee shall receive fees of SEK 100,000 each and members of the remuneration committee shall receive SEK 100,000 each. For further details, see Note 6.
3) Independent in relation to the company and its Group Management Team/in relation to the largest shareholder.
4) Attendance refers to meetings during the period from the statutory meeting following the AGM on 4 April 2017 until the publication of this annual report in March 2018.

Mikael Norman

Position: Board member
Chairman of the Audit Committee
Elected: 2015
Born: 1958
Nationality: Swedish
Education: Bachelor of Laws, Stockholm University.
Other assignments: Member of the Board of Byggmax Group AB, Bravida Holding AB, Bonava AB and Swedavia AB. Chairman of the audit committee of Bravida Holding AB, Bonava AB and Swedavia AB.
Previous assignments: CFO at Nobia, Group Controller at Electrolux, tax lawyer at Price Waterhouse and judge at the Administrative Court and Administrative Court of Appeal in Stockholm.
Independency:
In relation to major shareholders: Yes
In relation to the company and management: Yes
Shareholding: Direct: 5,000 class B shares
Related parties: –

Camilla Svenfelt

Position: Board member
Member of the Audit Committee
Elected: 2016
Born: 1981
Nationality: Swedish
Education: B.A., Stockholm University
Other assignments: Board member of AB Malfors Promotor and a deputy board member of the Hjalmar Svenfelt Foundation. Works as an accountant at AB Malfors Promotor.
Previous assignments: –
Independency:
In relation to major shareholders: No
In relation to the company and management: Yes
Shareholding: Direct: 60 class A shares and 461,485 class B shares
Related parties: 35,095 class B shares

Mikael Svenfelt

Position: Board member
Chairman of the Remuneration Committee
Elected: 2008
Born: 1966
Nationality: Swedish
Education: Marketing and business economist, Tibbleskolan and law studies, Folkuniversitetet, Sweden.
Other assignments: CEO and Board member of AB Malfors Promotor.
Previous assignments: Senior positions in Nicator group, Dell Financial Services, GE Capital Equipment Finance AB and Rollox AB. Board chairman of Fjärilshuset Haga Trädgård AB. Board member of Fjärilshuset Haga Trädgård Café AB.
Independency:
In relation to major shareholders: No
In relation to the company and management: Yes
Shareholding: Direct: 25 class A shares and 42,535 class B shares
Related parties: 5,729,569 class A shares and 67,467,181 class B shares

Lena Grönedal

Position: Employee board member, LIVS
Elected: 2008
Born: 1962
Nationality: Swedish
Position at Cloetta: Factory Operative Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Mikael Ström

Position: Employee board member, PTK Ledarna
Elected: 2016
Born: 1961
Nationality: Swedish
Position at Cloetta: Department Manager, Cloetta Sverige AB
Shareholding: Direct: 32,243 class B shares
Related parties: –

Shahram Nikpour Badr

Position: Deputy employee board member, LIVS.
Elected: 2013
Born: 1963
Nationality: Swedish
Position at Cloetta: Factory Operative Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Christina Lönnborn

Position: Deputy employee board member, PTK Unionen
Elected: 2016
Born: 1962
Nationality: Swedish
Position at Cloetta: Business developer, Cloetta Sverige AB
Shareholding: Direct: –
Related parties: –

Group Management Team

Henri de Sauvage-Nolting

Position: President and CEO from 15 February 2017.

Born: 1962

Nationality: Dutch

Education: M.Sc. in Chemistry, Amsterdam University, the Netherlands. M.Sc. in Chemical Engineering, Technical University of Twente, the Netherlands. Post doc in Business Administration, University of Leuven, Belgium.

Other assignments: Board member of Agra industrier Norway

Previous positions: Executive Vice President of Arla in Sweden, Denmark and Finland and has between 1989 and 2013 held several positions within sales, marketing and production in Unilever in the Nordics, the Netherlands, the UK and China. His last position in Unilever was as CEO of the Nordics.

Shareholding: Direct: 20,587 class B shares
Related parties: –

Danko Maras

Position: CFO since 16 February 2012. Employed by Leaf since 2010.

Born: 1963

Nationality: Swedish

Education: Harvard Business School, GMP B.Sc. in Business Administration and Economics, Uppsala University, Sweden.

Other assignments: Board member of Mr Green & Co AB (publ) and Highwood AB. Chairman in Doublebay Investment AB

Previous positions: Interim CEO and President of Cloetta 1 September 2016–14 February 2017. CFO of Leaf, 2010–2012, CFO/COO at Unilever Nordic, 2007–2010, VP Finance Supply Chain at Unilever North America, 2004–2006, Senior positions within Unilever in Europe between 1992-2003.

Shareholding: Direct: 56,369 class B shares
Related parties: –

Jacob Broberg

Position: Senior Vice President Corporate Communications and Investor Relations since 16 February 2012. Employed by Leaf since 2010.

Born: 1964

Nationality: Swedish

Education: B.A. in Political Science and Economics, Lund University, Sweden.

Other assignments: –

Previous positions: SVP Corporate Communications at Leaf, 2010–2012, Vice President Corporate Communications at TeliaSonera, 2008–2010, Senior Vice President Corporate Affairs and Communication at V&S Vin & Sprit AB, 2005–2008, Vice President Media Relations at Electrolux, 2001–2005, and Vice President Corporate Communications at Länsförsäkringar, 2000–2001. Various positions, including Head of Media Relations and Information for Moderata Samlingspartiet, 1989–2000.

Shareholding: Direct: 53,485 class B shares
Related parties: –

Regina Ekström

Position: Senior Vice President Human Resources since 1 January 2015. Employed by Leaf since 2004.

Born: 1963

Nationality: Swedish

Education: B.Sc. in Business Administration and Economics, Lund University, Sweden.

Other assignments: Board member of LI.

Previous positions: SVP Human Resources Scandinavia in Cloetta/Leaf, 2004–2014, SVP Human Resources Nordic in Findus, 2000–2004, HR Manager Sweden/Nordic in Nestlé , 1995–2000, Trainee, Product Manager, Human Resources Manager, Marketing Manager in Mars Sweden and U.K, 1987-1995.

Shareholding: Direct: 25,626 class B shares
Related parties: –

Johnny Engman

Position: Senior Vice President Corporate Development and M&A since 1 May 2012. Employed by Cloetta since 2012.

Born: 1977

Nationality: Swedish

Education: M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden.

Other assignments: –

Previous positions: Director at Nordic Capital Advisory AB, 2004–2012, where he has worked with companies in various sectors, including retail and fast-moving consumer goods. Management Consultant at McKinsey & Company in Stockholm, 2001–2004. Board member of Menigo AB, 2006-2016, StudentConsulting AB, 2006–2010, Luvata Ltd., 2007–2009 and Saferoad AS, 2008–2013.

Shareholding: Direct: 15,611 class B shares
Related parties: –

Dani Evanoff

Position: Chief Pick & Mix Officer since 1 May 2017. Employed by Cloetta since 1 May 2017.

Born: 1976

Nationality: Lebanese and Swedish

Previous positions: CEO Candyking, June 2016–April 2017, President New Business Candyking Holding, 2010–2013, President Candyking Sweden, 2008–2010, Founder of Godisprinsen, 2005–2008, Responsible for social projects at Lugna Gatan, Fryshuset, Stockholm, 1997–2003.

Shareholding: Direct: –
Related parties: -

Ewald Frenay

Position: President Middle since 12 February 2012. Interim President Export Markets since 16 June, 2016.
Employed by Leaf since 2000.
Born: 1963
Nationality: Dutch
Education: M.Sc. Economics, Erasmus University Rotterdam, the Netherlands.
Other assignments: –
Previous positions: Interim President Cloetta Italy 1 September 2016–5 September 2017. President Middle at Leaf, 2011–2012, Chief Marketing Officer and Senior Vice President Sales Rest of the World, 2008–2011. Member of Leaf Executive Committee, 2008–2012. Vice President Segment Confectionery, 2005–2007, Marketing Director of Confectionery Division, (former subsidiary CSM), 2004–2005, Marketing Director of RBV Leaf the Netherlands (former subsidiary CSM), 2000–2004. Several marketing and sales positions at Mars Inc., European Franchise Manager for Snickers, 1997–1999, Divisional Sales Manager Snackfood, 1995–1997, Brand Manager roles in Snack and Petfood, 1990–1995, Management Trainee, 1989–1990.
Shareholding: Direct: 24,525 class B shares
Related parties: –

Marcel Mensink

Position: President Operations since 1 October 2017.
Employed by Cloetta since 1 October 2017.
Born: 1971
Nationality: Dutch
Education: MBA University of Canterbury United Kingdom, BSc Food Technology van Hall Institute Netherlands.
Other assignments: –
Previous positions: Supply Director, Mars Supply Petcare Europe. Several leading positions within Mars in the different business units Petcare, Food and Chocolate. Supply Director Mars Care & Treats Europe. Plant director Mars Food UK, several different operational roles within Mars Chocolate.
Shareholding: B-shares: –
Related parties: –

Christian Boas Linde

Position: President Cloetta Denmark and Norway since 1 January 2018.
Employed by Cloetta since 2013.
Born: 1968
Nationality: Danish
Education: M.Sc. Economics, University of Aarhus, Denmark.
Other assignments: Board member of Crispy Foods International A/S, Nakskov Mills Foods A/S and Anne Linde ApS.
Previous positions: Country Director for Mars Danmark A/S, 2008–2013, and various commercial positions in PepsiCo, 2002-2008, HJ Heinz UK, 1999–2002, and Arla Foods, 1993–1996.
Shareholding: Direct: 825 class B shares
Related parties: –

Ville Perho

Position: President Cloetta Finland since 20 July 2015.
Employed by Leaf since 2004.
Born: 1979
Nationality: Finnish
Education: M.Sc. Turku School of Economics, Finland.
Other assignments: Co-owner and Board member of Varastoaura Oy.
Previous positions: Sales Director Cloetta Finland 2010–2015, Category Development Manager Leaf 2004–2010, Global Account Manager Lidl at Leaf 2007–2009.
Shareholding: Direct: 13,922 class B shares
Related parties: –

Lars Påhlson

Position: President Cloetta Scandinavia since 16 February 2012.
Employed by Leaf since 2008.
Born: 1959
Nationality: Swedish
Education: B.A. Economics and Marketing, Växjö University, Sweden, PED IMD Lausanne, Switzerland.
Other assignments: Board member of DLF Serviceaktiebolag, Abdon Mills Group, GS1 Sweden AB and Clear On AB.
Previous positions: President Scandinavia at Leaf, 2008–2012, President of Campbells Nordic, 2005–2008, Senior Vice President Carlsberg Nordic, 2001–2005, Managing Director Falcon Brewery, 1998–2001, Vice President Nestlé Nordic Findus, 1996–1998, Marketing Director Nestlé Sweden, 1994–1996, various positions in sales and marketing at Nestlé Sweden and Nestlé Switzerland, 1982–1994.
Shareholding: Direct: 45,190 class B shares
Related parties: –

Erwin Segers

Position: Chief Marketing Officer since 1 March 2012.
Employed by Leaf since 2010.
Born: 1967
Nationality: Belgian
Education: M.Sc. Business and Economics, University of Antwerp, Belgium.
Other assignments: –
Previous positions: Marketing Director at Leaf Holland, 2010–2012, Senior Marketing Director at Philips, 2006–2010, Marketing Director at Cadbury Netherlands (part of Mondelez), 2002–2006. Several senior positions in marketing and sales at Sigma Coatings, Hero and Maxxium, 1990–2002.
Shareholding: Direct: 18,219 class B shares
Related parties: –

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Parent Company

Notes to the Parent Company financial statements

As a result of the sale of Cloetta S.r.l. on 5 September 2017, the divestment of Cloetta Italia S.r.l. has been accounted for as discontinued operation. The comparative figures in the consolidated profit and loss account and the profit and loss account related disclosure notes have been restated to present the discontinued operation separately from continuing operations. The comparative figures in the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the hereto related disclosure notes have not been restated.

Consolidated profit and loss account

SEKm	Note	2017	2016[1]
Net sales	2	5,784	5,107
Cost of goods sold	3, 4, 7	–3,678	–3,084
Gross profit		**2,106**	**2,023**
Other income	2, 7	6	–
Selling expenses	3, 4, 7	–972	–806
General and administrative expenses	3, 4, 7	–613	–582
Operating profit		**527**	**635**
Exchange differences on borrowings and cash and cash equivalents in foreign currencies	8	–17	–8
Other financial income	8	7	17
Other financial expenses	8	–74	–175
Net financial items		**–84**	**–166**
Profit before tax		**443**	**469**
Income tax	9	–206	–122
Profit from continuing operations		**237**	**347**
Loss from discontinued operation, net of tax	10	–334	–538
Loss for the year		**–97**	**–191**
Loss for the year attributable to:			
Owners of the Parent Company			
Continuing operations		237	347
Discontinued operation		–334	–538
Total		**–97**	**–191**
Earnings per share from continuing operations, SEK			
Basic	21	0.83	1.21
Diluted[2]	21	0.83	1.21
Earnings per share from discontinued operation, SEK			
Basic	21	–1.17	–1.88
Diluted[2]	21	–1.17	–1.88
Earnings per share, SEK			
Basic	21	–0.34	–0.67
Diluted[2]	21	–0.34	–0.67
Number of shares at end of period	21	288,619,299	288,619,299
Average number of shares (basic)	21	286,320,464	286,193,024
Average number of shares (diluted)[2]	21	286,492,178	286,447,465

1) Comparative figures have been restated for discontinued operation.
2) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver the shares to the participants of the long-term share-based incentive plan. The table in Note 23 presents the movements in the contracts as from 1 January 2016.

Consolidated statement of comprehensive income

SEKm	2017	2016
Loss for the year	**–97**	**–191**
Other comprehensive income		
Remeasurements of defined benefit pension plans	–36	–17
Income tax on other comprehensive income that subsequently will not be reclassified to profit or loss for the year	8	4
Items that will never be reclassified to profit or loss for the year	**–28**	**–13**
Currency translation differences	88	225
Currency translation differences on discontinued operation reclassified through profit and loss	–102	–
Hedge of a net investment in a foreign operation	–33	–38
Income tax on other comprehensive income that will be reclassified subsequently to profit or loss for the year, when specific conditions are met	7	7
Items that are or may be reclassified to profit or loss for the year	**–40**	**194**
Total other comprehensive income	**–68**	**181**
Total comprehensive income, net of tax	**–165**	**–10**
Total comprehensive income for the year attributable to:		
Owners of the Parent Company	–165	–10

Consolidated balance sheet

SEKm	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	12	5,490	5,354
Property, plant and equipment	13	1,338	1,700
Deferred tax asset	14	20	54
Other financial assets	15	11	13
Total non-current assets		**6,859**	**7,121**
Current assets			
Inventories	16	745	780
Trade and other receivables	17	881	988
Current income tax assets	14	8	36
Derivative financial instruments	23	0	4
Cash and cash equivalents	18	759	298
Total current assets		**2,393**	**2,106**
Assets held for sale	19	–	9
TOTAL ASSETS		**9,252**	**9,236**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,443	1,443
Other paid-in capital	20	4,124	4,124
Translation difference reserve	20	454	366
Retained earnings including profit for the year	20	–2,203	–1,734
Equity attributable to owners of the Parent Company		**3,818**	**4,199**
Non-current liabilities			
Long-term borrowings	22	1,715	2,666
Deferred tax liability	14	703	586
Derivative financial instruments	23	2	12
Other non-current liabilities	24	138	–
Provisions for pensions and other long-term employee benefits	25	374	396
Provisions	26	5	22
Total non-current liabilities		**2,937**	**3,682**
Current liabilities			
Short-term borrowings	22	999	2
Derivative financial instruments	23	71	54
Trade and other payables	27	1,394	1,196
Provisions	26	3	64
Current income tax liabilities	14	30	39
Total current liabilities		**2,497**	**1,355**
TOTAL EQUITY AND LIABILITIES		**9,252**	**9,236**

Consolidated statement of changes in equity

SEKm	Share capital	Other paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance at 1 January 2016	**1,443**	**4,124**	**141**	**–1,364**	**4,344**
Comprehensive income					
Loss for the year	–	–	–	–191	–191
Other comprehensive income	–	–	225	–44	181
Total comprehensive income for 2016	**–**	**–**	**225**	**–235**	**–10**
Transactions with owners					
Share-based payments	–	–	–	9	9
Dividend	–	–	–	–144	–144
Total transactions with owners	**–**	**–**	**–**	**–135**	**–135**
Balance at 31 December 2016	**1,443**	**4,124**	**366**	**–1,734**	**4,199**
Comprehensive income					
Loss for the year	–	–	–	–97	–97
Other comprehensive income	–	–	88	–156	–68
Total comprehensive income for 2017	**–**	**–**	**88**	**–253**	**–165**
Transactions with owners					
New forward contract to repurchase own shares	–	–	–	–11	–11
Share-based payments	–	–	–	11	11
Dividend[1]	–	–	–	–216	–216
Total transactions with owners	**–**	**–**	**–**	**–216**	**–216**
Balance at 31 December 2017	**1,443**	**4,124**	**454**	**–2,203**	**3,818**

1) The dividend paid comprised a dividend of SEK 0.75 (0.50) per share.

Total equity is attributable to the owners of the Parent Company.

Consolidated cash flow statement

SEKm	Note	2017	2016
Operating profit from continuing operations		527	635
Operating loss from discontinued operation		–444	–717
Operating profit/loss		**83**	**–82**
Adjustments for non-cash items			
Amortization/depreciation and impairment of assets and remeasurements of assets held for sale	3, 19	656	1,026
Provisions for pensions		–11	–16
Other provisions and other non-current liabilities		–84	29
Interest received		1	1
Interest paid		–36	–78
Call option fee redemption senior secured notes	22	–	–30
Proceeds on derivative financial instruments		–8	–20
Income tax paid		–69	–17
Cash flow from operating activities before changes in working capital		**532**	**813**
Cash flow from changes in working capital			
Change in inventories		–40	30
Change in trade and other receivables		80	3
Change in trade and other payables		140	43
Cash flow from operating activities		**712**	**889**
Investing activities			
Acquisition of subsidiaries	24	–249	–154
Divestments of subsidiaries		378	–
Investments in property, plant and equipment	13	–136	–155
Investments in intangible assets	12	–21	–15
Disposals of property, plant and equipment		6	2
Cash flow from investing activities		**–22**	**–322**
Cash flow from operating and investing activities		**690**	**567**
Financing activities			
Proceeds from loans	22	325	3,188
Transaction costs paid	22	–	–12
Repayment of loans	22	–347	–2,568
Repayment of senior secured notes	22	–	–1,000
Dividends paid		–216	–144
Other cash flow from financing activities		–	2
Cash flow from financing activities		**–238**	**–534**
Cash flow for the year		**452**	**33**
Cash and cash equivalents at beginning of year	18	298	246
Cash flow for the year		452	33
Exchange difference		9	19
Cash and cash equivalents at end of year	18	**759**	**298**

Notes to the consolidated financial statements

Note 1 General information and accounting and valuation policies of the Group

General information

Cloetta AB (publ), corporate identification number 556308-8144, is a Swedish-registered limited liability company domiciled in Linköping, Sweden. The company's head office is in Stockholm with address Solna Business Park, Englundavägen 7D, SE-171 06 Solna, Sweden.

Financial year

The consolidated financial statements for the financial year from 1 January to 31 December 2017 include the accounts of the Parent Company and its subsidiaries (collectively the "Group" and individually the "group companies").

The annual report and consolidated financial statements were approved for publication by the Board of Directors on 7 March 2018. The profit and loss accounts and balance sheets of the Group and the Parent Company will be put before the Annual General Meeting on 16 April 2018 for adoption.

Comparative figures

As a result of the sale of Cloetta S.r.l. on 5 September 2017, the divestment of Cloetta Italia S.r.l. has been accounted for as discontinued operation. The comparative figures in the consolidated profit and loss account and the profit and loss account related disclosure notes have been restated to present the discontinued operation separately from continuing operations. The comparative figures in the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the hereto related disclosure notes have not been restated.

Disclosures regarding changes in group structure

Acquisition of Aran Candy Ltd.

On 4 July 2016 Cloetta Ireland Holding Ltd. acquired the remaining 25 per cent of the outstanding shares in Aran Candy Ltd. (currently known as Cloetta Ireland Ltd.), resulting in the settlement of the contingent consideration arising from the option agreement for an amount of SEK 106m.

Acquisition of E out instrument AB

On 13 February 2017 Cloetta Sverige AB (a 100 per cent direct participation of Cloetta AB (publ)) acquired 100 per cent of the shares of the Swedish dormant company E out instrument AB.

Acquisition of Candyking Holding AB

On 28 April 2017 E out instrument AB (a 100 per cent indirect participation of Cloetta AB (publ)) acquired 100 per cent of the shares in Candyking Holding AB and its subsidiaries.

See Note 28 for further information.

Mergers

- On 1 March 2017 Locawo B.V., Lonka Sales B.V. and Confiserie Lonka Suikerwerkfabriek B.V. merged into Cloetta Holland B.V.
- On 26 April 2017 Chocolade- en suikerwerkenfabriek Donkers B.V. merged into Cloetta Holland B.V.
- On 4 October 2017 Candyking Holding AB merged into E out instrument AB.
- On 1 March 2018 Lilla Fiket AB merged into Candyking Sverige AB.

Liquidations and dissolutions

- On 8 February 2017 FTF Sweets USA Inc. was dissolved.
- On 16 March 2017 Traditional Sweets B.V. and Chocolade- en suikerwerkfabriek Marandi B.V. were liquidated.
- On 11 April 2017 Cloetta GGS Holding Ltd. was dissolved.
- On 23 May 2017 Cloetta USA Inc. was dissolved.

Divestments

On 5 September 2017 Cloetta Holland B.V. (a 100 per cent direct participation of Cloetta AB (publ)) sold Cloetta Italia S.r.l. to Katjes International GmbH.

See Notes 10, 19 and P8 for more information.

Compliance with legislation and accounting standards

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) which have been endorsed by the European Commission for application in the EU, with some supplementary requirements in the Annual Accounts Act. The applied standards and interpretations are those that were in force and had been endorsed by the EU at 1 January 2017. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied.

Guidelines on Alternative Performance Measures

On 8 December 2015 the Swedish Financial Supervisory Authority (FSA) ("Finansinspektionen") announced its intention to follow the ESMA (European Securities and Markets Authority) guidelines on Alternative Performance Measures (APMs). These guidelines are applicable for financial statements published after 3 July 2016. In accordance with these guidelines additional information on the use of APMs, including explanations of use and reconciliation of the APMs to the most directly reconcilable measures in the financial statements, has been included in these financial statements. APMs presented in these financial statements should not be considered a substitute for measures of performance in accordance with IFRS and may not be comparable to similarly titled measures by other companies.

Activities

The activities of the Group mainly comprise:

- Sales, marketing and production of branded candy, chocolate, pastilles, chewing gum and nuts, and
- Trading in candy, chocolate, pastilles, chewing gum and nuts.

The countries of the European Union and Norway form the most important markets.

Basis of presentation

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

Unless otherwise stated, all amounts are rounded to the nearest million Swedish krona.

The preparation of financial statements in conformity with IFRS requires 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 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. Changes in estimates are reported in the period of the change and in future periods, if the change affects both.

Note 33 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.

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 short- and long-term financial performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The President and CEO, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

Within the Cloetta Group four regions have been identified as the Group's operating segments. The vast majority of sales take place in the markets for "Munchy Moments", i.e. cold snacks between the main meals, in Western Europe, which are comparable. It is the Group's goal to realize production efficiency through homogeneous production processes in the different production facilities throughout the Group regardless of their location. The Group has sales mainly in the "Munchy Moments" segment, with comparable markets and customers. The Group has an integrated distribution network and supply chain organization. The identified operating segments are assessed to have similar economic characteristics.

As a result of these consistencies between the different regions, for financial statement reporting purposes, the operating segments are aggregated into one reportable segment. For information about the Group's sales and earnings development and financial position, see the consolidated profit and loss accounts, balance sheet and cash flow statement.

Classification

Non-current assets and non-current liabilities essentially consist of amounts that are expected to be recovered or settled after 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

Group structure

The company was originally founded in 1862. On 16 February 2012, Cloetta AB (publ) acquired Leaf Holland B.V. (currently known as Cloetta Holland B.V.) from Yllop Holding S.A. The acquisition has been accounted for as a reverse acquisition for consolidation purposes, where Cloetta Holland B.V. is the accounting acquirer and Cloetta AB (publ) is the legal acquirer.

On 4 July 2016 Cloetta Ireland Holding Ltd. acquired the remaining 25 per cent of the outstanding shares in Aran Candy Ltd. (currently known as Cloetta Ireland Ltd.), resulting in the settlement of the contingent consideration arising from the option agreement. All incorporated and acquired companies are as of this date wholly owned directly or indirectly by Cloetta AB (publ) and are consolidated without non-controlling interests from the date on which control is transferred. The put/call construction of Cloetta Ireland Ltd. was treated as a forward purchase of the shares. As of acquisition date Cloetta Ireland Ltd. has been consolidated without non-controlling interests.

Subsidiaries

The consolidated accounts include financial information for Cloetta AB (publ) and its group companies. Group companies are all entities in which Cloetta AB (publ) 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, generally accompanying a shareholding of more than one half of the voting rights, 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. As part of the acquisition of Aran Candy Ltd. (currently known as Cloetta Ireland Ltd.), Cloetta entered into a put/call construction on the class A shares in which the exercise price for the put option is the same as for the call option. As a result, the construction is treated as a forward purchase of the Class A shares. Cloetta Ireland Ltd. is consolidated without non-controlling interests. On 4 July 2016 Cloetta Ireland Holding Ltd. acquired the remaining 25 per cent of the outstanding shares in Cloetta Ireland Ltd., resulting in the settlement of the contingent consideration arising from the option agreement. All group companies are consolidated without non-controlling interest from the date on which control is transferred to Cloetta AB (publ).

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is realized in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss account.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. A subsequent change to the fair value of the contingent consideration that is deemed to be a liability is recognized in accordance with IAS 32 in the case of the forward purchase of shares or IAS 39 either in the profit and loss account or as a change to other comprehensive income only if it is an asset which is classified as available for sale. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interests in the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the profit and loss account.

Group companies are deconsolidated from the date that control ceases. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the profit and loss account. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the profit and loss account. On 5 September 2017 Cloetta Italia S.r.l. was sold to Katjes International GmbH and deconsolidated as of this date.

Note P8 provides an overview of all subsidiaries consolidated in the consolidated financial statements of Cloetta AB (publ).

Transactions eliminated on consolidation

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

Foreign currency

Functional and presentation currency

Items included in the financial information of each of our entities are measured using the functional currency of that entity, which is the currency of the primary economic environment in which the entity operates. The functional currency of foreign entities generally is local currency. The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company.

The consolidated financial statements are presented in SEK. The functional currency of the majority of the subsidiaries is the euro (EUR). The assets and liabilities are translated at the closing rate at the date of the financial statements. Income and expenses are translated at the average exchange rate for the year.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or the date of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within exchange differences on borrowings and cash and cash equivalents in foreign currencies.

The Group applies hedge accounting. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

A monetary item, held by a subsidiary, that is a receivable from or a payable to a foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future, is in substance a part of the entity's net investment in that foreign operation. Foreign currency differences are initially recognized in other comprehensive income and reclassified from equity to profit and loss account on disposal of the net investment. On disposal of the foreign operation, the cumulative amount of the exchange differences relating to the foreign operation, recognized in other comprehensive income is reclassified from equity to the profit and loss account on the same line where the gain or loss of the disposal is accounted for.

On consolidation, exchange differences arising from the translation of the borrowings and other currency instruments designated as hedges of such investments and the net investment in foreign operations are recognized in other comprehensive income.

All other foreign exchange gains and losses are presented in the profit and loss account within operating profit.

Financial statements of foreign operations

The profit and loss accounts and balance sheets of all group companies that have a functional currency other than the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each profit and loss account are translated at average exchange rates unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of, unrealized exchange differences accumulated in currency translation adjustments after 1 January 2006 (first-time adoption of IFRS) are recognized in profit or loss as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities in the functional currency of the attributable foreign entity and translated at the closing rate.

Basis of accounting

Except for the changes explained in Note 34, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

I	Net sales
II	Cost of goods sold
III	Other income
IV	Selling expenses
V	General and administrative expenses
VI	Employee remuneration
VII	Net financial items
VIII	Income tax
IX	Dividend distribution
X	Items affecting comparability
XI	Intangible assets
XII	Property, plant and equipment
XIII	Deferred tax
XIV	Financial assets
XV	Impairment of non-current assets
XVI	Derivative financial instruments and hedging activities
XVII	Inventories
XVIII	Receivables
XIX	Current income tax
XX	Cash and cash equivalents
XXI	Offsetting financial instruments
XXII	Assets held for sale and discontinued operations
XXIII	Equity

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XXIV Other non-current liabilities
XXV Provisions
XXVI Employee benefits
XXVII Borrowings
XXVIII Borrowing costs
XXIX Trade payables
XXX Operating leases

The balance sheet, profit and loss account and cash flow statement include references to the notes.

Recognition of revenue and expenses

I *Net sales*

Net sales are designated as income from the supply of goods, less discounts and similar, excluding sales taxes and after elimination of intra-group sales. Net sales also include royalty income.

Net sales are recognized as follows:

- Sales of goods are recognized when a group company has delivered products to the customer, the risks and rewards of the ownership of the products have been substantially transferred to the customer and the collectability of the related receivables is reasonably assured;
- To a limited extent and applicable to retail channels only, seasonal products in Italy were sold with a right of return. Accumulated experience was used to estimate and provide for such returns at the time of sale.

Consumer incentive and trade promotion activities are recorded as a reduction in net sales based on amounts estimated as being due to customers and consumers at the end of a period, based principally on historical utilization and redemption rates.

II *Cost of goods sold*

Cost of goods sold represents the direct and indirect expenses attributable to sales revenue, including raw materials and consumables, cost of work contracted out and other external expenses, personnel expenses in respect of production employees, depreciation costs, impairment losses and losses on disposal relating to buildings and machinery and other operating expenses that are attributable to the production of products. Cost of goods sold is recognized in the profit and loss account when incurred.

III *Other income*

Government grants and subsidies, other than those related to investments in property, plant and equipment, are recorded at fair value as other income in the profit and loss account in the period in which the related costs are recorded, income is received, or subsidized deficits are recorded. Grants and subsidies are recognized as income when there is reasonable assurance that all the conditions will be satisfied and it is probable that these will be received.

Gains on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount and are recognized in other income in the profit and loss account when incurred.

IV *Selling expenses*

Selling expenses comprise the cost of brand support through direct and indirect advertising, promotional activities, the cost of supporting sales and marketing efforts and amortization and impairment losses of related intangible assets. The company promotes its products through advertising, consumer incentives and trade promotions. Selling expenses are recognized in the profit and loss account when incurred.

V *General and administrative expenses*

General and administrative expenses include the costs of general management, human resources, finance and administration, information technology, and other back office services as well as amortization of related intangible assets. General and administrative expenses are recognized in the profit and loss account when incurred.

VI *Employee remuneration*

Regular payments

Salaries, wages and social security costs are charged to the personnel expenses which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account over the period when the related services are rendered and in accordance with employment contracts and obligations.

Termination benefits

A provision is recognized on the termination of employees as a result of either an entity's decision to terminate employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. When the criteria for recognition of a provision for termination benefits are met, the expenses are recognized either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account.

Share-based long-term incentive plans

The cost of the share-based long-term incentive plans, which represent the grant date fair value of the shares multiplied by the shares vested and any social security expenses, is recognized in personnel expenses, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account.

VII *Net financial items*

Interest income and interest expenses are recognized in the profit and loss account when incurred using the effective interest method.

VIII *Income tax*

The income tax expense for the period comprises current and deferred tax and is recognized in the profit and loss account. Corporate income tax is calculated on profit before tax in the profit and loss account, taking into account non-deductible expenses, non-taxable profits and losses and/or temporary differences arising from applicable local tax laws and other factors that affect the tax rate, e.g. changes in valuation allowances, adjustments in tax positions changes in tax law, such as changed tax rates.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable profits.

IX *Dividend distribution*

Dividends paid to the company's shareholders are recognized as a liability in the consolidated financial statements in the period in which the dividends are resolved on by the company's shareholders. Dividend payments are recognized in equity as part of retained earnings.

X *Items affecting comparability*

Items affecting comparability are those significant items which are separately disclosed in the notes to the financial statements by virtue of their size or incidence in order to enable a full understanding of the Group's financial performance. The items affecting comparability are recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the items affecting comparability.

Principles of valuation of assets and liabilities

General

If not specifically stated otherwise, assets and liabilities are initially recognized at the amounts at which they were acquired or incurred.

XI *Intangible assets*

Trademarks

Acquired trademarks are measured at historical cost. In view of the history of Cloetta's trademark portfolio, combined with Cloetta's

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

commitment to continue supporting these trademarks with advertising and promotion resources and continuous product development, the useful lives of Cloetta's trademarks are considered to be indefinite in nature. Trademarks with indefinite useful lives are not amortized, but are subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets and liabilities assumed by the acquiree and the fair value of any non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes. A CGU is the lowest level to which an asset that generates cash flows independently from other assets can be allocated. A group of CGUs is not larger than an operating segment.

Goodwill impairment tests are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and fair value less cost of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Software

Where computer software is not an integral part or a related item of computer hardware and not integral to the operation of an item of property, plant and equipment, the software is treated as a separate intangible asset.

Acquired software licenses are capitalized at historical cost and amortized on a straight line basis over their estimated useful lives of 3 to 5 years.

Capitalized costs for internally generated software include external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. These costs are amortized over their expected useful lives on a straight-line basis, with the useful lives reviewed annually. Other software related costs that do not meet the above criteria for capitalization are recognized either in cost of goods sold, selling expenses or the general and administrative expenses in the profit and loss account when incurred. Development expenses previously recognized in the profit and loss account are not recognized as an asset in a subsequent period.

Software under construction is not amortized until the software is substantially complete and ready for its intended use. Software under construction is subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Amortization of software is recognized in cost of goods sold and general and administrative expenses in the profit and loss account.

Right of free electricity

The indefinite right of free electricity acquired is capitalized at acquisition cost. In view of the indefinite nature of the right, the right is not amortized, but is subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Research and development expenses

Expenses for research are recognized in the general and administrative expenses in the profit and loss account as incurred. Expenses incurred on development projects are recognized as intangible assets when it is probable that a project will generate economic benefits in the future, in view of its commercial and technological feasibility, and the costs can be measured reliably. Otherwise the expenses are recognized in the general and administrative expenses in the profit and loss account when incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses. The capitalized development expenditure is amortized over its expected useful life on a straight-line basis, with the useful lives reviewed annually. Development expenses previously recognized in the profit and loss account are not recognized as an asset in a subsequent period. Capitalized research and development expenses are subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

Other intangible assets

Other intangible assets are capitalized at historical cost and amortized based on their useful lives, with the useful lives reviewed annually. Expenses previously recognized in the profit and loss account are not recognized as an asset in a subsequent period. Other intangible assets are subject to impairment testing at least annually or whenever events or circumstances indicate a risk of impairment.

For determining whether an impairment charge in respect of any intangible asset applies, see Note 12.

XII *Property, plant and equipment*

Items of property, plant and equipment are valued at historical cost less depreciation and impairment. Historical cost includes direct costs (materials, direct labour and work contracted out) and directly attributable overhead costs including interest expenses. Depreciation is accounted for using the straight-line method on the basis of the estimated useful life. Government grants are deducted from the historical cost or the construction costs of the assets to which they relate.

The estimated economic useful lives of property, plant and equipment can be specified as follows:

Land	Indefinite
Buildings	20–50 years
Machinery and equipment	3–55 years
PP&E under construction	n/a

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the gains or losses on disposal.

Subsequent expenditure is included in the carrying amount of an asset or recognized as a separate asset, as appropriate, 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 repairs and maintenance costs are charged to the profit and loss account when incurred. The classification in the profit and loss account depends on the nature of the property, plant and equipment.

Subsidies and grants related to investments in property, plant and equipment are deducted from the related asset and are reflected in the profit and loss account as part of the depreciation charge.

Depreciation of property, plant and equipment is recognized in cost of goods sold, selling expenses and general and administrative expenses in the profit and loss account depending on the nature of the asset.

XIII Deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be used.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities arise on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal, the temporary difference is not recognized.

For the unrecognized deductible temporary differences, unused tax credits and tax losses carried forward, it is not yet probable that these may be utilized against future taxable profits or set off against other tax liabilities within the same tax group or tax jurisdiction.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The positions taken in tax returns with respect to situations where the applicable tax rules are subject to interpretation are periodically evaluated. Provisions are established where appropriate on the basis of amounts expected to be paid to the respective tax authorities.

Deferred taxes are not discounted.

XIV Financial assets

The Group initially recognizes loans and receivables on the date when they arise. All other financial assets, including assets designated as at fair value through profit and loss account, are recognized initially on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

Loans, receivables and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are carried at amortized cost using the effective interest method.

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset are realized, expire, or the company has relinquished the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

XV Impairment of non-current assets

Assets that have an indefinite useful life are not subject to amortization but are tested annually for impairment. On the balance sheet date, the Group also assesses whether there are indications of impairment of assets that are subject to amortization or depreciation. If there are such indications, an impairment test is performed. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An asset is subject to impairment if its carrying value is higher than its recoverable value, where the recoverable value is the higher of an asset's fair value less cost of disposal and its value in use. Impairment costs are recognized immediately in the profit and loss account. The classification in the profit and loss account depends on the nature of the impaired asset.

Non-financial assets other than goodwill that are subject to an impairment loss are reviewed for possible reversal of the impairment at each reporting date. If it is established that a previously recognized impairment no longer applies or has decreased, the increased carrying amount of the asset in question is not set higher than what the carrying amount would have been if the impairment had not been recognized.

XVI Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The following hedge types are applicable within the Group:

(a) Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
(b) Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) Hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in net financial items in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group does not meet the requirements for applying fair value hedge accounting and, as a result, all gains or losses relating to these financial instruments are recognized in net financial items in the profit and loss account.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net financial items in the profit and loss account. Amounts accumulated in equity are reclassified to profit and loss account in the periods when the hedged item affects profit or loss account. The gain or loss relating to the effective portion of interest rate swaps to hedge variable rate borrowings is recognized in net financial items in the profit and loss account. However, when the estimated transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in the profit and loss account, depending on the nature of the items. The Group does not meet the requirements for applying cash flow hedge accounting and, as a result, all gains or losses relating to these financial instruments are recognized in exchange differences on borrowings and cash and cash equivalents in foreign currencies in the profit and loss account.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the translation reserve. The gain or loss relating to the ineffective portion is recognized in the profit and loss account within exchange differences on borrowings and cash and cash equivalents in foreign currencies. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to profit and loss account as part of the gain or loss on disposal and recognized in profit and loss account on the same line where the gain or loss of the disposal is accounted for. The Group has met the requirement for applying net investment hedge accounting.

The fair values of various derivative financial instruments are disclosed in Note 23. Movements in the hedging reserve in other comprehensive income are shown in the statement of other comprehensive income. The fair value of a derivative is classified as a non-current asset or liability for the part which exceeds 12 months, and as a current asset or liability for the part that will expire within 12 months.

The fair value adjustment on interest rate swaps is recognized in unrealized gains or losses on single currency interest rate swaps in net financial items in the profit and loss account. The fair value adjustment on the forward foreign currency contracts is recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the hedged item.

The contractual payments on single currency interest rate swaps are recognized in the realized gains or losses on single currency interest rate swaps in the net financial items in the profit and loss account.

XVII *Inventories*

Raw materials are valued at the lower of cost or net realizable value. Cost is determined using the FIFO method.

Inventories of semi-finished and finished products are stated at the lower of cost or net realizable value. Costs represent the cash equivalent of the expenditure necessarily incurred to bring the goods acquired to the condition and location for their intended use. Costs in respect of work in progress and finished goods include the applicable materials and labour costs, other direct costs, a representative share of the fixed manufacturing overhead costs based on normal operating capacity and variable manufacturing overhead costs based on actual production during the period.

Net realizable value represents the estimated selling price in the ordinary course of business less directly attributable, applicable variable selling expenses and less costs of completion of inventory.

The write-downs, additions and releases related to the provision for obsolete inventory are recognized in cost of goods sold in the profit and loss account.

XVIII *Receivables*

Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss account within net sales. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are released in net sales in the profit and loss account.

Receivables subject to receivable purchase agreements are derecognized at the moment of receipt of the receivable. The supplier discount fee related to the earlier receipt of receivables is recognized as other financial expenses in the profit and loss account.

XIX *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

XX *Cash and cash equivalents*

Cash and cash equivalents represent cash in hand and cash at banks. Current account overdrafts at banks are included under borrowings under the heading current liabilities.

XXI *Offsetting financial instruments*

The Group has a Multicurrency Functionality with Credit Facility for Global Cash Pool (Global Cash Pool agreement) with Nordea Bank AB (publ) and a Notional Group Account with Svenska Handelsbanken AB (publ). If the following criteria are met, the cash and cash equivalents of participating group companies and the current account overdrafts at respectively Nordea Bank AB (publ) and Svenska Handelsbanken AB (publ) are offset and presented in the balance sheet as a net amount:

- There is a legally enforceable right to offset the recognized amounts; and
- There is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

XXII *Assets held for sale and discontinued operations*

An asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. Assets are classified as held for sale when they are available for immediate sale, in their present condition, subject only to terms that are usual and customary for sales of such assets, and the sale is considered highly probable. Assets held for sale are no longer amortized or depreciated from the time they are classified as such. Assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost of disposal.

Operations that represent a separate major line of business or geographical area of operations, or are a subsidiary acquired exclusively with a view to resale and have either been disposed of or classified as held for sale, are presented as discontinued operations in the profit and loss account.

XXIII *Equity*

Ordinary shares are classified as share capital. Incremental costs directly attributable to the purchase, sale and/or issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

XXIV *Other non-current liabilities*

Contingent considerations

The fair value of the contingent considerations is calculated using the income approach and is linked to the financial performance of the acquired companies. As part of accounting for business combinations, contingent considerations are initially recognized. Contingent considerations are discounted using the effective interest method. If the fair value of contingent considerations deviates from the carrying amount, the difference is recognized in general and administrative expenses in the profit and loss account.

If the contingent consideration will be settled within 12 months from the balance sheet date, the contingent consideration is presented as part of trade and other payables.

XXV *Provisions*

Provisions are recognized for legally enforceable or constructive obligations existing on the balance sheet date, when it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required for settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations is small.

The initial recognition, subsequent additions and releases to a provision are recognized in the profit and loss account. The classification in the profit and loss account depends on the nature of the provision.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as other financial expenses, third parties in the profit and loss account.

If the expenditure to settle an obligation is expected to be recovered from a third party, the recovery is carried as an asset in the balance sheet if it is virtually certain to be received upon settlement of the obligation.

XXVI *Employee benefits*

Pension obligations

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds for all countries in the Eurozone. For the Swedish plans, the discount rate is based on mortgage bonds. For the Norwegian pension plans the market yield of covered bonds is used. The rates of these bonds are used as equivalent to high quality corporate bond rates in countries where there is no deep market in such bonds.

Remeasurements arising from defined benefit plans also include the return on plan assets excluding interest and the effect of the asset ceiling, if any, excluding interest. Remeasurements are recognized in other comprehensive income when incurred. All other expenses related to defined benefit plans are recognized in the profit and loss account when incurred, either in cost of goods sold, selling expenses or general and administrative expenses.

The interest on defined benefit obligations is recognized in net financial items in the profit and loss account when incurred.

The defined benefit schemes in industry sector pension funds, which are held by pension funds that are not able to provide company-specific or reliable information, are accounted for as though they are defined contribution schemes. In the event of a deficit in these pension funds, the company has no obligation to provide supplementary contributions, other than higher future contributions.

The contributions are recognized as personnel costs, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available to the Group.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for special compensation. A provision is recognized on the termination of employees as a result of either an entity's decision to terminate employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The expenses related to this provision are recognized in personnel expenses, which are included either in cost of goods sold, selling expenses or general and administrative expenses in the profit and loss account.

Share-based payments

Share-based long-term incentive plans

The incentive plans qualify as equity-settled share-based payments. The expenses for the plans will amount to the grant date fair value per share right times the number of share rights vested, including any accelerated vesting. The expenses are recognized as personnel expenses, which are included either in cost of goods sold, selling expenses and general and administrative expenses in the profit and loss account. The total expense depends on the number of shares right vested but any changes in the price of Cloetta share after the grant date do not impact the total expense. In some jurisdictions, social security expenses have to be paid. The total expense for social security contributions will be based on the vesting date fair value of the Cloetta share. Social security expenses recognized in the profit and loss account will therefore vary with changes in the share price.

Forward contracts to repurchase own shares

At inception of the forward contract to repurchase own shares, the agreed consideration to be paid at the termination date, net of any tax effects, is recognized as a deduction from equity and as a financial liability. The interest costs directly attributable to the forward contract are recognized in the net financial expenses in the profit and loss account when incurred. At the termination date, the agreed consideration will be paid and the financial liability will be derecognized as its contractual obligation is discharged and cancelled.

XXVII *Borrowings*

Borrowings are initially recognized at fair value, being the amount received taking into account any premium or discount, and less transaction costs. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case they are classified as non-current liabilities.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

XXVIII *Borrowing costs*

Borrowing costs paid on the establishment of credit facilities are recognized as transaction costs for the loan to the extent that it is probable that some or all of the facility will be drawn down. In such case, the transaction costs are recognized when the draw-down occurs.

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If it is probable that some or all of the facility will be drawn down, the transaction costs are reported as deferred expense and netted against current borrowings and amortized over the contract period the facility relates to, using the effective interest rate method.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in other financial expenses in the profit and loss account in the period in which they are incurred.

XXIX *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If payment is expected to be settled after 12 months after balance sheet date, the payable is presented as non-current liabilities.

Trade payables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

XXX *Operating leases*

Lease contracts for which a significant part of the risks and rewards incidental to ownership of the assets does not lie with the Group are recognized as operating leases. Payments made under operating leases are recognized in the cost of goods sold, selling expenses and in the general and administrative expenses in the profit and loss account on a straight-line basis over the term of the contract, taking into account reimbursements received from the lessor.

Note 2 Breakdown of income

See Notes 1 (I) and (III) for the accounting policy.

	Total income		Of which pick & mix	
SEKm	**2017**	2016[1]	**2017**	2016
Net sales				
Sales of goods				
Candy	3,339	2,882	1,135	660
Chocolate	1,010	798	301	93
Pastilles	706	735	–	–
Chewing gum	385	375	–	–
Nuts	244	218	92	76
Other	100	99	–	–
Total	**5,784**	**5,107**	**1,528**	**829**
Other income				
Other	6	–	–	–
Total	**5,790**	**5,107**	**1,528**	**829**

1) Comparative figures have been restated for discontinued operation.

The breakdown of net sales by country is as follows

%	**2017**	2016[1]
Sweden	34	35
Finland	21	20
The Netherlands	14	16
Denmark	7	6
Norway	6	5
Germany	5	5
UK	5	1
Other countries	8	11
Total	**100**	**100**

1) Comparative figures have been restated for discontinued operation.

No individual customer accounts for more than 10 per cent of Cloetta's total net sales.

Note 3 Amortization of intangible assets, depreciation of property, plant and equipment and other changes in value of non-current assets

See Notes 1 (II), (IV), (V), (XI), (XII) and (XV) for the accounting policy.

SEKm	**2017**	2016[1]
Software	33	34
Other intangibles	11	5
Land and buildings	16	14
Machinery and equipment	169	158
Total amortization/depreciation	**229**	**211**
Amortization/depreciation has been allocated by function as follows		
Cost of goods sold	137	147
Selling expenses	11	5
General and administrative expenses	81	59
Total amortization/depreciation	**229**	**211**
Impairment		
Intangible assets	9	–
Property, plant and equipment	–	2
Total impairment	**9**	**2**

1) Comparative figures have been restated for discontinued operation.

The impairment losses on intangible assets have been charged to general and administrative expenses. The impairment losses on property, plant and equipment have been charged to cost of goods sold.

Note 4 Expenses by type

SEKm	2017	2016[1]
Raw materials, finished goods and consumables (including changes in inventory of finished goods and work in progress)	2,575	1,954
Personnel expenses (See Note 5)	1,152	1,061
Depreciation, amortization and impairment charges (See Note 3)	238	213
Transportation expenses	179	150
Operating lease payments	88	65
Advertising and promotion	337	313
Selling and marketing	10	37
Energy expenses	90	97
Maintenance expenses	105	92
Other operating expenses	489	490
Total operating expenses	**5,263**	**4,472**

1) Comparative figures have been restated for discontinued operation.

The costs recognized in the profit from continuing operations relating to research and development amount to SEK 37m (34).

Note 5 Personnel expenses and number of employees

See Note 1 (VI) for the accounting policy.

Personnel expenses are specified as follows

SEKm	2017	2016[1]
Salaries and remuneration Group Management Team		
– Sweden	25	27
– Other	11	12
Of which, short-term variable compensation		
– Sweden	–	7
– Other	–	2
Pension costs Group Management Team		
– Defined contribution plans	7	6
Total salaries, remuneration and pension costs Group Management Team	**43**	**45**
Salaries and remuneration other employees		
– Sweden	245	244
– Other	529	493
Pension costs other employees		
– Defined contribution plans	62	56
– Defined benefit plans	8	8
Total salaries, remuneration and pension costs other employees	**844**	**801**
Total salaries, remuneration and pension costs all employees	887	846
Social security expenses, all employees	199	180
Other personell costs, all employees	66	35
Total personnel expenses	**1,152**	**1,061**

1) Comparative figures have been restated for discontinued operation.

The average number of employees is as follows

	2017	2016[1]
Average number of employees[1]		
– Group Management Team	10	10
– Other employees	2,457	2,105
Of whom, women		
– Group Management Team	2	2
– Other employees	1,317	1,113

1) The average number of employees is presented for continuing operations.

The average number of employees by country is as follows

	2017	2016[1]
Average number of employees:		
Sweden	610	547
Slovakia	744	705
The Netherlands	415	392
Finland	168	193
UK	128	1
Belgium	124	102
Denmark	104	36
Ireland	83	80
Norway	67	39
Italy	10	8
Germany	8	9
Other	6	3
Total	**2,467**	**2,115**
Of whom, women:		
Sweden	315	251
Slovakia	502	474
The Netherlands	129	133
Finland	132	153
UK	86	0
Belgium	24	22
Denmark	52	19
Ireland	34	35
Norway	31	18
Italy	6	6
Germany	3	3
Other	5	1
Total	**1,319**	**1,115**

1) Comparative figures have been restated for discontinued operation.

Specification of the gender distribution is as follows

%	2017	2016
Percentage of women		
Board of Directors	43	43
Group Management Team	20	20
Other employees	54	53

See page 80 for further details on remuneration to the Group Management Team.

Note 6 Remuneration to the Board

Paid fees 2017 (SEK 000s)	Board fees	Committee fees	Total
Board Chairman			
Lilian Fossum Biner	620	84	704
Board members			
Mikael Aru[1]	190	–	190
Lottie Knutson	285	67	352
Mikael Norman	285	100	385
Adriaan Nühn	285	117	402
Hans Porat[2]	95	67	162
Camilla Svenfelt	285	67	352
Mikael Svenfelt	285	84	369
Total	**2,330**	**586**	**2,916**

Paid fees 2016 (SEK 000s)	Board fees	Committee fees	Total
Board Chairman			
Lilian Fossum Biner[3]	413	33	446
Caroline Sundewall[4]	203	50	253
Board members			
Lottie Knutson	283	–	283
Mikael Norman	283	100	383
Adriaan Nühn	283	117	400
Hans Porat[3]	190	67	257
Camilla Svenfelt[3]	190	–	190
Mikael Svenfelt	283	50	333
Olof Svenfelt[4]	93	33	126
Total	**2,221**	**450**	**2,671**

1) Elected as per 4 April 2017.
2) Resigned on 4 April 2017.
3) Elected as per 12 April 2016.
4) Resigned on 12 April 2016.

Note 7 Items affecting comparability

See Note 1 (X) for the accounting policy.

SEKm	2017	2016[1]
Acquisitions, integration and factory restructurings	–62	–43
of which: impairment losses other non-current assets	*–9*	*–2*
Remeasurements of contingent considerations	5	–17
Other items affecting comparability	–20	–
Total	**–77**	**–60**
Corresponding line in the consolidated profit and loss account:		
Cost of goods sold	–39	–15
Other income	4	–
Selling expenses	–6	–
General and administrative expenses	–36	–45
Total	**–77**	**–60**

1) Comparative figures have been restated for discontinued operation.

See Note 12 for further details on the impairment loss.
See page 145 for alternative performance measures.

Note 8 Net financial items

See Note 1 (VII) and (XVI) for the accounting policy.

SEKm	2017	2016[1]
Exchange differences in borrowings and cash and cash equivalents in foreign currencies	**–17**	**–8**
Other financial income, third parties	3	1
Other financial income at amortized cost	**3**	**1**
Unrealized gains on single currency interest rate swaps	4	16
Other financial income at fair market value	**4**	**16**
Total other financial income	**7**	**17**
Interest expenses, third-party borrowings	–26	–60
Interest expenses, third-party pensions	–11	–11
Interest expenses, contingent earn-out liabilities	–15	–10
Call option fee redemption senior secured notes	–	–30
Amortization of capitalized transaction costs	–4	–31
Other financial expenses, third parties	–11	–14
Other financial expenses at amortized cost	**–67**	**–156**
Realized losses on single currency interest rate swaps	–7	–19
Other financial expenses at fair market value	**–7**	**–19**
Total other financial expenses	**–74**	**–175**
Net financial items	**–84**	**–166**

1) Comparative figures have been restated for discontinued operation.

Note 9 Income taxes

See Note 1 (VIII) for the accounting policy.

SEKm	2017	2016[1]
Current income tax	70	18
Deferred income tax	136	104
Total	**206**	**122**
The year's income tax expense corresponds to an effective tax rate of, %	46.5	26.0

1) Comparative figures have been restated for discontinued operation.

The difference between the effective tax rate and the applicable tax rate in Sweden is attributable to the following items

SEKm	2017	2016[1]
Profit/loss before tax	443	469
Tax calculated at applicable tax rate for the Parent Company	–97	–103
International rate differences	2	–4
Result investments/divestments, non-taxable	–	–3
Expenses not deductible for tax purposes	–15	–4
Adjustments recognized in the period for tax of prior periods	–1	1
Effect of rate changes	0	–1
Tax losses for which no deferred income tax asset is recognized in the current year	–8	–9
Tax losses for which no deferred income tax asset was recognized in previous years	0	3
Other	–87	–2
Income tax	**–206**	**–122**
Reported effective tax rate, %	46.5	26.0
Tax rate of Parent Company, %	22.0	22.0

1) Comparative figures have been restated for discontinued operation.

The applicable tax rate for the Parent Company is based on the enacted tax rate, which is the Swedish corporate income tax rate.

The reported effective tax rate is based on the relative proportion on the group companies' contribution to profit before tax and the applicable tax regulations in the countries concerned.

Note 10 Discontinued operation

See Notes 1 (XXII) for the accounting policy.

On 5 September 2017 Cloetta Holland B.V. sold 100 per cent of the shares in Cloetta Italia S.r.l. to Katjes International GmbH.

Cloetta Italia S.r.l. is accounted for as discontinued operation. The Italian business was not previously classified as held-for-sale or as a discontinued operation. An impairment loss of SEK 159m (771) on intangible assets and an impairment loss of SEK 238m (0) on property, plant and equipment as a result of a write-down of the carrying value of the assets subject to the disposal to their lower fair value less cost of disposal is recognized in loss from discontinued operation, net of tax. Assets and liabilities which have been retained in the Cloetta Group have been transferred within the group before the transfer of the shares.

SEKm	2017[1]	2016
Net sales	316	745
Cost of goods sold		
- Impairment loss	–238	–
- Other cost of goods sold	–181	–449
Total cost of goods sold	**–419**	**–449**
Gross profit	**–103**	**296**
Selling expenses	–102	–149
General and administrative expenses		
- Impairment loss	–159	–771
- Other general and administrative expenses	–80	–93
Total general and administrative expenses	**–239**	**–864**
Operating loss	**–444**	**–717**
Other financial income	0	0
Other financial expenses	–1	–8
Net financial items	**–1**	**–8**
Loss before tax and reclassification of currency translation differences on discontinued operation	**–445**	**–725**
Income tax	9	187
Loss from discontinued operation before reclassification of currency translation difference on discontinued operation, net of tax	**–436**	**–538**
Currency translation differences on discontinued operation reclassified from other comprehensive income	102	–
Loss from discontinued operation, net of tax	**–334**	**–538**

1) Loss from discontinued operation comprises the period from 1 January 2017 until the disposal date of 5 September 2017.

The following table presents the cash flow from discontinued operation being part of the consolidated cash flow statement on page 93

SEKm	2017	2016
Cash flow from operating activities	–40	141
Cash flow from investing activities	361	–30
Cash flow from financing activities	–	–
Cash flow from discontinued operation	**321**	**111**

The following assets and liabilities were classified as held for sale in relation to the discontinued operation at 5 September 2017:

SEKm	5 Sep 2017
Intangible assets	99
Property, plant and equipment	165
Deferred tax asset	7
Other financial assets	1
Inventories	176
Other current assets	197
Cash and cash equivalents	18
Total assets disposed	**663**
Borrowings	64
Deferred tax liability	11
Provisions for pensions and other long-term employee benefits	61
Provisions	3
Other current liabilities	194
Total liabilities disposed	**333**
Carrying amount of net assets held for sale	**330**
Disposal consideration received	330
Minus: Carrying amount of net assets disposed	–330
Result on disposal, before income tax	**–**
Income tax on result on disposal	–
Result on disposal, net of tax	**–**

Note 11 Audit fees

SEKm	2017	2016
Fee for auditing services	7	5
Fee for other services		
KPMG		
– Tax advice	0	0
– Audit-related advice	1	1
– Other	0	0
Total other services	**1**	**1**
Total audit fees	**8**	**6**

Auditing services refer to the audit of the consolidated financial statements, the Parent Company's statutory financial statements, the statutory financial statements of its subsidiaries, the accounts and company's administration by the Board of Directors and the President.

For both financial years 2016 and 2017, KPMG was elected as the auditor of the Group.

Note 12 Intangible assets

See Notes 1 (XI) and (XV) for the accounting policy.

SEKm Historical cost	Trademarks	Goodwill	Software	Other intangibles	Total
1 January 2016					
Acquisition or production costs	3,596	2,291	258	59	6,204
Accumulated amortization and impairments	–	–84	–153	–19	–256
Book value at 1 January 2016	**3,596**	**2,207**	**105**	**40**	**5,948**
Movements in 2016					
Transfers from non-current financial assets	–	–	–	7	7
Additions	–	–	14	1	15
Amortization - continuing operations	–	–	–34	–5	–39
Amortization - discontinued operation	–	–	–2	–1	–3
Impairments - discontinued operation	–505	–266	–	–	–771
Exchange differences	86	107	3	1	197
Total	**–419**	**–159**	**–19**	**3**	**–594**
31 December 2016					
Acquisition or production costs	3,682	2,402	281	76	6,441
Accumulated amortization and impairments	–505	–354	–195	–33	–1,087
Book value at 31 December 2016	**3,177**	**2,048**	**86**	**43**	**5,354**
Movements in 2017					
Additions	–	–	20	1	21
Disposals	–	–	–2	0	–2
Amortization - continuing operations	–	–	–33	–11	–44
Amortization - discontinued operation	–	–	–1	–	–1
Impairments - continuing operations	–8	–	–	–1	–9
Impairments - discontinued operation	–159	–	–	–	–159
Acquisitions through business combinations	90	172	1	86	349
Divestments through discontinued operation	–94	–	–3	–3	–100
Exchange differences	39	41	2	–1	81
Total	**–132**	**213**	**–16**	**71**	**136**
31 December 2017					
Acquisition or production costs	3,098	2,484	276	184	6,042
Accumulated amortization and impairments	–53	–223	–206	–70	–552
Book value at 31 December 2017	**3,045**	**2,261**	**70**	**114**	**5,490**
Estimated economic useful life	*Indefinite*	*Indefinite*	*3–5 years*	*5 years–indefinite*	

The carrying amount of software includes an amount of SEK 4m (5) for software under construction.

The other intangibles consist mainly of capitalized customer lists and benefits related to the right to free electricity.

Impairment testing of goodwill and trademarks

Goodwill and trademarks do not generate cash inflows that are largely independent of those from other assets. These are therefore allocated to the cash-generating unit (CGU) or group of CGUs expected to benefit most from these assets. A CGU is the lowest level to which an asset that generates cash flows independently from other assets can be allocated. A group of CGUs is not larger than an operating segment.

The estimated recoverable amount of all CGUs and groups of CGUs has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period, taking into account asset specific risks. Cash flows beyond the three-year period are extrapolated using a terminal growth rate.

The most important assumptions in the calculations are the terminal growth rate and the pre-tax discount rate. EBITDA is a key assumption when establishing the financial budgets. These assumptions reflect and do not differ from prior experience and external information sources. EBITDA is determined in the annual budget process. The terminal growth rate is determined by assuming that the business will grow in line with consumer prices/inflation based on central bank forecasts or similar unless stated differently. Discount rates have been determined by applying the capital asset pricing model. The terminal growth target is in line with the Group's long-term goal for organic growth and the management's judgement.

These assumptions have been used for the analysis of each CGU and group of CGUs in the impairment analysis. The budgeted figures are based on past performance and management's expectations for market development. The weighted average growth rates used are consistent with the forecasts used in the Group. The discount rates used are pre-tax and reflect specific risks relating to the relevant industry and the risk particularly associated with the asset for which the estimates of the future cash flows have not been adjusted.

For impairment testing, the following assumptions have been used

%	Terminal growth rate 2017	Terminal growth rate 2016	Pre-tax discount rate 2017	Pre-tax discount rate 2016
South/Italy	–	1.5	–	10.9
Scandinavia/Sweden	2.0	2.0	6.9	7.3
Finland	2.0	2.0	6.8	7.4
Middle/ The Netherlands	2.0	2.0	7.1	7.6
Group	2.0	2.0	6.9	7.9

Goodwill

Goodwill is allocated to a CGU or group of CGUs not larger than an operating segment. The allocation has been made to the groups of CGUs that correspond to the operating segments that are expected to benefit most, which are the commercial organizations of Scandinavia, Finland and Middle. The goodwill acquired related to the acquisition of Candyking Holding AB and its subsidiaries has been allocated to the CGU Scandinavia.

The following summary specifies the allocation of goodwill to the different groups of cash-generating units

SEKm	Scandinavia	Finland	Middle	South	Total
1 January 2016	721	941	291	254	2,207
Impairments	–	–	–	–266	–266
Exchange rate differences	35	42	18	12	107
31 December 2016	756	983	309	–	2,048
Business combinations	171	–	–	–	171
Adjustment purchase price allocation	1	–	–	–	1
Exchange rate differences	9	25	7	–	41
31 December 2017	937	1,008	316	–	2,261

Trademarks

For trademarks, the related CGUs are the commercial organizations of the countries that own the respective trademarks. The products are mainly sold in the countries owning the trademarks. If products are sold by group companies in other countries, the trademark owner charges royalty fees to the selling party.

The trademark for the acquired brands Candyking, Karamellkungen and Parrots have been allocated to the CGU Sweden.

The following summary specifies the allocation of trademarks to the different cash-generating units

SEKm	Sweden	Finland	The Nether-lands	Italy	Other (corpo-rate assets)	Total
1 January 2016	1,455	475	876	733	57	3,596
Impairments	–	–	–	–505	–	–505
Exchange rate differences	–	21	38	24	3	86
31 December 2016	1,455	496	914	252	60	3,177
Business combinations	90	–	–	–	–	90
Impairments	–	–	–	–159	–	–159
Divestments through discontinued operation	–	–	–	–99	–	–99
Exchange rate differences	–	13	16	6	1	36
31 December 2017	1,545	509	930	–	61	3,045

The key assumptions on which the cash flow projections for the period covered by recent forecasts are included in the table below

Key assumption used in value in use calculation	Basis for determining value assigned to key assumption
EBITDA	External market studies on growth of market, historical growth rates in the period before the recession etc.

Impairment of goodwill and trademarks

In the assessment of possible impairment triggering events related to the sale of Cloetta Italia S.r.l., the Company determined that the write-down of the carrying value of the assets subject to disposal to their lower fair value less cost of disposal required an impairment for the CGU Italy in respect to trademarks and for the group of CGUs South in respect to goodwill. The Company recorded an impairment charge on trademarks and goodwill of SEK 159m (771) related to the CGU Italy and group of CGUs South.

Corporate assets

Group-wide assets and liabilities, including the right of free electricity and software under construction that cannot be directly allocated on a reasonable and consistent basis to the CGUs or groups of CGUs are classified as corporate assets. A group impairment analysis has been performed where the carrying amount of the total group of CGUs, including the portion of the carrying amount representing the Group's corporate assets, is compared with the total recoverable amount.

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 13 Property, plant and equipment

See Notes 1 (XII) and (XV) for the accounting policy.

SEKm Historical cost	Land and buildings	Machinery and equipment	Assets under construction	Total
1 January 2016				
Acquisition or production costs	933	3,282	20	4,235
Accumulated depreciation and impairments	–380	–2,157	–	–2,537
Book value at 1 January 2016	**553**	**1,125**	**20**	**1,698**
Movements in 2016				
Additions	3	30	122	155
Disposals	–	–3	–	–3
Transfers	31	95	–126	–
Depreciation - continuing operations	–14	–158	–	–172
Depreciation - discontinued operation	–4	–27	–	–31
Impairments - continuing operations	–	–2	–	–2
Impairments - discontinued operation	–	–5	–	–5
Exchange differences	22	37	1	60
Total	**38**	**–33**	**–3**	**2**
31 December 2016				
Acquisition or production costs	1,005	3,485	17	4,507
Accumulated depreciation and impairments	–414	–2,393	–	–2,807
Book value at 31 December 2016	**591**	**1,092**	**17**	**1,700**
Movements in 2017				
Additions	3	38	95	136
Disposals	–	–6	–	–6
Transfers	12	73	–85	–
Depreciation - continuing operations	–16	–169	–	–185
Depreciation - discontinued operation	–2	–14	–	–16
Impairments - discontinued operation	–108	–130	–	–238
Acquisitions through business combinations	–	80	–	80
Divestments through discontinued operation	–71	–94	–	–165
Exchange differences	8	24	0	32
Total	**–174**	**–198**	**10**	**–362**
31 December 2017				
Acquisition or production costs	754	3,426	27	4,207
Accumulated depreciation and impairments	–337	–2,532	–	–2,869
Book value at 31 December 2017	**417**	**894**	**27**	**1,338**
Estimated economic useful life	*Buildings: 20–50 years Land: Indefinite*	*3–55 years*	*N/A*	

The impairment losses on property, plant and equipment have been charged to loss from discontinued operation, net of tax and cost of goods sold (see Notes 3 and 10).

At 31 December 2017, the Group had contractual commitments for acquisitions of machinery and equipment for an amount of SEK 22m (20).

The estimated economic useful lives of machinery and equipment can be further specified as follows

	Estimated economic useful life
Production lines	5–35 years
Packaging lines	5–25 years
Production equipment	5–55 years
IT hardware	3–5 years
Furniture	5–10 years
Production vehicles	7–15 years
Vehicles	5 years
Other	5–10 years

The breakdown of non-current assets other than other financial assets and deferred tax assets by country is as follows

SEKm	31 Dec 2017	31 Dec 2016
Sweden	2,739	2,606
Finland	1,535	1,497
The Netherlands	1,520	1,511
Italy	–	653
Other countries	1,034	787
Total	**6,828**	**7,054**

Note 14 Tax assets and liabilities

See Notes 1 (VIII) and (XIII) for the accounting policy.

SEKm	Tax losses carried forward	Unused tax credits	Property, plant & equipment	Intangible assets	Provisions (incl. pensions)	Other current assets and liabilities	Total
1 January 2016	**169**	**40**	**–138**	**–697**	**37**	**32**	**–557**
Acquisitions through business combinations	–	–	–	–	–	2	2
Profit and loss account (charge)/ credit for the year	–36	–14	–4	149	1	–57	39
Adjustments recognized in the period for tax of prior periods	39	–	–1	–40	1	2	1
Effect of rate changes	–8	–	1	4	0	0	–3
Exchange differences/ Other	10	2	–5	–25	6	–2	–14
31 December 2016	**174**	**28**	**–147**	**–609**	**45**	**–23**	**–532**
Acquisitions through business combinations	15	–	3	–38	0	0	–20
Divestments through discontinued operation	–12	–	46	–5	–3	–23	3
Profit and loss account (charge)/credit for the year	–70	–28	–8	–6	–13	–7	–132
Adjustments recognized in the period for tax of prior periods	–2	–	0	0	0	0	–2
Effect of rate changes	–6	–	4	1	–1	0	–2
Exchange differences/ Other	1	0	–1	–5	6	1	2
31 December 2017	**100**	**–**	**–103**	**–662**	**34**	**–52**	**–683**

Deferred tax assets and liabilities can be broken down as follows

SEKm	31 Dec 2017	31 Dec 2016
Deferred tax assets	20	54
Deferred tax liabilities	–703	–586
Total	**–683**	**–532**

Deferred tax assets refer, among other things, to the difference between the tax base of the defined asset or liability and its carrying amount and the recognized tax losses carried forward.

The amounts are as follows

SEKm	31 Dec 2017	31 Dec 2016
Deferred tax asset to be realized after more than 12 months	19	35
Deferred tax asset to be realized within 12 months	1	19
Total	**20**	**54**

The composition of deductible temporary differences, unused tax credits and tax losses carried forward is as follows

	31 Dec 2017		31 Dec 2016	
SEKm	Recognized	Not recognized	Recognized	Not recognized
Deductible temporary differences	64	–	84	–
Unused tax credits	–	18	28	13
Tax losses carried forward	100	107	174	103
Total	**164**	**125**	**286**	**116**

The expiration dates for the tax losses carried forward range from four years to unlimited.

Deferred tax liabilities

The deferred tax liability is recognized to account for the taxable temporary differences between the tax bases of intangible assets, property, plant and equipment, work in progress, inventories, receivables and provisions and their carrying amounts.

SEKm	31 Dec 2017	31 Dec 2016
Deferred tax liability to be recovered after more than 12 months	680	616
Deferred tax liability to be recovered within 12 months	23	–30
Total	**703**	**586**

Current income tax

SEKm	31 Dec 2017	31 Dec 2016
Current income tax assets	8	36
Current income tax liabilities	–30	–39
Total	**–22**	**–3**

See also Note 33 for further details regarding accounting estimates and judgments in respect to the ongoing tax audits.

Note 15 Non-current financial assets

See Notes 1 (XIV) and (XV) for the accounting policy.

SEKm	31 Dec 2017	31 Dec 2016
Deposits	1	5
Funded pension schemes in a net asset position	3	–
Other financial assets	7	8
Total	**11**	**13**

The fair values of non-current financial assets approximate their carrying amounts.

None of the different classes of non-current financial assets contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

See Note 25 for further details on the funded pension schemes in a net asset position.

Note 16 Inventories

See Note 1 (XVII) for the accounting policy.

Inventories for own use and resale

SEKm	31 Dec 2017	31 Dec 2016
Raw materials and consumables	263	276
Work in progress	61	63
Finished goods and goods for resale	421	441
Total	**745**	**780**

Movements in the provision for obsolete inventory are as follows

SEKm	2017	2016
At 1 January	**17**	**11**
Provision for impairment of inventories	9	16
Inventories written of during the year as obsolete	–3	–11
Unused amounts reversed	–4	0
Acquisitions through business combinations	0	–
Divestments through discontinued operation	–6	–
Exchange differences	–1	1
At 31 December	**12**	**17**

Note 17 Trade and other receivables

See Notes 1 (XVIII) for the accounting policy.

SEKm	31 Dec 2017	31 Dec 2016
Trade debtors	740	929
Provision for impairment of trade receivables	–2	–24
Trade receivables - net	**738**	**905**
Other receivables	94	51
Prepaid expenses and accrued income	49	32
Total	**881**	**988**

Candyking Denmark A/S entered into two receivable purchase agreements with Skandinaviska Enskilda Banken for two Danish customers. As a result Candyking Denmark A/S received an amount of DKK 33m, equivalent to SEK 44m in advance before due date per 31 December 2017. Candyking Denmark A/S pays a discount fee for the early receipt based on 3m CIBOR with a zero-floor clause.

The individual trade receivables for which provisions were made relate to uncollectible receivables that are not covered by credit insurance.

Movements in the provision for impairment of trade receivables are as follows

SEKm	2017	2016
At 1 January	**24**	**20**
Provision for impairment of trade receivables	1	10
Trade receivables written of during the year as uncollectible	0	0
Unused amounts reversed	0	–7
Acquisitions through business combinations	1	–
Divestments through discontinued operation	–23	–
Exchange differences	–1	1
At 31 December	**2**	**24**

The age analysis of the trade receivables for which a provision for impairment has been recognized is as follows

SEKm	31 Dec 2017	31 Dec 2016
Up to 60 days	0	1
60 to 90 days	–	0
Over 90 days	2	23
Total	**2**	**24**

The other receivables and prepaid expenses and accrued income do not contain impaired assets.

As of 31 December 2017, trade receivables of SEK 86m (166) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

The age analysis of the trade receivables past due but not impaired is as follows

SEKm	31 Dec 2017	31 Dec 2016
Up to 60 days	67	139
60 to 90 days	3	7
Over 90 days	16	20
Total	**86**	**166**

The carrying amounts are assumed to approximate the fair values of trade receivables and other receivables. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of trade receivables are denominated in the following currencies

SEKm	31 Dec 2017	31 Dec 2016
Euro	263	539
Swedish krona	260	247
Danish krone	85	43
Great Britain pound	59	36
Norwegian krone	53	19
US dollar	4	9
Other currencies	14	12
Total	**738**	**905**

The breakdown of prepaid expenses and accrued income is as follows

SEKm	31 Dec 2017	31 Dec 2016
Prepaid IT expenses	8	10
Prepaid rents, insurance and lease charges	11	9
Prepaid personnel-related expenses	1	2
Prepaid marketing expenses	1	2
Other prepaid expenses	15	9
Other accrued income	13	0
Total	**49**	**32**

Note 18 Cash and cash equivalents

See Notes 1 (XX) and (XXI) for the accounting policy.

The item cash and cash equivalents in the consolidated cash flow statement and consolidated balance sheet consists of the following

SEKm	31 Dec 2017	31 Dec 2016
Cash and cash equivalents	759	298
Total	**759**	**298**

All cash and cash equivalents are available on demand.

As of the date of the acquisition of Candyking Holding AB and its subsidiaries, the applicable multicurrency functionality with credit facility for global cash pool (Global Cash Pool agreement) with Nordea Bank AB (publ) is applicable for the Group. Svenska Handelsbanken AB (publ) provided the Group with a Notional Group Account (NGA).

The Global Cash Pool agreement and the NGA enables Cloetta AB (publ) and its subsidiaries to use the funds available as deposited in the bank in one or more currencies for the purpose of efficient liquidity management and daily payments in the ordinary course of business. The Global Cash Pool agreement and the NGA provides the possibility of making withdrawals from accounts held by the bank in different currencies and in different countries without the necessary funds being available in the respective currency, provided that the corresponding funds are available considering the balances on all accounts in the Global Cash Pool agreement and the NGA and any amounts available for this purpose pursuant to any credit facility and/or intraday revolver facility agreed upon separately. The Global Cash Pool agreement and the NGA are based on and connects accounts in local account structures in different countries in which group companies participate as sub-account holders.

The following table shows the carrying amounts of recognized offsetting of financial assets and liabilities relating to the notional group account

2017 SEKm	Gross amounts of financial instruments	Set-off in the balance sheet	Net amount presented in the balance sheet	Related financial instruments that are not offset	Net amount
Cash and cash equivalents	1,294	–614	680	79	759
Total assets	**1,294**	**–614**	**680**	**79**	**759**
Loans from credit institutions	614	–614	–	2,714	2,714
Total liabilities	**614**	**–614**	**–**	**2,714**	**2,714**

2016 SEKm	Gross amounts of financial instruments	Set-off in the balance sheet	Net amount presented in the balance sheet	Related financial instruments that are not offset	Net amount
Cash and cash equivalents	499	–383	116	182	298
Total assets	**499**	**–383**	**116**	**182**	**298**
Loans from credit institutions and senior secured notes	383	–383	–	2,668	2,668
Total liabilities	**383**	**–383**	**–**	**2,668**	**2,668**

Note 19 Assets held for sale

See Note 1 (XXII) for the accounting policy.

The movements in the year are as follows

SEKm	2017	2016
At 1 January	9	11
Divestments through discontinued operation	–9	–
Remeasurements recognized in profit and loss	–	–3
Exchange rate differences	0	1
At 31 December	–	9

The assets held for sale at 31 December 2016 were the land and building in Zola Predosa, Italy for an amount of SEK 9m. The assets held for sale were categorized at level 3 of the fair value hierarchy.

See Note 30 for a total overview of the Group's assets and liabilities that are measured at fair value. The remeasurement of the fair value is recognized in the cost of goods sold in the profit and loss accounts.

Note 20 Equity

See Notes 1 (XXIII) and (XXVI) for the accounting policy.

Capital management

The Board's financial objective is to maintain a strong financial position that contributes to maintaining investor, creditor and market confidence and to providing a platform for ongoing development of the business. Capital consists of total equity. The Board of Directors proposes dividend to the shareholders.

The company's long-term intention is a dividend pay-out of 40–60 per cent of profit after tax. Both in 2017 and 2016, the ambition was to continue using future cash flows to repay debt, to pay dividends and to maximize financial flexibility for complementary acquisitions.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total assets.

Dividend per share

The Annual General Meeting (AGM) on 4 April 2017 and 12 April 2016 approved the following dividend

SEKm	2017	2016
Dividend per share, SEK	0.75	0.50
Total dividend, SEKm	216	144
In percentage of profit for the previous year, excluding the impact of impairment loss	53	37
Payment date	April 2017	April 2016

After the reporting date, the following dividend was proposed by the Board of Directors. The dividend has not been recognized as liability in the balance sheet

SEKm	2017	2016
Ordinary dividend per share, SEK	0.75	0.75
Special dividend per share, SEK	0.75	–
Total dividend, SEKm	433	216

The Board of Directors proposes that the total earnings in the Parent Company at the disposal of the AGM of SEK 2,445m (2,650) are to be distributed to the shareholders for an amount of SEK 433m (216) and to be carried forward to new account for an amount of SEK 2,012m (2,433).

Group equity

Share capital

The number of shares authorized issued and fully paid up at 31 December 2017 was 288,619,299 (288,619,299). A conversion of class A shares to class B shares was carried out in 2017 as a result of the undertakings with Malfors Promotor. As a result, the number of shares consists of 5,735,249 (9,861,614) class A shares and 282,884,050 (278,757,685) class B shares. All shares grant equal entitlement to participate in the company's assets and profits. The quota value (par value) of the share is SEK 5.00. Should the company issue new shares of class A and class B through a cash or set-off 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 shares of only class B, all holders of class A and class B shares have the right to subscribe for new B shares 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. See page 57 for further details.

Neither Cloetta AB (publ) nor any of its subsidiaries has held any shares in Cloetta during the year.

Foreign currency translation reserve

Reserves consist of all exchange gains/losses arising on translation of the financial statements of foreign operations that present their financial statements in a currency other than that used by the Group. This includes foreign currency differences on monetary items that are a receivable from or payable to a foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future. As a result of the divestment of Cloetta Italia S.r.l. currency translation differences on discontinued operation have been reclassified through profit and loss for an amount of SEK 102m.

Retained earnings

Retained earnings comprise the sum of profit for the year and retained earnings from previous years. Retained earnings including other paid-in capital represent the amount of non-restricted equity available for distribution to the shareholders.

Changes in equity

For disclosures about changes in equity in the Group, see the consolidated statements of changes in equity on page 92.

Hedge of a net investment in a foreign operation (Net investment hedge)

The Group applies hedge accounting for the investment in trademarks in Cloetta Ireland Ltd., Cloetta Suomi Oy, Cloetta Holland B.V. and Cloetta Slovakia s.r.o. See Note 1 (XVI) for further details on the applied hedge accounting.

Share-based payments

See Note 25 for further details about share-based payments.

Note 21 Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to owners of the Parent Company by the weighted average number of shares outstanding. Diluted earnings per share are calculated by dividing profit for the year attributable to owners of the Parent Company by the weighted average number of shares outstanding adjusted for the dilutive effect of potential shares.

The calculation of basic and diluted earnings per share has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding

	2017	2016
Profit from continuing operations, SEKm	237	347
Loss from discontinued operations, SEKm	–334	–538
Profit/loss for the year, attributable to ordinary shareholders (in SEKm) (basic and diluted)	**–97**	**–191**
Number of issued ordinary shares at 1 January	**288,619,299**	**288,619,299**
Effect in number of shares of forward contract to repurchase own shares	–2,298,835	–2,426,275
Weighted average number of ordinary shares during the year before dilution	**286,320,464**	**286,193,024**
Effect in number of shares of share-based payments	171,714	254,441
Weighted average number of ordinary shares during the year after dilution	**286,492,178**	**286,447,465**
Basic earnings per share from continuing operations, SEK	0.83	1.21
Diluted earnings per share from continuing operations, SEK	0.83	1.21
Basic earnings per share from discontinued operation, SEK	–1.17	–1.88
Diluted earnings per share from discontinued operation, SEK	–1.17	–1.88
Basic earnings per share, SEK	**–0.34**	**–0.67**
Diluted earnings per share, SEK	**–0.34**	**–0.67**

Cloetta has entered into forward contracts to repurchase own shares in order to fulfil its future obligation to deliver the shares to the participants in the long-term share-based incentive plan. See Note 23 for a table that presents movements in the contracts as of 1 January 2016.

Note 22 Borrowings

See Notes 1 (XXVII) and (XXVIII) for accounting policies.

On 22 July 2016 the Group entered into a new term and revolving facilities agreement with a group of four banks, amounting in total to the equivalent of SEK 3,700m. The new facilities were used to refinance the bank financing with Svenska Handelsbanken AB (publ). The new facilities agreement includes a loan of SEK 1,000m that was used to redeem the senior secured notes on 19 September 2016.

31 Dec 2017 SEKm	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	Total
Loans from credit institutions	997	1,715	–	–	2,712
Accrued interest	2	–	–	–	2
Finance lease liabilities	0	–	–	–	0
Total	**999**	**1,715**	**–**	**–**	**2,714**

31 Dec 2016 SEKm	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	Total
Loans from credit institutions	–	993	1,673	–	2,666
Accrued interest	2	–	–	–	2
Total	**2**	**993**	**1,673**	**–**	**2,668**

See Note 31 for further details on liabilities to related parties.

The following table shows the Group's contractually agreed cash flows payable under financial liabilities

31 Dec 2017 **SEKm**	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	**Total**
Loans from credit institutions	1,024	1,728	–	–	2,752
Total	**1,024**	**1,728**	**–**	**–**	**2,752**

31 Dec 2016 **SEKm**	Remaining term < 1 year	Remaining term 1–2 years	Remaining term 2–5 years	Remaining term > 5 years	**Total**
Loans from credit institutions	18	1,017	1,687	–	2,722
Total	**18**	**1,017**	**1,687**	**–**	**2,722**

The following table shows the reconciliation of movements of liabilities to cash flows arising from financing activities

SEKm	Long-term borrowings	Short-term borrowings	**Total**
Balance at 1 January 2016	**2,612**	**344**	**2,956**
Changes from financing cash flows			
Proceeds from loans	2,663	525	3,188
Transaction costs paid	–12	–	–12
Repayment of loans	–1,699	–869	–2,568
Repayment of senior secured notes	–1,000	–	–1,000
Other changes from financing cash flows	–2	–	–2
Total changes from financing cash flows	**–50**	**–344**	**–394**
Other changes			
Capitalization transaction costs	–12	–	–12
Amortization of capitalized transaction costs	34	–	34
Interest expenses, third-party borrowings	86	6	92
Interest paid	–56	–4	–60
Call option fee redemption senior secured notes	–30	–	–30
Exchange differences on borrowings	82	–	82
Total other changes	**104**	**2**	**106**
Balance at 31 December 2016	**2,666**	**2**	**2,668**
Changes from financing cash flows			
Proceeds from loans	–	325	325
Repayment of loans	–	–347	–347
Other changes from financing cash flows	–	–	–
Total changes from financing cash flows	**–**	**–22**	**–22**
Other changes			
Business combinations	–	22	22
Amortization of capitalized transaction costs	7	–3	4
Interest expenses, third-party borrowings	21	4	25
Interest paid	–21	–4	–25
Reclassification between long-term and short-term borrowings	–1,000	1,000	–
Exchange differences on borrowings	42	0	42
Total other changes	**–951**	**1,019**	**68**
Balance at 31 December 2017	**1,715**	**999**	**2,714**

The carrying amounts and fair value of non-current borrowings are as follows

	Fair value		**Carrying amount**	
SEKm	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Loans from credit institutions	2,712	2,666	2,712	2,666
Finance lease liabilities	0	–	0	–
Total	**2,712**	**2,666**	**2,712**	**2,666**

The fair value of loans from credit institutions is equal to their carrying amount, as the impact of discounting is not significant, and the credit risk has not changed since the loan agreement was signed.

The Group's borrowings are all exposed to interest rate changes and changes in the applicable margin on a quarterly basis.

Loans from credit institutions

On 22 July 2016, Cloetta entered into a term and revolving facilities agreement with a group of four banks, being Danske Bank A/S, DNB Sweden AB, Skandinaviska Enskilda Banken AB (publ) and Svenska Handelsbanken AB (publ) in SEK and EUR, amounting in total to the equivalent of SEK 3,700m. The term and revolving facilities agreement is unsecured in nature and was used to refinance the existing bank financing with Svenska Handelsbanken AB (publ) on 27 July 2016 and to redeem its senior secured notes on 19 September 2016. The credit facility agreement with Svenska Handelsbanken AB (publ) was terminated at 27 July 2016.

The Group credit facility at reporting date relates to

	Outstanding amount		Interest percentage		Applicable margin	
SEKm	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Multicurrency term loan of nominal EUR 175m (approx. SEK 1,719m)	1,719	1,677	Variable EURIBOR + fixed applicable margin	Variable EURIBOR + fixed applicable margin	1.00%	1.00%
Single-currency term loan of nominal SEK 1,000m	1,000	1,000	Variable STIBOR + fixed applicable margin	Variable STIBOR + fixed applicable margin	1.00%	0.50%
Multicurrency credit revolving loan of EUR 105m (approx. SEK 1,031m)	–	–	Variable STIBOR + fixed applicable margin	Variable STIBOR + fixed applicable margin	1.20%	1.20%
Credit revolving loan of EUR 15m (approx. SEK 147m)	–	–	Variable EURIBOR + 1%	Variable EURIBOR + 1%	1.00%	1.00%
Total Group credit facility	**2,719**	**2,677**				
Capitalized transaction costs	–7	–11				
Finance lease liabilities	0	–				
Accrued interest	2	2				
Total Borrowings	**2,714**	**2,668**				

35 per cent (35) of the fixed applicable margin on the unutilized amounts of the credit revolving loans is paid as a commitment fee.

All borrowings are denominated in euros, except for the single-currency term loan of SEK 1,000m (1,000).

The effective interest rate for the loans from credit institutions and the senior secured notes was 0.94 per cent (2.32).

Note 23 Derivative financial instruments

See Note 1 (XVI) for the accounting policy.

	31 Dec 2017		31 Dec 2016	
SEKm	**Assets**	**Liabilities**	Assets	Liabilities
Non-current				
Forward contract to repurchase own shares	–	–	–	11
Interest rate swaps	–	2	–	1
Total non-current	**–**	**2**	**–**	**12**
Current				
Forward contract to repurchase own shares	–	70	–	48
Interest rate swaps	–	1	–	6
Forward foreign currency contracts	0	–	4	–
Total current	**0**	**71**	**4**	**54**
Total	**0**	**73**	**4**	**66**

Forward contracts to repurchase own shares

Following the introduction of the share-based long-term incentive plans, Cloetta entered into forward contracts in order to repurchase own shares to fulfil its future obligation to deliver the shares to the participants in the share-based long-term incentive plans. The forward contracts to repurchase own shares are measured at cost.

The following table shows the movements in contracts as of 1 January 2016

	Date	Contract 1	Contract 2	Contract 3	Contract 4	Contract 5	Contract 6
Balance at	**1 Jan 2016**	**937,610**	**1,200,000**	**430,000**	**–**	**–**	**–**
Shares granted to participants LTI'13 (settlement of forward contract to repurchase own shares)	18 May 2016	–227,880	–	–	–	–	–
Roll-forward to new forward contract to repurchase own shares	15 June 2016	–709,730	–	–	709,730	–	–
Balance at	**31 Dec 2016**	**–**	**1,200,000**	**430,000**	**709,730**	**–**	**–**
Shares granted to participants LTI'14 (settlement of forward contract to repurchase own shares)	8 May 2017	–	–362,029	–	–	–	–
Repurchased own shares	8 May 2017	–	–3,932	–	–	–	–
Roll-forward to new forward contract to repurchase own shares	15 June 2017	–	–834,039	–	–709,730	1,543,769	–
Roll-forward to new forward contract to repurchase own shares	14 July 2017	–	–	–	–	–1,543,769	1,543,769
New forward contract to repurchase own shares	14 July 2017	–	–	–	–	–	348,793
Balance at	**31 Dec 2017**	**–**	**–**	**430,000**	**–**	**–**	**1,892,562**
	Price, SEK	18.50678	23.00000	26.40000	28.50000	36.10000	30.97320

See Note 25 for more details about the share-based long-term incentive plan.

Interest rate swaps

The Group has entered into several interest rate swap contracts to partially cover the interest rate risk on the loans denominated in both SEK and EUR.

The following table shows the combined notional principal amounts of the outstanding interest rate swaps

		Notional principal amounts		Fixed interest currency rates		Duration	
		31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
STIBOR Interest rate swaps	SEKm	–	820	–	1.355%	–	Q1 2017
STIBOR Interest rate swaps[1]	SEKm	200	200	0.030%	0.030%	Q1 2018–Q2 2018	Q2 2017–Q2 2018
STIBOR Interest rate swaps[1]	SEKm	450	200	0.463%	0.030%	Q1 2018–Q4 2021	Q2 2017–Q4 2017
STIBOR Interest rate swaps[1]	SEKm	200	200	0.463%	0.030%	Q3 2018–Q4 2021	Q2 2017–Q3 2017
EURIBOR Interest rate swaps	EURm	150	50	0.463%	0.203%	Q1 2019–Q4 2021	Q1 2017–Q4 2017
EURIBOR Interest rate swaps[1]	EURm	50	40	0.156%	0.156%	Q1 2018–Q2 2020	Q2 2017–Q2 2020
EURIBOR Interest rate swaps[1]	EURm	25	50	0.156%	0.156%	Q1 2018–Q4 2019	Q1 2018–Q4 2018
EURIBOR Interest rate swaps[1]	EURm	15	35	0.156%	0.156%	Q1 2018–Q4 2018	Q1 2019–Q4 2019
EURIBOR Interest rate swaps[1]	EURm	–	10	–	0.156%	–	Q1 2020–Q2 2020

1) Swap includes a zero floor on the floating leg.

Foreign currency exchange contracts

The Group has entered into forward foreign currency contracts to hedge the currency risk for the USD with a maturity of less than one year from the reporting date.

The following table shows the notional principal amounts, weighted average exchange rates and remaining periods

	Notional principal amounts		Weighted average exchange rates		Expiry date	
	2017	2016	**2017**	2016	**2017**	2016
SEK – USD	USD 5.8m	USD 7.1m	8.1814	8.5428	2018	2017

Note 24 Other non-current liabilities

See Note 1 (XXIV) for the accounting policy.

Contingent considerations consist of the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB), the contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries and the contingent consideration arising from the option agreement for Aran Candy Ltd. (currently known as Cloetta Ireland Ltd.).

The remeasurement movements recognized in the profit and loss account are the result of remeasurements of the financial performance of the acquired companies. On 4 July 2016 Cloetta Ireland Holding Ltd. acquired the remaining 25 per cent of the outstanding shares in Cloetta Ireland Ltd., resulting in the settlement of the contingent consideration arising from the option agreement for an amount of SEK 106m. On 4 October 2016 Cloetta Holland B.V. settled the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) for an amount of SEK 48m. On 28 April 2017 a contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was issued to the former bondholders of Candyking Holding AB in exchange for corporate bonds in Candyking Holding AB. The contingent earn-out consideration was initially recognized for an amount of SEK 128m. At the end of the year the expected undiscounted contingent earn-out consideration amounted to SEK 170m (discounted: SEK 138m).

Movements in other non-current liabilities are specified as follows

SEKm	2017	2016
At 1 January	–	125
Business combinations	128	–
Remeasurements recognized in profit and loss		
- Unrealized remeasurement on contingent considerations recognized in general and administrative expenses	–5	17
- Unrealized interest on contingent considerations recognized in other financial expenses	15	10
Remeasurements recognized in other comprehensive income		
- Unrealized currency translation differences	–	2
Settlements		
- Settlements via balance sheet	–	–154
At 31 December	**138**	–
of which remaining term < 1 year	–	–
of which remaining term 1–5 years	138	–
Fair value	**138**	–

Note 25 Pensions and other long-term employee benefits

See Notes 1 (VI) and (XXVI) for the accounting policy.

Group companies use various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit schemes in industry sector pension funds, which are held by pension funds that are not able to provide company-specific or reliable information, are accounted for as though they were defined contribution schemes. In the event of a deficit in these pension funds, the company has no obligation to provide supplementary contributions, other than higher future contributions.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The Group has a number of defined benefit pension plans in Sweden, the Netherlands, Belgium, Finland, Germany and Norway that refer to pension and other long-term benefit schemes.

For one defined benefit pension plan, the Group accounts as though this was a defined contribution scheme since sufficient information is not available to enable the Group to account for the plan as a defined benefit plan. Cloetta applies the same accounting policies as other participating employers. Sufficient information is not available, since asset administration of the fund is not designed to allocate the total assets of the fund to the participating companies. In the event of a deficit in this pension fund, the Group has no obligation to provide further contributions other than higher future contributions.

Monthly premiums are average premiums expressed as a percentage of the pension calculations basis and should, as a minimum, cover the cost of the fund. The minimum pension premium is determined in accordance with the actuarial and business note of the fund. In case of liquidation of the fund, an amount that is sufficient to cover defined benefits will be secured. In case of a deficit in the fund at moment of liquidation, the defined benefits will be proportionally reduced taking into consideration Article 134 of the Dutch Pension Act. Contributions to the plan for the next annual year are expected to amount to SEK 34m (33). These can be split into employer contributions of SEK 23m (22) and employee contributions of SEK 11m (11). At year-end 2017, the coverage of the pension fund was 111.7 per cent (102.7).

The main defined benefit plans at 31 December 2017 in the Group were:

Sweden ITP2 plan:

The ITP2 plan covers employees born before 1979. Benefits provided in the old defined benefit plan include a final pay-based retirement pension. This plan is an unfunded defined benefit plan.

The ITP plan benefit formula provides pension benefits as a percentage of salary. Benefits will be reduced proportionally if the expected years of service within the plan and irrespective of employer, is less than 30 years. ITP plan benefits vested with former employers are indexed according to the consumer price index.

Finland Leaf/Merijal plan:

The plan is an insured voluntary final salary pension plan. It was established on 31 December 2005 when the liabilities and assets of Merijal Pension Foundation and Leaf Pension Foundation were transferred to Pohjola Life Insurance Company.

Norway

There is one plan, which is insured in a life insurance company. This funded plan, together with the national pension scheme, provides an old age pension of a maximum 66 per cent of final salary. Included is a widow(er)s pension equal to 60 per cent of the old age pension and children's pension equal to 50 per cent of the old age pension. Members who become disabled will receive a disability pension linked to the old age pension they would have received with their present salary.

The total pensions and other long-term employee benefits can be determined as follows

SEKm	31 Dec 2017	31 Dec 2016
Funded pension schemes in a net asset position	3	–
Obligations for:		
Pension benefits	–374	–395
Other long-term employee benefits (for jubilee payments) ('OLEB')	0	–1
Total	**–371**	**–396**

The amounts recognized in the balance sheet are determined as follows

SEKm	31 Dec 2017	31 Dec 2016
Funded pension schemes in a net asset position	3	–
Asset in the balance sheet	**3**	**–**
Present value of funded obligations	76	99
Fair value of plan assets	–66	–82
Deficit of funded plans	**10**	**17**
Present value of unfunded obligations	361	379
Liability in the balance sheet	**371**	**396**

Movements in the combined net defined benefit obligations and other long-term employee benefits over the year are as follows

SEKm	Present value of obligation	Fair value of plan assets	Total
1 January 2016	**450**	**–72**	**378**
Current Service cost	7	–	7
Interest expense/(income)	14	–2	12
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense/(income)	–	–3	–3
- (Gains)/losses from change in financial assumptions	23	–	23
- Experience (gains)/ losses	–2	–	–2
Total remeasurements	**21**	**–3**	**18**
Exchange differences	10	–6	4
Contributions:			
- Employers	–	–23	–23
Payments from plans			
- Benefit payments	–24	24	–
31 December 2016	**478**	**–82**	**396**
Current Service cost	9	–2	7
Interest expense/(income)	13	–1	12
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense/(income)	–	6	6
- (Gains)/losses from change in demographic assumptions	15	–	15
- (Gains)/losses from change in financial assumptions	29	–	29
- Experience (gains)/ losses	–14	–	–14
Total remeasurements	**30**	**6**	**36**
Exchange differences	0	–1	–1
Contributions:			
- Employers	0	–18	–18
Payments from plans			
- Benefit payments	–21	21	–
- Settlements	–11	11	–
Divestments	–61	–	–61
31 December 2017	**437**	**–66**	**371**

The Group expects to pay SEK 16m (20) in contributions to its defined benefit plans in 2018.

Note 1
Note 2
Note 3
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The defined benefit obligation and plan assets are composed by country as follows

	Present value of obligation		Fair value of plan assets		Defined benefit obligation	
SEKm	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Sweden	355	310	–16	–16	339	294
Norway	9	26	–11	–25	–2	1
Italy	–	65	–	–	–	65
Finland	37	39	–29	–30	8	9
Other countries	36	38	–10	–11	26	27
Total	**437**	**478**	**–66**	**–82**	**371**	**396**

The significant actuarial assumptions were as follows

Weighted average percentage	31 Dec 2017	31 Dec 2016
Discount rate	2.50	2.39
Expected rate of future salary increases	2.07	1.89
Expected rate of future increase for benefits in payment	1.59	1.22
Expected long-term inflation rate	1.73	1.62

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

These assumptions translate into an average life expectancy in years for a pensioner retiring at the age of 67 in the Netherlands and 65 in other countries

	2017	
Years	Sweden	Others
Retiring at the end of the reporting period:		
- Male	21	21
- Female	24	24
Retiring 20 years after the end of the reporting period		
- Male	41	37
- Female	43	41

At 31 December 2017 the weighted average duration of the defined benefit obligation was 19.53 years (18.36 years).

The sensitivity of the combined net defined benefit obligations and other long-term employee benefits to changes in the weighted principal assumptions is as follows

	Impact on defined benefit obligation		
SEKm	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rate	1%-point	–17%	22%
Salary growth rate	1%-point	5%	–5%
Pension growth rate	1%-point	9%	–7%

	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy	3.91%	4.46%

The above sensitivity analyses are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized in the statement of financial position.

Plan assets for both 2016 and 2017 consist for 100 per cent of insurance contracts.

The expected maturity analysis for undiscounted combined net defined benefit obligations and other long-term employee benefits is as follows

SEKm	Less than 3 years	Between 3–7 years	Between 7–15 years	Over 15 years	Total
Defined benefit obligation by expected maturity	1	37	62	337	437

Total pension costs amounting to SEK 19m (20) are included in costs of goods sold, selling expenses, general and administrative expenses, financial income and expenses and loss from discontinued operation, net of tax in the profit and loss account.

Share-based payments

Share-based long-term incentive plan

The AGM approved the Board's proposals for a share-based long-term incentive plan to align the interests of the shareholders on the one hand and Group Management Team and other key employees on the other hand in order to ensure maximum long-term value creation.

To participate in the plan, a personal shareholding in Cloetta is required. Following a three-year vesting period, the participants will be allocated class B shares in Cloetta free of charge provided that certain conditions are fulfilled.

In order for so-called matching share rights to entitle the participant to class B shares in Cloetta, continued employment with Cloetta is required and the personal shareholding in Cloetta must be continuously maintained. For each invested share one matching share will be granted if above requirements are fulfilled.

In addition, allocation of class B shares on the basis of performance share rights requires the attainment of two performance targets, one of which is related to Cloetta's EBIT and the other to Cloetta's net sales value in 2015, 2016, 2017, 2018 and 2019, respectively. The share-based long-term incentive plans 2013 and 2014 vested in 2016 and 2017 respectively.

With respect to LTI 2015, the target levels set by the Board for the two performance targets were met by 59.9 per cent (of a maximum target fulfilment of 100 per cent). The performance targets were related to growth in Cloetta's compounded sales value during 2015–2017 and EBITA level during 2017. As a result, Cloetta will, free of charge, transfer no more than 116,953 shares to participants holding matching share rights and no more than 294,978 shares to participants holding performance share rights.

Total costs related to the non-vested share-based long-term incentive plans are expected to amount to SEK 59m (55) during the total vesting period. The total costs for the share-based long-term incentive plans recognized in 2017 are SEK 13m (10).

See page 60 for further details on the main characteristics of the share-based long-term incentive plans.

The forward contracts to repurchase own shares amount to SEK 70m (59).

Movements in the number of shares for the share-based long-term incentive plans are as follows

	Number of share options in thousands	
	2017	2016
At 1 January	**1,828**	**1,789**
Granted	880	1,118
Vested	–362	–228
Released	–729	–851
At 31 December	**1,617**	**1,828**

Note 26 Provisions

See Note 1 (XXV) for the accounting policy.

Movements in provisions, excluding pension benefits and other long-term employee benefits, are specified as follows

SEKm	Reorganization	Sales returns	Other	Total
1 January 2016	**18**	**38**	**11**	**67**
Additions	7	51	23	81
Utilizations	–17	–44	–1	–62
Unused amounts reversed	–1	–	–2	–3
Exchange differences	0	2	1	3
31 December 2016	**7**	**47**	**32**	**86**
Analysis of total provisions				
Non-current				22
Current				64
Total				**86**

SEKm	Reorganization	Sales returns	Other	Total
1 January 2017	**7**	**47**	**32**	**86**
Additions	6	–	0	6
Utilizations	–9	–46	–17	–72
Unused amounts reversed	–1	–	–7	–8
Divestments through discontinued operation	–	–1	–2	–3
Exchange differences	0	–	–1	–1
31 December 2017	**3**	**–**	**5**	**8**
Analysis of total provisions				
Non-current				5
Current				3
Total				**8**

See Note 25 for details about pension benefits and other long-term employee benefits.

Note 27 Trade and other payables

See Note 1 (XXIX) for the accounting policy.

SEKm	31 Dec 2017	31 Dec 2016
Trade payables	720	569
Other taxes and social securities expenses	177	132
Pension liabilities	7	5
Other liabilities	27	38
Accruals and deferred income	463	452
Total	**1,394**	**1,196**

Accruals and deferred income are specified as follows

SEKm	31 Dec 2017	31 Dec 2016
Accrued personnel-related expenses	142	195
Accrued customer bonuses and discounts	145	127
Other accrued expenses and deferred income	176	130
Total	**463**	**452**

Note 28 Business combinations

Acquisition of Candyking Holding AB

SEKm	
Consideration transferred	
Purchase price	325
Transaction adjustment	–62
Contingent consideration	128
Consideration transferred	**391**
Acquisition Candyking bond and other debt	–391
Net consideration	**0**
Recognized amounts of identifiable assets and liabilities assumed:	
Non-current assets	**279**
Intangible assets (excl. goodwill)	177
Property, plant and equipment	80
Other non-current assets	22
Current assets	**256**
Inventories	90
Trade and other receivables	152
Cash and cash equivalents	14
Non-current liabilities	**–41**
Deferred tax liabilities	–41
Current liabilities	**–666**
Bond and other debt	–391
Other borrowings	–23
Trade payables	–136
Taxes and social security premiums	–50
Other current liabilities	–66
Total identifiable net assets	**–172**
Goodwill	172
Net consideration	**0**

On 28 April 2017 Cloetta acquired 100 per cent of the shares in Candyking Holding AB and its fully owned subsidiaries, a leading concept supplier of pick & mix candy in the Nordic countries and the UK. The acquisition strengthens Cloetta's position within pick & mix and creates substantial synergies.

The purchase price amounted to SEK 325m on a cash and debt free basis, adjusted for transaction adjustments for net debt and working capital of SEK -62m, with a potential additional purchase price of maximum SEK 225m based on Cloetta's and Candyking's combined sales volume of pick & mix in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018. The seller of the shares is Candyking's CEO, Dani Evanoff. The majority of the purchase price as well as the potential additional purchase price has been allocated to the previous holders of Candyking's SEK 750m bond loan. In connection with closing of the acquisition, Candyking's bonds have been delisted from Nasdaq Stockholm. At the time of delisting the bond, an earn-out instrument has been issued to the previous bondholders and the previous shareholders that entitles to the future potential additional purchase price. The instrument is registered at Euroclear in order to facilitate the distribution of any additional purchase price to the instrument holders.

The total goodwill of SEK 172m is not expected to be deductible for tax purposes. The acquired receivables contain trade receivables of SEK 128m which have been collected in full. The total transaction cost related to the acquisition amounted to SEK 14m and is fully recognized in the profit and loss account for the period concerned as 'general and administrative expenses'. Due to the short-term nature of the receivables, the fair value approximates the gross contractual amounts. The contractual cash flows which are not expected to be collected are immaterial. Candyking Holding AB and its subsidiaries contributed with SEK 708m to Cloetta's consolidated net sales from acquisition date to 31 December 2017. Had Candyking Holding AB and its subsidiaries been consolidated from 1 January 2017, it would have (pro forma) contributed SEK 1,092m to consolidated net sales over the period from 1 January 2017 to 31 December 2017. Because Candyking Holding AB and its subsidiaries were acquired on 28 April 2017, the accounting for the business combination is preliminary and has not yet been finalized, as the company is still assessing certain information. The goodwill acquired is allocated to CGU Scandinavia.

See Note 1 for details about changes in the group structure.

Note 29 Financial risks and financial risk management

Through its activities, the Group is exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risks are managed by the Group treasury department under policies approved by the Board of Directors. The Group treasury department identifies, evaluates and, if applicable, hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. The primary market and financial risks are described in detail below.

Market risk

Currency risk

The Group is primarily active in the European Union and Norway. The Group's currency risk mainly relates to positions and future transactions in euros (EUR), Danish kroner (DKK), Norwegian kroner (NOK), US dollars (USD) and British pounds (GBP).

The Group has major investments in foreign operations whose net assets are exposed to foreign currency translation risk.

Based on a risk analysis, the Group's Boards of Directors has decided to hedge the euro-related currency risk by drawing part of the credit facility in euros. This hedge covers part of the currency risk in euros. Hedge accounting (hedges of net investments in foreign operations) is applied. This resulted in a reduction in the volatility of net financial items caused by revaluation of monetary assets and liabilities as of those dates. The Group's investment in trademarks in Cloetta Ireland Ltd (formerly known as Aran Candy Ltd.), Cloetta Suomi Oy, Cloetta Holland B.V. and Cloetta Slovakia s.r.o. is hedged by a net euro-denominated loan (carrying amount: EUR 149m (143)) which mitigates the foreign currency translation risk on these trademarks. The fair value of the loan was EUR 149m (143). The loan is designated as a net investment hedge. The effectiveness of the hedge is tested and documented on a monthly basis. No ineffectiveness was recognized from the net investment hedge.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group entered into forward foreign currency contracts to hedge the currency risk of the USD with a maturity of less than one year from the reporting date. See Note 23 for the details of the forward foreign currency contracts.

In the financial year 2017, if the Swedish krona had weakened/strengthened by 10 per cent against the euro with all other variables held constant, profit before tax for the year would have been approximately SEK 27m (–25) lower/higher, as a result of the foreign exchange gains/losses on translation of all euro-denominated trading in Europe and foreign exchange losses/gains on translation of euro-denominated borrowings.

The currency risk attached to the transactions in the other currencies is not significant as the amounts involved are not significant for the total Group.

Interest rate risk

The Group is exposed to interest rate risk on the interest-bearing non-current and current liabilities (including loans to credit institutions).

The Group is exposed to the consequences of variable interest rates on liabilities. In relation to fixed interest liabilities, it is exposed to market values, which is not a significant risk for the Group.

If the interest rate had been 1 percentage point higher with all other variables held constant, profit before tax for the year would have been approximately SEK 7m (25) lower. If the interest rate had been 1 percentage point lower with all other variables held constant, profit before tax for the year would have been approximately SEK 6m (35) lower due to some interest rate swaps that do not include a zero-floor clause. The analysis considers the effects of interest rate swaps and the impact of negative interest rates.

Credit risk

The Group does not have any significant concentrations of credit risk. The Group's customers are subject to a credit policy. Sales are subject to payment conditions which vary per customer. Large part of the trade debtors for international markets, Ireland, the UK, Germany and the Netherlands and smaller trade debtors in Finland are insured via credit risk insurances. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss account within selling expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Credit terms for customers are determined individually in the different markets. Concentrations of credit risk with respect to trade receivables are limited, due to the size and diversity of the Group's customer base. The Group's historical experience of collecting receivables is that credit risk is considered to be low across all markets.

The Group uses several banks (range of most used banks varies between AA- and A-3 rating) and has a revolver facility available

		Cash balances		Credit revolving loan		Other loans	
SEKm	Rating (S&P)	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Svenska Handelsbanken AB (publ)	AA-	676	163	–	–	–680	–669
Nordea	A-1+	48	25	–	–	–	–
Ulster Bank Ltd.	A-2	10	15	–	–	–	–
Tatra Banka	A-2	6	13	–	–	–	–
Skandinaviska Enskilda Banken AB (publ)	A+	–	–	–	–	–680	–669
Danske Bank A/S	A	–	–	–	–	–680	–669
DNB Sweden AB	A+	–	–	–	–	–680	–669
UBI Banca	A-3	–	49	–	–	–	–
Intesa Sanpaolo	A-3	–	22	–	–	–	–
ING Bank N.V.	A-2	–	3	–	–	–	–
Other banks		19	8	–	–	–	–
Total		**759**	**298**	**–**	**–**	**–2,719**	**–2 677**

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and is aggregated by the Group Treasury department. The Group Treasury department monitors the sources and the amounts of company's cash flows, dividend, obligation, loans, actual cash position and rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities and the impact such restrictions had or are expected to have on its ability to meet its cash obligations. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements - for example, currency restrictions.

The Notional Group Account (NGA) includes both the Parent Company and several operating entities. Surplus cash held by operating entities included in the NGA is available to the Group's treasury department and is used for the Group's internal and external financing activities. Surplus cash held by operating entities not included in the NGA is transferred to the Group's treasury department and is also used for the Group's internal and external financing activities.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.

31 Dec 2017 SEKm	Term < 1 year	Term 1–2 years	Term 2–3 years	Term 3–4 years	Term 4–5 years	Term > 5 years	Total
Loans from credit institutions	1,024	1,728	–	–	–	–	2,752
Finance lease liabilities	0	–	–	–	–	–	0
Trade and other payables	1,217	–	–	–	–	–	1,217
Total	**2,241**	**1,728**	**–**	**–**	**–**	**–**	**3,969**

31 Dec 2016 SEKm	Term < 1 year	Term 1–2 years	Term 2–3 years	Term 3–4 years	Term 4–5 years	Term > 5 years	Total
Loans from credit institutions	18	1,017	1,687	–	–	–	2,722
Trade and other payables	1,064	–	–	–	–	–	1,064
Total	**1,082**	**1,017**	**1,687**	**–**	**–**	**–**	**3,786**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and thereby provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure as a means to reduce the cost of capital. The Group's priority in monitoring capital is to maintain compliance with the covenants in the applicable credit facilities agreement.

Cloetta actively monitors these and other ratios on a monthly basis. On 22 July 2016 Cloetta entered into a term and revolving facilities agreement with a group of four banks, which is unsecured in nature. The term and revolving facilities agreement includes one covenant, relating to the net debt/EBITDA ratio. Throughout 2016 and 2017, the Group was in compliance with the covenant requirements.

Note 30 Fair value measurement

Share-based long-term incentive plan

The AGMs approved the Board's proposal relating to a share-based long-term incentive plan.

Under the share-based long-term incentive plans, the entity receives services from employees as consideration for equity instruments (shares) of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions (for example, an entity's share price); and
- including the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period).

See Note 25 for more information.

Fair value measurement

The only items recognized at fair value after initial recognition are:

- The interest rate swaps and forward foreign currency contracts categorized at level 2 of the fair value hierarchy in all periods presented;
- The contingent earn-out consideration related to the acquisitions of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and the contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries initially categorized at level 3;
- The contingent consideration arising from the option agreement for Aran Candy Ltd. (currently known as Cloetta Ireland Ltd.) initially categorized at level 3, as well as;
- Assets held for sale, in cases where the fair value less cost of disposal is lower than the carrying amount.

On 4 July 2016 the contingent consideration arising from the option agreement for Aran Candy Ltd. was settled for an amount of SEK 106m. On 4 October 2016 the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB was settled for an amount of SEK 48m. On 28 April 2017 the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was recognized for an amount of SEK 128m. The fair values of the financial assets (loans and receivables) and liabilities measured at amortized cost are approximately equal to their carrying amounts. The fair value of financial assets and liabilities for measurement purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value derived is used as the carrying amount.

The fair value measurements by level according to the fair value measurement hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value

31 Dec 2017 SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
• Forward foreign currency contracts	–	0	–	0
Total assets	**–**	**0**	**–**	**0**
Liabilities				
Liabilities at fair value through profit or loss				
• Interest rate swaps	–	3	–	3
• Contingent consideration	–	–	138	138
Total liabilities	**–**	**3**	**138**	**141**

31 Dec 2016 SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
• Forward foreign currency contracts	–	4	–	4
• Assets measured at fair value	–	–	9	9
Total assets	**–**	**4**	**9**	**13**
Liabilities				
Liabilities at fair value through profit or loss				
• Interest rate swaps	–	7	–	7
Total liabilities	**–**	**7**	**–**	**7**

The assets and liabilities measured at fair value at 31 December 2017 are reflected in the 'derivative financial instruments' and 'other non-current liabilities'.

The assets measured at fair value less cost of disposal at 31 December 2016 consisted of the land and building in Zola Predosa, Italy. The assets and liabilities measured at fair value were reflected in the 'derivative financial instruments' and 'assets held for sale'.

There are no financial instruments categorized at level 3 of the fair value hierarchy other than the contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries. See Note 24 for movements in contingent earn-out consideration.

SEKm	2017	2016
Balance at 1 January	–	125
Business combinations	128	–
Remeasurements recognized in profit and loss		
- Unrealized remeasurements on contingent considerations recognized in general and administrative expenses	–5	17
- Unrealized interest on contingent considerations recognized in other financial expenses	15	10
Remeasurements recognized in other comprehensive income		
- Unrealized currency translation differences	–	2
Settlements		
- Settlement via balance sheet	–	–154
Balance at 31 December	**138**	**–**

On 28 April 2017 the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was recognized for an amount of SEK 128m. At 31 December 2017 the expected undiscounted contingent earn-out consideration amounted to SEK 170m (discounted: SEK 138m).

On 4 October 2016 the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB was settled via balance sheet for an amount of SEK 48m, resulting in a transfer from fair value hierarchy level 3 to 2 in third quarter of 2016. No other transfers between fair value hierarchy levels have occurred during the financial year or the prior financial year.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2. The valuation of these instruments is based on quoted market prices (price-component), but the underlying contract amounts (quantity-component) are based on the specific requirements of the Group. These instruments are therefore included at level 2. The fair value measurement of the contingent consideration requires use of significant unobservable inputs and was thereby initially categorized at level 3.

The valuation techniques and inputs used to value financial instruments are:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign currency contracts is calculated using the difference between the exchange rate on the spot date with the contractually agreed upon exchange rate;
- The fair value of the asset held for sale is based on valuations by external independent valuators;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The assets measured at fair value are identified as a non-recurring fair value measurement and are related to the assets held for sale. The assets are valued at fair value less cost of disposal in case the fair value less costs of disposal is below the carrying amount. See Note 19 for the movements in the assets held for sale.

The contingent considerations are measured at fair value using the expected financial performance.

The valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used, can be specified as follows

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent considerations			
- Contingent earn-out considerations	The fair value of the contingent earn-out consideration is calculated based on the forecasted pick and mix Sold Volumes for 2018 of the Cloetta Group in comparison with the Sold Volume Target and the Minimum Sold Volume as defined in the purchase agreement between Cloetta and the previous shareholder and group of bondholders. The expected payment is discounted using the cost of equity.	Total sales volume of pick & mix in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018.	The estimated fair value would increase (decrease) if: - Total sales volume of pick & mix in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018 is higher (lower).
Derivative financial instruments			
- Interest rate swaps	The valuation of the interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.	Not applicable	Not applicable
- Forward foreign currency contracts	The valuation of the forward foreign currency contract is calculated as the difference between future cash flows in foreign currencies converted at the spot rate at reporting date and the future cash flows in foreign currencies converted at the contractual agreed upon exchange rates.	Not applicable	Not applicable

See Note 24 for the effect of the measurements regarding contingent consideration liabilities in the profit and loss account or other comprehensive income and for movements in contingent consideration liabilities.

Note 31 Related party transactions

All group companies mentioned in Note P8 are considered to be related parties. Transactions between group companies are eliminated upon consolidation.

In the context of this financial report, and aside from the subsidiaries of Cloetta AB (publ), the company regarded as related parties is AB Malfors Promotor. In 2016 and 2017 no transactions between Cloetta AB (publ) including its subsidiaries and AB Malfors Promotor including its subsidiaries have occurred.

Transactions with Group Management and key employees

For information about salaries and remuneration to the Board of Directors and Group Management Team, see pages 80–81. The Group has no receivables from Group Management Team and key employees. In 2016 and 2017 share-based long-term incentive plans were approved by the AGM. Total costs including social security charges related to the share-based long-term incentive plans that were recognized amount to SEK 13m (10), of which SEK 6m (5) is related to Group Management Team. Other liabilities to Group Management Team and key employees consist of customary personnel-related liabilities.

Note 32 Operating leases

See Note 1 (XXX) for the accounting policy.

Recognized expenses for operating leases amount to:

SEKm	2017	2016
Minimum lease payments	100	88
Future annual payment obligations for leased assets in the Group are broken down as follows:		
Within one year	55	69
Between one and five years	115	105
More than 5 years	–	28
Total	**170**	**202**

The operating lease commitments mainly consist of the lease of buildings and warehouses with an average contract term of approximately five years and of car lease contracts with an average contract term of four years. All operating leases relate to minimum lease payments under non-cancellable operating lease agreements. There are no subleases, no contingent rents, no renewal or purchase options and escalation clauses nor any restrictions imposed by leasing arrangements.

In December 2015 a decision was made to close the factory in Dieren, the Netherlands. The factory in Dieren was closed in 2017. On 31 December 2017 the operational lease agreement for the building terminated.

Note 33 Critical accounting estimates and judgements

In preparing the financial statements, the Group Management Team makes estimates and judgments that affect the reported amounts of assets and liabilities, net sales and expenses, and disclosures of contingent liabilities at the date of the financial statements. The estimates and assumptions that are associated with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year as well as critical judgments in applying the Group's accounting policies are discussed below. The accounting estimates and judgments are believed to be reasonable under the circumstances.

The Group Management Team 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 of intangible assets

For the purpose of impairment testing, assets are allocated to CGUs when it is not possible to assess impairment on an individual asset basis. The recoverable amount of an asset is compared to the carrying amount to determine if an asset is impaired. An asset's recoverable amount is the higher of its value in use and its fair value less cost of disposal. The value in use is the present value of the future cash flows to be generated by an asset from its continuing use in the business.

Based on management's best estimates for the determination of the terminal growth rate, pre-tax discount rate and future cash flows, the goodwill in South has been impaired to nil in 2016 and the Italian trademarks have been impaired to the recoverable amount prior to disposal of SEK 99m. Using management's best estimates in determination of the terminal growth rates, pre-tax discount rates and future cash flows, the estimated recoverable amounts of the group of CGUs in Scandinavia and Middle and the CGUs in Sweden, Finland and the Netherlands exceed the carrying amounts.

The carrying amount of the intangible assets at the end of reporting period was SEK 5,490m (5,354).

Accounting for income taxes

As part of the process of preparing financial statements, the Group is required to estimate income taxes in each of the jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Temporary differences between tax and financial reporting give rise to deferred tax assets and liabilities, which are included in the balance sheet. The Group must also assess the likelihood that deferred tax assets will be recovered from future taxable income. A deferred tax asset is not recognized if, and to the extent, it is probable that all or some portion of the deferred tax asset will not be realized.

Provisions

By their nature, provisions are dependent on estimates and assessments as to whether the criteria for recognition have been met, including estimates as to the outcome and the amount of the potential cost of resolution. Provisions are recognized as an expense in the profit and loss account when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

Provisions for litigation, tax disputes, etc. for a total amount of SEK 8m (86), are based on an estimate of the costs, taking into account legal advice and the information currently available. In addition, provisions for termination benefits and exit costs involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs. Should the actual outcome differ from the assumptions and estimates, revisions to the estimated provisions would be required, which could impact the Group's financial position and results from operations.

Accounting for pensions and other post-employment benefits

Pension benefits represent obligations that will be settled in the future and require assumptions to project the benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit costs over the employee's expected service period, based on the terms of the plans and the investment and funding decisions made by the Group. For calculation of the present value of the pension obligation and the net cost, actuarial assumptions are made about demographic variables (such as mortality) and financial variables (such as future increases in salaries). In countries where there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds are used. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred. It should be noted that when discount rates decline or rates of future salary increase, the pension benefit obligations will increase. For details about the key assumptions and policies, see Note 25. The carrying amount at the end of reporting period was SEK 374m (396).

Capitalization of development costs

Costs incurred on development projects are recognized as intangible assets when it is probable that a project will be successful in view of its commercial and technological feasibility. Group Management Team's judgement is required in determining when the Group should start capitalizing development costs. In general, the Group Management Team has determined that commercial and technological feasibility, in general, is probable when the Group decides to pre-launch a product and the costs can be measured reliably. However, since the development costs incurred by the Group after the pre-launch of a product are considered insignificant, the Group expenses all development costs in the period when the expenditure is incurred. Consequently, based on management's judgement, no development costs have been recognized as intangible assets in the consolidated financial statements.

Note 34 Changes in accounting policies

New and amended standards and interpretations adopted by the Group

There are no standards or amendments to standards that are effective as of 1 January 2017 that have been adopted by the Group for the first time for the financial year beginning on 1 January 2017 and that have any impact on the Group.

New standards and amendments to standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have impact on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial Instruments', published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces

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

new rules for hedge accounting and a new impairment model for financial assets. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard must be applied for financial years commencing on or after 1 January 2018, with early adoption permitted.

The Group has reviewed its financial assets and liabilities and assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Based on the assessments performed Cloetta concluded that its current hedge relationships qualifies as continuing hedges upon the adoption of IFRS 9 and has updated its hedge documentation in accordance with IFRS 9. This does not have an impact on the company's balance sheet or income statement. Also in other areas IFRS 9 does not have a material impact on Cloetta's consolidated financial statements. The Group applies the new rules retrospectively from 1 January 2018.

IFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining whether, how much and when revenue is recognized. This standard replaces IAS 18 covering contracts for goods and services, IAS 11 covering construction contracts and IFRIC 13 covering Customer Loyalty Programmes. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The standard is mandatory for financial years commencing on or after 1 January 2018, with early adoption permitted.

The Group started the implementation process in 2016 and finalized the impact assessment during the past financial year. Based on a detailed contract analysis Cloetta identified additional performance obligations within the pick & mix business to which revenue should be allocated. In accordance with IAS 18 Cloetta only recognized one performance obligation related to the sale of goods. In accordance with IFRS 15 Cloetta identified the following performance obligations:

- Sale of goods
- Leases of racks
- Merchandising services

The additional performance obligations do not give rise to a different timing of recognizing revenue. For the performance obligation merchandising services – which is satisfied over time – Cloetta selected an appropriate method for measuring Cloetta's progress towards complete satisfaction of that performance obligation. For merchandising services the practical expedient (IFRS 15.B16) is applicable, whereas Cloetta can recognize revenue in the amount to which it has a right to invoice. Since normally delivery of goods as well as merchandising services take place weekly this output method best reflects the measure of progress of the merchandising service as performance obligation and timing of revenue recognition will not change compared to sale of goods.

Total revenues within the pick & mix full concept business for 2017 can be allocated to the identified performance obligation: sale of goods (84%), leases of racks (4%) and merchandising services (12%). Other areas of change identified during the impact assessment will not have any material impact on the Group's revenue recognition. Cloetta is currently in the process of updating:

- Its accounting systems;
- Accounting manuals;
- Controls framework; and
- Management reporting.

The above activities are not significant for Cloetta. The Group will adopt the standard from 1 January 2018 using the full retrospective approach which means that the cumulative impact of the adoption, which is not expected to be material, will be recognized in retained earnings as of 1 January 2017 and that comparatives will be restated.

IFRS 16, 'Leases', was issued in January 2016 and supersedes IAS 17 Leases. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The standard is mandatory for financial years commencing on or after 1 January 2019. A company can choose to apply IFRS 16 before this date but only if it also applies IFRS 15 Revenue from contracts with customers.

The standard will affect the accounting for the Group's operating leases. The Group started the implementation process in 2016 and is on track with the transition process as disclosed in our consolidated annual report 2016. Following the impact assessment, Cloetta has nearly completed the extraction of relevant data points from all lease contracts. These will be used for the impact analysis and further quantification of the impact. The operating leases that will be recorded on Cloetta's balance sheet as a result of IFRS 16 will mainly be for land and buildings (offices and warehouses), transport (cars, forklifts and trucks) and other equipment (e.g. IT, machinery, equipment, printers and coffee machines).

At this stage, the Group is not able to quantify the impact of the new rules on the Group's financial statements or to decide on the method of first-time application. However, the Group does not intend to adopt the standard before its effective date.

IFRS 23, 'Uncertainty over income tax treatments' clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities.

There are no other IFRSs or IFRIC interpretations that are not yet effective that can be expected to have an impact on the Group.

Note 35 Events after the balance sheet date

After the end of the reporting period, no significant events have taken place that could affect the company's operations.

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Parent Company profit and loss account

SEKm	Note	2017	2016
Net sales	P2	107	100
Gross profit		**107**	**100**
General and administrative expenses	P3,P4	–129	–122
Operating loss		**–22**	**–22**
Exchange differences on borrowings and cash	P5	3	1
Other financial income	P5	34	119
Other financial expenses	P5	–14	–85
Net financial items		**23**	**35**
Profit before tax		**1**	**13**
Income tax	P6	0	–3
Profit for the year		**1**	**10**

Profit for the year corresponds to comprehensive income for the year.

Primary activities

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

Parent Company balance sheet

SEKm	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets		–	0
Deferred tax asset	P7	5	5
Shareholdings in group companies	P8	4,884	4,884
Receivables from group companies	P15	464	440
Total non-current assets		**5,353**	**5,329**
Current assets			
Receivables from group companies	P15	50	116
Current income tax assets	P7	–	–
Other receivables		–	0
Prepaid expenses and accrued income		1	1
Cash and bank	P9	–	–
Total current assets		**51**	**117**
Total assets		**5,404**	**5,446**
EQUITY AND LIABILITIES			
Equity			
Share capital		1,443	1,443
Share premium		2,713	2,713
Retained earnings including profit for the year		–267	–63
Equity attributable to owners of the Parent Company	P10	**3,889**	**4,093**
Non-current liabilities			
Borrowings	P11	–	999
Payables to group companies	P15	134	132
Derivative financial instruments	P12	1	0
Provisions		1	1
Total non-current liabilities		**136**	**1,132**
Current liabilities			
Payables to group companies	P15	356	192
Borrowings	P17	999	–
Trade payables	P13	3	3
Other current liabilities	P13	4	3
Derivative financial instruments	P12	–	4
Accrued expenses and deferred income	P13	17	19
Total current liabilities		**1,379**	**221**
TOTAL EQUITY AND LIABILITIES		**5,404**	**5,446**

Parent Company statement of changes in equity

SEKm	Share capital	Share premium reserve	Retained earnings	Total equity
Balance at 1 January 2016	1,443	2,713	62	4,218
Comprehensive income				
Profit for the year	–	–	10	10
Total comprehensive income for 2016	–	–	10	10
Transactions with owners				
Share-based payments	–	–	9	9
Dividends	–	–	–144	–144
Total transactions with owners	–	–	–135	–135
Balance at 31 December 2016	1,443	2,713	–63	4,093
Comprehensive income				
Profit for the year	–	–	1	1
Total comprehensive income for 2017	–	–	1	1
Transactions with owners				
Share-based payments	–	–	11	11
Dividends	–	–	–216	–216
Total transactions with owners	–	–	–205	–205
Balance at 31 December 2017	1,443	2,713	–267	3,889

Profit for the year corresponds to comprehensive income for the year.

Total equity is attributable to the owners of the Parent Company.

Parent Company cash flow statement

SEKm	Note	2017	2016
Operating loss		–22	–22
Adjustments for non-cash items			
Unrealized foreign exchange gains/losses		3	0
Interest received		–	0
Interest paid		–11	–71
Income tax paid		0	0
Cash flow from operating activities before changes in working capital		**–30**	**–93**
Cash flow from changes in working capital			
Change in operating receivables		82	61
Change in operating liabilities		164	178
Cash flow from operating activities		**216**	**146**
Cash flow from operating and investing activities		**216**	**146**
Financing activities			
Repayment of interest-bearing borrowings		–	–1,000
Proceeds from borrowings (net of transaction cost)		–	998
Dividends to shareholders		–216	–144
Cash flow from financing activities		**–216**	**–146**
Cash flow for the year		**–**	**–**
Cash and cash equivalents at beginning of year	P9	–	–
Cash flow for the year		–	–
Exchange difference		–	–
Cash and cash equivalents at end of year	P9	**–**	**–**

Notes to the Parent Company financial statements

Note P1 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, Accounting for Legal Entities. The statements issued by the Board with respect to listed companies are also applied. RFR 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. These financial statements include the financial statements of the Parent Company covering the period from 1 January to 31 December 2017.

Changed accounting standards

Neither revised IFRSs, nor revised RFR 2 (January 2016) effective from 1 January 2017 have entailed any practical change in accounting standards for the Parent Company.

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.

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

Borrowing costs

In the Parent Company, borrowing costs are expensed when incurred and recognized in the other financial expenses in the profit and loss account.

Group contributions

Group contributions received are recognized in the other financial income in the profit and loss account. Group contributions paid to group companies are reported by the Parent Company as an investment in shareholdings in group companies in the balance sheet.

Shareholdings in group companies

In the Parent Company, shareholdings in group companies are accounted for in accordance with the cost method of accounting. The transaction costs are included in the carrying amount of shareholdings in group companies.

Untaxed reserves

Untaxed reserves are recognized without division into equity and deferred tax liabilities. Accordingly, no portion of appropriations is allocated to deferred tax expense in the profit and loss account.

Anticipated dividends

Anticipated dividends from group companies are recognized 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.

Employee benefits

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.

Remeasurements arising from defined benefit plans also include the return on plan assets excluding interest and the effect of the asset ceiling, if any, excluding interest. Remeasurements are recognized in other comprehensive income when incurred. All other expenses related to defined benefit plans are recognized in the administrative expenses in the profit and loss account when incurred.

Financial guarantees

The Parent Company's financial guarantee contracts consist primarily of guarantees issued on behalf of group companies. A financial guarantee contract means that the company has an obligation to reimburse the holder of a debt instrument for losses the holder incurs caused by the failure of the named debtor to fulfil an obligation to pay. For reporting of financial guarantee contracts, the Parent Company applies a voluntary exemption that is permitted by the Swedish Financial Reporting Board. The voluntary exemption refers to financial guarantees issued on behalf group companies. The Parent Company recognizes 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. The costs are recognized in the administrative expenses in the profit and loss account.

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Note P2 Breakdown of income

The net sales of SEK 107m (100) refer to intra-group services.

The breakdown of net sales by market is as follows

SEKm	2017	2016
Sweden	46	41
The Netherlands	22	16
Italy	8	10
Finland	9	8
Other	22	25
Total	**107**	**100**

Note P3 Personnel expenses and number of employees

Personnel expenses are specified as follows

SEKm	2017	2016
Salaries and remuneration		
Group Management Team		
– Sweden	14	23
Of which, short-term variable compensation		
– Sweden	0	6
Other employees		
– Sweden	0	0
Total salaries and remuneration	**14**	**23**
Pension costs		
Group Management Team		
– Defined contribution plans	4	3
– Defined benefit plans	0	0
Total pension costs	**4**	**3**
Social security expenses, all employees	9	7
Total pension costs and social security expenses	**13**	**10**
Total personnel expenses	**27**	**33**

See pages 80–81 for details on remuneration to Group Management Team.

The company expenses the pension obligation related to the defined benefit pension plans, which are secured through credit insurance with and administered by Försäkringsbolaget PRI Pensionsgaranti, Mutual in the administrative expenses in the profit and loss account.

The average number of employees is 6 (6), of which 1 (2) woman. All employees are employed in Sweden.

The specification of gender distribution in the Board of Directors and Group Management Team is as follows:

%	2017	2016
Percentage of women		
Board of Directors	43	43
Group Management Team	20	20

Note P4 Audit fees

SEKm	2017	2016
Fee for auditing services	**3**	**2**
Fee for other services		
– Tax advice	0	0
– Audit-related advice	1	1
– Other	0	0
Total other services	**1**	**1**
Total audit fees	**4**	**3**

Auditing services refer to the auditing of the Parent Company's statutory financial statements, the Parent Company's administration by the Board of Directors and the President/CEO and the audit of remuneration to Group Management.

For both financial years 2016 and 2017, KPMG was elected as the auditor of the Group.

Note P5 Net financial items

SEKm	2017	2016
Exchange differences on borrowings and cash	**3**	**1**
Group contributions	16	87
Interest income, group companies	15	19
Interest income on financial liabilities measured at amortized cost	3	13
Other financial income	**34**	**119**
Interest expenses, third-party borrowings	–8	–47
Call option fee redemption senior secured notes	–	–30
Interest expenses, group companies	–2	–6
Interest expenses on third-party pensions	–	0
Other interest expenses	–4	–2
Other financial expenses	**–14**	**–85**
Net financial items	**23**	**35**

Note P6 Income taxes

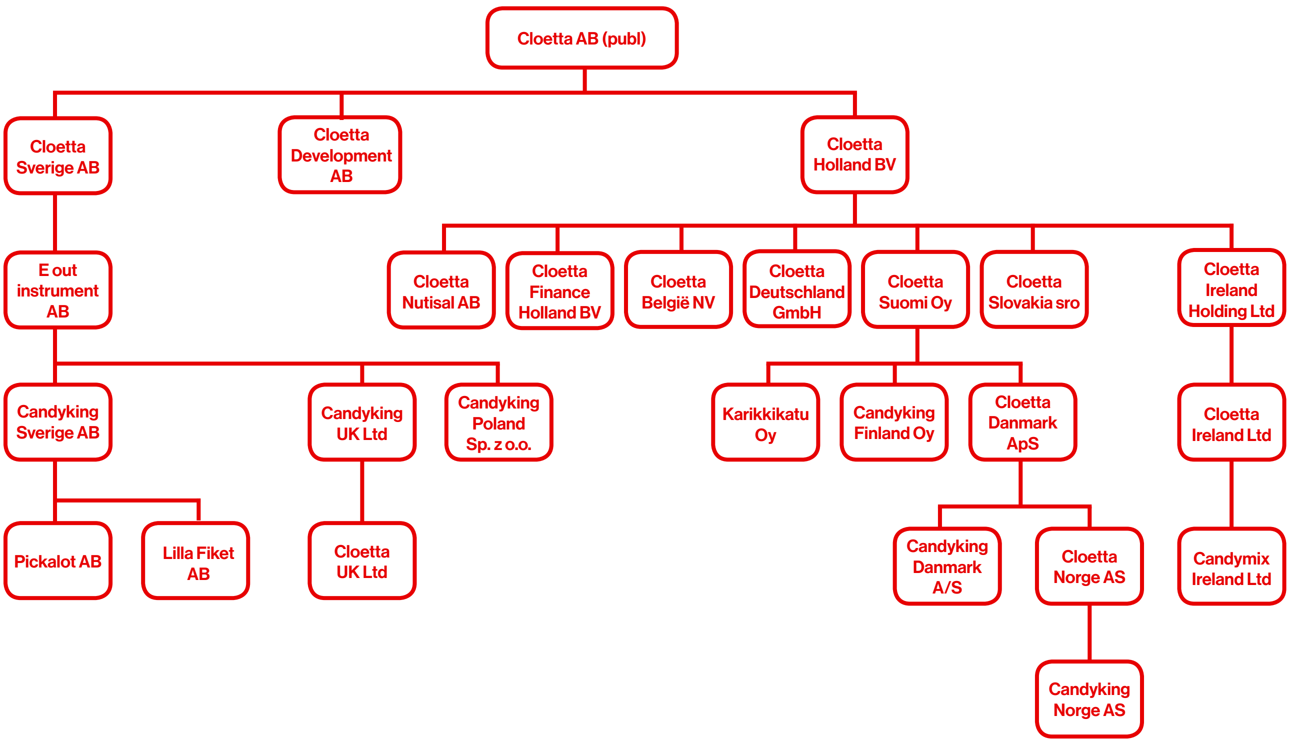
SEKm	2017	2016
Current income tax	–	–
Deferred income tax	0	–3
Total	**0**	**–3**
The year's income tax expense corresponds to an effective tax rate of, %	6.6	22.6

SEKm	2017	2016
The difference between the effective tax rate and the statutory tax rate in Sweden is attributable to the following items:		
Taxable profit from ordinary activities	1	13
Tax calculated at applicable tax rate for the Parent Company	0	–3
Expenses not deductible for tax purposes	0	0
Other	0	0
Income tax	**0**	**–3**
Reported effective tax rate, %	6.6	22.6
Tax rate in Sweden, %	22.0	22.0

Note P7 Deferred and current income tax

Deferred tax assets refer to the difference between the tax base of the defined asset or liability and its carrying amount as recognized in the financial statements. Deferred tax for the period was SEK 5m (5) and is considered to be realized after more than 12 months. The recognized deferred taxes comprise deductible temporary differences of SEK 5m (5) and unutilized tax losses carried forward of SEK 0m (0). There are no unrecognized deferred taxes.

Note P8 Shareholdings in group companies



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SEKm	Corp. ID no.	Domicile	% of capital 2017	% of capital 2016	Carrying amount 2017	Carrying amount 2016
Cloetta Holland B.V.	34221053	Amsterdam, the Netherlands	100	100	4,087	4,087
Cloetta België N.V.	0404183756	Turnhout, Belgium	100	100	–	–
Cloetta Suomi Oy	1933121-3	Turku, Finland	100	100	–	–
Candyking Finland Oy[9,14]	0732591-6	Helsinki, Finland	100	–	–	–
Karikkikatu Oy	0723577-7	Turku, Finland	100	100	–	–
Cloetta Danmark ApS	28106866	Brøndby, Denmark	100	100	–	–
Candyking Danmark A/S[9,14]	27720390	Randers, Denmark	100	–	–	–
Cloetta Norge AS	987943033	Høvik, Norway	100	100	–	–
Candyking Norge AS[9,14]	979 514 743	Oslo, Norway	100	–	–	–
Cloetta Deutschland GmbH	HRB 9561	Bocholt, Germany	100	100	–	–
Cloetta Italia S.r.l.[12]	CR - 163489	Cremona, Italy	–	100	–	–
Cloetta USA Inc.[10]	EIN 46-2706408	Wilmington, United States	–	100	–	–
Cloetta Finance Holland B.V.	20078943	Amsterdam, the Netherlands	100	100	–	–
Cloetta Slovakia s.r.o.	35 962 488	Bratislava, Slovakia	100	100	–	–
Cloetta GGS Holding Ltd.[3]	08520582	London, United Kingdom	–	100	–	–
Cloetta Nutisal AB	556706-9264	Helsingborg, Sweden	100	100	–	–
Cloetta Ireland Holding Ltd.	544426	Dublin, Ireland	100	100	–	–
Cloetta Ireland Ltd.[2,11]	285910	Dublin, Ireland	100	100	–	–
Candymix Ireland Ltd.[9,14]	494493	Dublin, Ireland	100	–	–	–
Locawo B.V.[6]	20111616	Roosendaal, The Netherlands	–	100	–	–
Traditional Sweets B.V.[7]	20024278	Roosendaal, The Netherlands	–	100	–	–
Chocolade- en suikerwerkfabriek Marandi B.V.[7]	09065319	Lunteren, The Netherlands	–	100	–	–
Lonka Sales B.V.[6]	53765028	Roosendaal, The Netherlands	–	100	–	–
Confiserie Lonka suikerwerkfabriek B.V.[6]	20106944	Roosendaal, The Netherlands	–	100	–	–
Chocolade- en suikerwerkenfabriek Donkers B.V.[8]	09053079	Dieren, The Netherlands	–	100	–	–
Cloetta Sverige AB	556674-9155	Malmö, Sweden	100	100	795	795
E out instrument AB[5]	559094-9748	Linköping, Sweden	100	–	–	–
Candyking Holding AB[9,13]	556738-8219	Stockholm, Sweden	–	–	–	–
Candyking Sverige AB[9]	556319-6780	Stockholm, Sweden	100	–	–	–
Pickalot AB[9]	556730-1857	Stockholm, Sweden	100	–	–	–
Lilla Fiket AB[9,14]	559016-4181	Stockholm, Sweden	100	–	–	–
Candyking UK Ltd.[9]	01726257	Hampshire, United Kingdom	100	–	–	–
Cloetta UK Ltd.[1,14]	06775890	Heysham, United Kingdom	100	100	–	–
FTF Sweets USA Inc.[4]	211476123	Newark, United States	–	100	–	–
Candyking Poland Sp. z o.o.[9]	0000347591	Warsaw, Poland	100	–	–	–
Cloetta Development AB	556377-3182	Linköping, Sweden	100	100	2	2
Total					**4,884**	**4,884**

1) On 1 June 2016 FTF Sweets Ltd. was renamed to Cloetta UK Ltd.
2) On 4 July 2016 Cloetta Ireland Holding Ltd. acquired the remaining 25 per cent of the outstanding shares in Cloetta Ireland Ltd.
3) On 31 December 2016 Cloetta GGS Holding Ltd. was in the process of being struck off and was dissolved on 11 April 2017.
4) On 8 February 2017 FTF Sweets USA Inc. was dissolved. The three years unwinding period ends on 8 February 2020.
5) On 13 February 2017 Cloetta Sverige AB acquired 100 per cent of the shares of the Swedish company E out instrument AB.
6) On 1 March 2017 Locawo B.V., Lonka Sales B.V. and Confiserie Lonka Suikerwerkfabriek B.V. merged into Cloetta Holland B.V.
7) On 16 March 2017 Traditional Sweets B.V. and Chocolade- en suikerwerkfabriek Marandi B.V. were liquidated.
8) On 26 April 2017 Chocolade- en suikerwerkenfabriek Donkers B.V. merged into Cloetta Holland B.V.
9) On 28 April 2017 E out instrument AB acquired Candyking Holding AB and its subsidiaries.
10) On 18 May 2017 Cloetta USA Inc. was transferred from Cloetta Italia S.r.l. to Cloetta Holland B.V. On 23 May 2017 Cloetta USA Inc. was dissolved. The three years unwinding period ends on 23 May 2020.
11) On 1 June 2017 Aran Candy Ltd. was renamed to Cloetta Ireland Ltd.
12) On 5 September 2017 Cloetta Italia S.r.l. was sold to Katjes International GmbH.
13) On 4 October 2017 Candyking Holding AB merged into E out instrument AB.
14) On 1 November 2017 E out instrument AB sold Lilla Fiket AB to Candyking Sverige AB, Candyking Norge AS to Cloetta Norge AS, Candyking Finland Oy to Cloetta Suomi Oy and Candyking Danmark A/S to Cloetta Danmark ApS. On 1 November 2017 Candyking UK Ltd. sold Candymix Ireland Ltd. to Cloetta Ireland Ltd and Cloetta Holland B.V. sold Cloetta UK Ltd. to Candyking UK Ltd.

See Note 1 and Note 28 for disclosures on changes in group structure.

Note P9 Cash and cash equivalents

A Notional Group Account is in place which is held by Cloetta Holland B.V. As a result, no cash is presented for Cloetta AB (publ).

See Note 18 for further details.

Note P10 Equity

Share capital

See Note 20 for a description of the share capital of the Parent Company.

Non-restricted equity

Retained earnings

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

Dividend

The Annual General Meeting (AGM) on 4 April 2017 and 12 April 2016 approved the following dividend

SEKm	2017	2016
Dividend per share, SEK	0.75	0.50
Total dividend, SEKm	216	144
In percentage of profit for the previous year, excluding the impact of impairment loss	53	37
Payment date	April 2017	April 2016

After the reporting date, the following dividend was proposed by the Board of Directors. The dividend has not been recognized as liability in the balance sheet

SEKm	2017	2016
Ordinary dividend per share, SEK	0.75	0.75
Special dividend per share, SEK	0.75	–
Total dividend, SEKm	433	216

The Board of Directors proposes that the total earnings in the Parent Company at the disposal of the AGM of SEK 2,445m (2,650) are to be distributed to the shareholders for an amount of SEK 433m (216) and to be carried forward to new account for an amount of SEK 2,012m (2,433).

Note P11 Borrowings

The Parent Company's borrowings consist of loans from credit institutions for a net amount of SEK 999m (999).

The following table shows the reconciliation of movements of liabilities to cash flows arising from financing activities

SEKm	Long-term borrowings	Short-term borrowing	Total
Balance at 1 January 2016	**993**	**–**	**993**
Changes from financing cash flows			
Proceeds from loans	1,000	–	1,000
Repayment of senior secured notes	–1,000	–	–1,000
Total changes from financing cash flows	**0**	**–**	**0**
Other changes			
Capitalization transaction costs	–2	–	–2
Amortization of capitalized transaction costs	9	–	9
Interest expenses, third-party borrowings	54	–	54
Interest paid	–55	–	–55
Total other changes	**6**	**–**	**6**
Balance at 31 December 2016	**999**	**–**	**999**
Changes from financing cash flows			
Proceeds from loans	–	–	–
Repayment of loans	–	–	–
Other changes from financing cash flows	–	–	–
Total changes from financing cash flows	**–**	**–**	**–**
Other changes			
Reclassification between long-term and short-term borrowings	–999	999	–
Amortization of capitalized transaction costs	1	–	1
Interest expenses, third-party borrowings	6	–	6
Interest paid	–7	–	–7
Total other changes	**–999**	**999**	**0**
Balance at 31 December 2017	**–**	**999**	**999**

See Note 22 for the disclosure of the borrowings.

Note P12 Derivative financial instruments

The derivative financial instruments comprise single currency interest rate swap liabilities amounting to SEK 1m (4) of which SEK 1m (0) is non-current of nature.

Note P13 Trade and other payables

SEKm	31 Dec 2017	31 Dec 2016
Trade payables	3	3
Other current liabilities	4	3
Accrued expenses and deferred income	17	19
Total	**24**	**25**

Accrued expenses and deferred income amount to SEK 17m (19), of which SEK 11m (9) is related to accrued personnel-related expenses and SEK 6m (10) to other accrued expenses and deferred income.

Note P14 Pledged assets and contingent liabilities

SEKm	31 Dec 2017	31 Dec 2016
Contingent liabilities		
Guarantees on behalf of group companies	816	796
Guarantee for loans from credit institutions for group companies	1,719	1,677
Total	**2,535**	**2,473**

The company issued a parent company guarantee pursuant to Article 403, Book 2 of the Dutch Civil Code in respect of Cloetta Holland B.V. and Cloetta Finance Holland B.V. This means that Cloetta AB declares and accepts, under reservation of legal repeal of the declaration, joint and several liability for the debts resulting from legal acts of Cloetta Holland B.V. and Cloetta Finance Holland B.V. As the probability of a settlement is remote, an estimate of its financial effect is not practical to be calculated. The term and revolving facilities agreement is unsecured in nature.

Note P15 Related party transactions

The Parent Company's holdings of shares and participations in subsidiaries are specified in Note P8.

Receivables from and liabilities to subsidiaries are broken down as follows

SEKm	31 Dec 2017	31 Dec 2016
Non-current interest-bearing receivables	464	440
Current interest-free receivables	50	116
Non-current interest-bearing payables	–134	–132
Current interest-bearing payables	–341	–179
Current interest-free payables	–15	–13
Total	**24**	**232**

For the Parent Company, SEK 107m (100), equal to 100 per cent (100) of the year's net sales, and SEK 54m (45), equal to 42 per cent (37) of the year's purchases, refer to group companies in the Cloetta Group. The prices of goods and services sold to and purchased from related parties are set on market-based terms.

At 31 December 2017 the Parent Company's receivables from group companies amounted to SEK 514m (556) and liabilities to subsidiaries amounted to SEK 490m (324). Transactions with related parties are priced on market-based terms. Total costs related to the share-based long-term incentive plan amounted to SEK 13m (10), of which SEK 6m (5) is related to Group Management Team.

Proposed appropriation of earnings

Earnings in the Parent Company at the disposal of the Annual General Meeting	2017
Share premium reserve, SEK	2,711,620,366
Retained earnings, SEK	–267,680,709
Profit for the year, SEK	1,414,727
Total, SEK	**2,445,354,384**

The Board of Directors proposes that dividends be paid in a total amount of SEK 432,928,948 equal to SEK 1.50 per share. The Board of Directors proposes that the earnings be disposed of as follows:

The earnings are to be disposed as follows:	
To be distributed to the shareholders, SEK	432,928,948
To be carried forward to new account, SEK	2,012,425,436
Total, SEK	**2,445,354,384**

The number of shares at 31 December 2017 was 288.619.299.

The Board of Directors and the President 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. The statutory Sustainability Report, comprising those areas in the Cloetta AB (publ) annual report with content specified on page 10 has been approved for publication by the Board.

Stockholm, 7 March 2018

Lilian Fossum Biner
Chairman

Lottie Knutson
Member of the Board

Mikael Norman
Member of the Board

Adriaan Nühn
Member of the Board

Mikael Svenfelt
Member of the Board

Camilla Svenfelt
Member of the Board

Mikael Aru
Member of the Board

Lena Grönedal
Employee Board member

Mikael Ström
Employee Board member

Henri de Sauvage-Nolting
President and CEO

Our audit report was issued on 7 March 2018.

KPMG AB

Tomas Forslund
Authorised Public Accountant

The profit and loss accounts and balance sheets of the Group and the Parent Company are subject to approval by the AGM on 16 April 2018. 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 8 March 2018, at 08:00 CET.

Auditor's report

To the general meeting of the shareholders of Cloetta AB (publ), corp. id 556308-8144

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Cloetta AB (publ) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 1–4 and 62–139 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of goodwill and trademarks

See disclosure Note 12 and accounting principles on pages 97–98 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

As of 31 December 2017 the group reported goodwill of SEK 2,261m and trademarks of SEK 3,045m.

The carrying amounts were subject to impairment tests which include both complexity and elements of management judgements with a significant impact. Impairment tests were performed for all cash generating units and groups of cash generating units.

When preparing the impairment tests, management makes judgements of the cash generating units and groups of cash generating units future internal and external developments and plans.

An example of such judgments includes prediction of future cash flows, which among other things requires expectations concerning future development and market conditions.

Other important assumptions are the parameters and underlying assumptions for the determination of the discount rate to be used in order to reflect time value of money and particular risks that each cash generating unit and group of cash generating units is exposed to.

There is a risk that the assessments made to form the basis of the estimated recoverable amount may have to be changed, which could directly affect the reported result for the period.

Response in the audit

We have assessed the impairment tests in order to conclude whether these were performed in accordance with the prescribed method. We have assessed the reasonableness of management assumptions, which have been derived from all available financial information confirmed by the audit committee and the board of directors, concerning future cash flows and the discount rates by evaluating management's written documentation including future plans. We also interviewed management and evaluated previous year's estimates of future cash flows in relation to actual results.

In order to assess how changes in management assumptions may affect the recoverable amount we evaluated sensitivity analysis of the recoverable amounts for the cash generating units and group of cash generating units.

We have involved an internal accounting specialist to assess the accounting effects of the impairment tests performed and also to evaluate the accuracy of the disclosures of goodwill and trademarks in the annual account and consolidated accounts.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 5–61 and 143–161. The Board of Directors and the President/CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President/CEO

The Board of Directors and the President/CEO are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President/CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the President/CEO are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President/CEO intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President/CEO.
- Conclude on the appropriateness of the Board of Directors' and the President/CEO's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President/CEO of Cloetta AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President/CEO be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the President/CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The President/CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President/CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Cloetta AB (publ) by the general meeting of the shareholders on 4 April 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1997.

Stockholm 7 March 2018

KPMG AB
Tomas Forslund
Authorized Public Accountant

Ten-year overview

SEKm	2017	2016[1]	2015	2014	2013	2012	2011	2010	2009	2008
Profit and loss account in summary										
Net sales	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486	5,256
Cost of goods sold	–3,678	–3,084	–3,463	–3,325	–3,081	–3,157	–2,911	–3,058	–3,422	–3,198
Gross profit	**2,106**	**2,023**	**2,211**	**1,988**	**1,812**	**1,702**	**1,747**	**1,961**	**2,064**	**2,058**
Other income	6	–	0	5	12	13	1	16	0	5
Selling expenses	–972	–806	–949	–892	–850	–888	–915	–992	–1,019	–987
General and administrative expenses	–613	–582	–591	–524	–556	–702	–473	–471	–503	–567
Operating profit/loss	**527**	**635**	**671**	**577**	**418**	**125**	**360**	**514**	**542**	**509**
Exchange differences borrowings and cash and cash equivalents in foreign currencies	–17	–8	–1	–11	–12	20	–12	–13	–63	–27
Other financial income	7	17	6	4	24	5	11	5	3	11
Other financial expenses	–74	–175	–183	–232	–220	–290	–599	–634	–677	–712
Net financial items	**–84**	**–166**	**–178**	**–239**	**–208**	**–265**	**–600**	**–642**	**–737**	**–728**
Profit/loss before tax	**443**	**469**	**493**	**338**	**210**	**–140**	**–240**	**–128**	**–195**	**–219**
Income tax	–206	–122	–107	–96	54	67	172	–211	22	–83
Profit/loss from continuing operations	**237**	**347**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**	**–302**
Loss from discontinued operation, net of tax	–334	–538	–	–	–	–	–	–	–	–14
Profit/loss for the year	**–97**	**–191**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**	**–316**
Profit/loss for the year attributable to:										
Owners of the Parent Company										
Continuing operations	237	347	386	242	264	–73	–68	–339	–173	–302
Discontinued operation	–334	–538	–	–	–	–	–	–	–	–14
Total	**–97**	–191	386	242	264	–73	–68	–339	–173	–316

SEKm	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Balance sheet in summary										
Intangible assets	5,490	5,354	5,948	5,882	5,252	5,099	4,811	4,822	5,383	5,646
Property, plant and equipment	1,338	1,700	1,698	1,667	1,660	1,611	1,318	1,333	1,623	1,831
Deferred tax asset	20	54	64	84	73	473	447	207	258	286
Other financial assets	11	13	27	105	91	88	261	147	45	34
Total non-current assets	**6,859**	**7,121**	**7,737**	**7,738**	**7,076**	**7,271**	**6,837**	**6,509**	**7,309**	**7,797**
Inventories	745	780	786	853	798	773	640	566	631	726
Trade and other receivables	881	988	975	1,121	933	951	1,051	1,198	1,313	1,313
Current income tax assets	8	36	3	3	0	4	2	1	–	–
Derivative financial instruments	0	4	1	2	–	–	–	–	–	–
Cash and cash equivalents	759	298	246	229	167	306	97	220	245	177
Total current assets	**2,393**	**2,106**	**2,011**	**2,208**	**1,898**	**2,034**	**1,790**	**1,985**	**2,189**	**2,216**
Assets held for sale	–	9	11	16	15	35	15	–	–	–
TOTAL ASSETS	**9,252**	**9,236**	**9,759**	**9,962**	**8,989**	**9,340**	**8,642**	**8,494**	**9,498**	**10,013**
Equity	**3,818**	**4,199**	**4,344**	**4,048**	**3,747**	**3,326**	**–385**	**–1,117**	**–619**	**–725**
Long-term borrowings	1,715	2,666	2,612	2,993	3,096	2,516	6,077	6,826	7,224	7,985
Deferred tax liability	703	586	621	483	397	824	728	714	789	870
Derivative financial instruments	2	12	44	56	21	3	0	0	–	–
Other non-current liabilities	138	–	43	147	2	–	–	–	–	–
Provisions for pensions and other long-term employee benefits	374	396	378	505	360	452	250	222	250	252
Provisions	5	22	10	16	7	11	24	29	28	31
Total non-current liabilities	**2,937**	**3,682**	**3,708**	**4,200**	**3,883**	**3,806**	**7,079**	**7,791**	**8,291**	**9,138**
Short-term borrowings	999	2	344	423	212	747	747	642	680	333
Derivative financial instruments	71	54	35	16	2	21	0	0	0	0
Trade and other payables	1,394	1,196	1,216	1,152	967	1,264	1,038	975	1,073	1,189
Provisions	3	64	57	65	79	79	60	78	66	76
Current income tax liabilities	30	39	55	58	99	97	103	125	7	2
Total current liabilities	**2,497**	**1,355**	**1,707**	**1,714**	**1,359**	**2,208**	**1,948**	**1,820**	**1,826**	**1,600**
TOTAL EQUITY AND LIABILITIES	**9,252**	**9,236**	**9,759**	**9,962**	**8,989**	**9,340**	**8,642**	**8,494**	**9,498**	**10,013**

1) Comparative figures for profit and loss items have been restated for discontinued operation.

Key ratios

SEKm	2017	2016[1]	2015	2014	2013	2012	2011[2]	2010[2]	2009[2]	2008[2]
Profit										
Net sales	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486	5,256
Net sales, change %	13.3	na	6.8	8.6	0.7	4.3	na	na	na	na
Organic net sales, change, %	–1.2	na	1.5	1.0	–1.0	–4.1	na	na	na	na
Gross margin, %	36.4	39.6	39.0	37.4	37.0	35.0	37.5	39.1	37.6	39.2
Depreciation	–218	–206	–227	–198	–175	–167	–115	–125	–144	–127
Amortization	–11	–5	–4	–3	–2	–1	–8	–18	–10	–7
Impairment loss other non-current assets	–9	–2	–	–	–	–	–	–	–	–
Operating profit (EBIT), adjusted	604	695	690	632	585	432	565	686	698	670
Operating profit margin (EBIT margin), adjusted %	10.4	13.6	12.2	11.9	12.0	8.9	12.1	13.7	12.7	12.7
Operating profit/loss (EBIT)	527	635	671	577	418	125	360	514	542	509
Operating profit/loss margin (EBIT margin), %	9.1	12.4	11.8	10.9	8.5	2.6	7.8	10.3	9.9	9.7
EBITDA, adjusted	833	906	921	833	762	600	688	829	852	804
EBITDA	765	848	902	778	595	293	483	657	696	643
Profit margin, %	7.7	9.2	8.7	6.4	4.3	–2.9	–5.1	–3.3	–3.6	–4.2
Financial position										
Working capital	232	572	628	819	763	458	586	649	716	806
Capital expenditure	157	170	161	186	211	269	224	97	107	101
Net debt	2,035	2,443	2,818	3,308	3,23	3,056	2,827	3,07	3,812	4,371
Capital employed	6,979	7,329	7,756	8,041	7,438	7,066	6,682	6,575	7,543	7,845
Return on capital employed, %[4,5]	8.2	11.1	8.6	7.5	6.1	1.9	5.7	na	na	na
Equity/assets ratio, %	41.3	45.5	44.5	40.6	41.7	35.6	–4.5	–13.2	–6.5	–7.2
Net debt/equity ratio, %	53.3	58.2	64.9	81.7	86.2	91.9	–734.3	–274.8	–615.8	–602.9
Return on equity, %[4]	6.2	–4.5	8.9	6.0	7.0	–2.2	na	na	na	na
Equity per share, SEK	13.2	14.5	15.1	14.0	13.0	11.5	na	na	na	na
Net debt/EBITDA, x[4]	2.39	2.44	3.03	3.97	4.19	4.90	na	na	na	na
Cash flow										
Cash flow from operating activities	712	889	927	500	131	330	492	379	540	365
Cash flow from investing activities	–22	–322	–367	–369	–202	–1,506	–335	–83	–121	–140
Cash flow after investments	690	567	560	131	–71	–1,176	157	296	419	225
Cash conversion, %[6]	83.2	84.5	82.5	77.7	72.3	55.2	67.4	88.3	87.4	87.4
Cash flow from operating activities per share, SEK	2.5	3.1	3.2	1.7	0.5	1.1	na	na	na	na
Employees										
Average number of employees[7]	2,467	2,115	2,583	2,533	2,472	2,579	2,192	2,275	2,309	2,392
Share data										
Earnings per share, SEK										
Basic	–0.34	–0.67	1.35	0.84	0.92	-0.26	na	na	na	na
Diluted[3]	–0.34	–0.67	1.35	0.84	0.92	-0.26	na	na	na	na
Earnings per share from continuing operations, SEK										
Basic	0.83	1.21	1.35	0.84	0.92	-0.26	na	na	na	na
Diluted[3]	0.83	1.21	1.35	0.84	0.92	-0.26	na	na	na	na
Earnings per share from discontinued operation, SEK										
Basic	–1.17	–1.88	na	na	na	na	na	na	na	na
Diluted[3]	–1.17	–1.88	na	na	na	na	na	na	na	na
Ordinary dividend per share, proposed, SEK	0.75	0.75	0.50	–	–	–	–	–	–	
Special dividend per share, proposed, SEK	0.75	–	–	–	–	–	–	–	–	–
Number of shares at end of period	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	288,619,299	262,137,526	na	na	na
Average number of shares (basic)[4,5]	286,320,464	286,193,024	286,290,840	286,987,990	288,010,947	276,132,021	262,137,526	na	na	na
Average number of shares (diluted)[4,5]	286,492,178	286,447,465	286,561,607	287,092,780	288,026,408	276,132,021	262,137,526	na	na	na
Exchange Rates										
EUR, average	9.6362	9.4700	9.3445	9.1051	8.6513	8.6958	9.0228	9.5261	10.6165	9.5999
EUR, end of period	9.8210	9.5804	9.1679	9.3829	8.8630	8.5750	8.9100	8.9700	10.2500	10.9100
NOK, average	1.0324	1.0200	1.0432	1.0882	1.1071	1.1643	1.1577	1.1905	1.2144	1.1689
NOK, end of period	0.9997	1.0548	0.9563	1.0439	1.0592	1.1667	1.1467	1.1493	1.2372	1.1161
GBP, average	10.9909	11.5480	12.8736	11.3118	10.1987	10.7429	10.4057	11.1030	11.9012	12.0936
GBP, end of period	11.0684	11.1673	12.4835	12.0340	10.6501	10.5215	10.6668	10.4109	11.5493	11.4337
DKK, average	1.2956	1.2721	1.2529	1.2215	1.1601	1.1682	1.2112	1.2794	1.4258	1.2875
DKK, end of period	1.3192	1.2888	1.2287	1.2604	1.1882	1.1495	1.1987	1.2035	1.3775	1.4644

1) Comparative figures for profit and loss account items have been restated for discontinued operation.
2) The key figures per share for the years 2008–2011 are not representative for the current group due to a completely different equity structure before the merger between Cloetta and Leaf.
3) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver the shares to the participants of the long-term share-based incentive plan. The table in Note 23 presents the movements in the contracts as from 1 January 2016.
4) Comparative figures have not been restated for discontinued operation, as only either the numerator or denominator in the calculation has been restated for discontinued operation.
5) Return on capital employed for 2017 is calculated for continuing operations. Return on capital employed for 2016 is calculated pro-forma for continuing operations.
6) The capital expenditure included in the calculation of the cash conversion has been adjusted for the capital expenditure related to discontinued operation.
7) Average number of employees is presented for continuing operations.

Reconciliation alternative performance measures

SEKm	2017	2016[1]	2015	2014	2013	2012	2011	2010	2009	2008
Items affecting comparability										
Acquisitions, integration and factory restructurings	–62	–43	–47	–85	–167	na	na	na	na	na
of which: impairment loss other non–current assets	*–9*	*–2*	*–*	*–*	*–*	*na*	*na*	*na*	*na*	*na*
Remeasurements of contingent considerations	5	–17	33	27	–	na	na	na	na	na
Remeasurements of assets held for sale	–	–	–5	–	–	na	na	na	na	na
Other items affecting comparability	–20	–	–	3	–	na	na	na	na	na
Items affecting comparability*	**–77**	**–60**	**–19**	**–55**	**–167**	**–307**	**–205**	**–172**	**–156**	**–161**
*Corresponding line in the condensed consolidated profit and loss account:										
Net Sales	–	–	–4	–	–	na	na	na	na	na
Cost of goods sold	–39	–15	–22	–51	–121	na	na	na	na	na
Other operating income	4	–	–	3	12	na	na	na	na	na
Selling expenses	–6	–	–12	–7	–4	na	na	na	na	na
General and administrative expenses	–36	–45	19	–	–54	na	na	na	na	na
Total	–77	–60	–19	–55	–167	–307	–205	–172	–156	–161
Operating profit, adjusted										
Operating profit	527	635	671	577	418	125	360	514	542	509
Minus: Items affecting comparability	–77	–60	–19	–55	–167	–307	–205	–172	–156	–161
Operating profit, adjusted	**604**	**695**	**690**	**632**	**585**	**432**	**565**	**686**	**698**	**670**
Net sales	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486	5,256
Operating profit margin, adjusted, %	**10.4**	**13.6**	**12.2**	**11.9**	**12.0**	**8.9**	**12.1**	**13.7**	**12.7**	**12.7**
EBITDA, adjusted										
Operating profit	527	635	671	577	418	125	360	514	542	509
Minus: Depreciation	–218	–206	–227	–198	–175	–167	–115	–125	–144	–127
Minus: Amortization	–11	–5	–4	–3	–2	–1	–8	–18	–10	–7
Minus: Impairment loss other non–current assets	–9	–2	–	–	–	–	–	–	–	–
EBITDA	**765**	**848**	**902**	**778**	**595**	**293**	**483**	**657**	**696**	**643**
Minus: Items affecting comparability (excl. impairment loss goodwill and trademarks and other non–current assets)	–68	–58	–19	–55	–167	–307	–205	–172	–156	–161
EBITDA, adjusted	**833**	**906**	**921**	**833**	**762**	**600**	**688**	**829**	**852**	**804**
Capital employed[2,3]										
Total assets	9,252	9,236	9,759	9,962	8,989	9,340	8,642	8,494	9,498	10,013
Minus: Deferred tax liability	703	586	621	483	397	824	728	714	789	870
Minus: Other non–current liabilities	138	–	43	147	2	–	–	–	–	–
Minus: Non–current provisions	5	22	10	16	7	11	24	29	28	31
Minus: Current provisions	3	64	57	65	79	79	60	78	66	76
Minus: Trade and other payables	1,394	1,196	1,216	1,152	967	1,264	1,038	975	1,073	1,189
Minus: Current income tax liabilities	30	39	55	58	99	97	103	125	7	2
Plus: Interest–bearing other current liabilities	–	–	–1	–	–	1	–7	2	8	–
Capital employed	**6,979**	**7,329**	**7,756**	**8,041**	**7,438**	**7,066**	**6,682**	**6,575**	**7,543**	**7,845**
Capital employed comparative period previous year	5,966	7,756	8,041	7,438	7,066	6,682	6,575	7,543	7,845	na
Average capital employed	**6,473**	**7,543**	**7,899**	**7,740**	**7,252**	**6,874**	**6,629**	**7,059**	**7,694**	**na**

1) Comparative figures for profit and loss account items have been restated for discontinued operation.
2) Comparative figures for 2016 have not been restated for discontinued operation, as only either the numerator or denominator in the calculation has been restated for discontinued operation. Return on capital employed for 2017 has been calculated pro-forma for continuing operations.
3) Average capital employed for 2017 is calculated pro-forma for continuing operations.

Reconciliation alternative performance measures, Continued

SEKm	2017	2016[1]	2015	2014	2013	2012	2011	2010	2009	2008
Return on capital employed										
Operating profit (rolling 12 months)	527	635	671	577	418	125	360	514	542	509
Financial income (rolling 12 months)	7	17	6	4	24	5	11	5	3	11
Operating profit plus financial income (rolling 12 months)	**534**	**652**	**677**	**581**	**442**	**130**	**371**	**519**	**545**	**520**
Average capital employed	6,473	5,879	7,899	7,740	7,252	6,874	6,629	7,059	7,694	na
Return on capital employed, %	**8.2**	**11.1**	**8.6**	**7.5**	**6.1**	**1.9**	**5.6**	**7.4**	**7.1**	**na**
Cash conversion[2]										
EBITDA, adjusted	833	906	921	833	762	600	688	829	852	804
Minus: Capital expenditures	140	–140	–161	–186	–211	–269	–224	–97	–107	–101
EBITDA, adjusted less capital expenditures	**693**	**766**	**760**	**647**	**551**	**331**	**464**	**732**	**745**	**703**
EBITDA, adjusted	833	906	921	833	762	600	688	829	852	804
Cash conversion, %	**83.2**	**84.5**	**82.5**	**77.7**	**72.3**	**55.2**	**67.4**	**88.3**	**87.4**	**87.4**
Changes in net sales[3]										
Net sales	5,784	5,107	5,674	5,313	4,893	4,859	4,658	5,019	5,486	5,256
Net sales comparative period previous year	5,107	na	5,313	4,893	4,859	4,658	5,019	5,486	5,256	na
Net sales, change	**677**	**na**	**361**	**420**	**34**	**201**	**–361**	**–467**	**230**	**na**
Minus: Structural changes	708	na	208	213	na	na	na	na	na	na
Minus: Changes in exchange rates	30	na	77	158	na	na	na	na	na	na
Organic growth	**–61**	**na**	**76**	**49**	**na**	**na**	**na**	**na**	**na**	**na**
Structural changes, %	13.9	na	3.9	4.4	na	na	na	na	na	na
Organic growth, %	–1.2	na	1.4	1.0	–1.0	–4.1	na	na	na	na
Profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability										
Profit/loss for the period	–97	–191	386	242	264	–73	–68	–339	–173	–316
Minus: Impairment loss discontinued operation including income tax effects	–479	–771	–	–	–	–	–	–	–	–
Minus: Other items affecting comparability	–20	177	–	–	–	–	–	–	–	–
Profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability	**402**	**403**	**386**	**242**	**264**	**–73**	**–68**	**–339**	**–173**	**–316**
Average number of shares (basic)	286,320,464	286,193,024	286,290,840	286,987,990	288,010,947	276,132,021	262,137,526	na	na	na
Average number of shares (diluted)	286,492,178	286,447,465	286,561,607	287,092,780	288,026,408	276,132,021	262,137,526	na	na	na
Earnings per share, basic excluding impact of impairment loss, SEK	1.40	1.41	1.35	0.84	0.92	–0.26	–0.26	na	na	na
Earnings per share, diluted excluding impact of impairment loss, SEK	1.40	1.41	1.35	0.84	0.92	–0.26	–0.26	na	na	na

1) Comparative figures for profit and loss account items have been restated for discontinued operation.
2) The capital expenditure included in the calculation of the cash conversion has been adjusted for the capital expenditure related to discontinued operation.
3) The changes in net sales for 2016 have not been restated for discontinued operation, as the net sales of the comparative period is not comparable to the net sales of the current period.

Definitions

General	All amounts in the tables are presented in SEK millions unless otherwise stated. All amounts in brackets () represent comparative figures for the same period of the prior year, unless otherwise stated.	
Margins	**Definition/calculation**	**Purpose**
Gross margin	Net sales less cost of goods sold as a percentage of net sales.	Gross margin measures production profitability.
Operating profit margin (EBIT margin)	Operating profit expressed as a percentage of net sales.	Operating profit margin is used for measuring the operational profitability.
Operating profit margin, adjusted	Operating profit, adjusted for items affecting comparability, as a percentage of net sales.	Operating profit margin, adjusted excludes the impact of items affecting comparability, enabling a comparison of operational profitability.
Profit margin	Profit/loss before tax expressed as a percentage of net sales.	This measure enables the profitability to be compared across locations where corporate taxes differ.
Return	**Definition/calculation**	**Purpose**
Cash conversion	Operating profit, adjusted for items affecting comparability, before depreciation and amortization less capital expenditures as a percentage of operating profit, adjusted for items affecting comparability, before depreciation and amortization.	Cash conversion measures the proportion of profits that are converted to cash flow. Its use is to analyze how much of the profit attributable to shareholders is turned into cash that could be paid to investors without damaging the business, except for cash flows related to interest and tax.
Return on capital employed	Operating profit plus financial income as a percentage of average capital employed. The average capital employed is calculated by taking the capital employed per period end and the capital employed by period end of the comparative period in the previous year divided by two.	Return on capital employed is used to analyse profitability, based on the amount of capital used. The leverage of the company is the reason that this metric is used next to return on equity, because it not only includes equity, but takes into account borrowings and other liabilities as well.
Return on equity	Profit for the period as a percentage of total equity.	Return on equity is used to measure profit generation, given the resources attributable to the owners of the Parent Company.
Capital structure	**Definition/calculation**	**Purpose**
Capital employed	Total assets less interest-free liabilities (including deferred tax).	Capital employed measures the amount of capital used and serves as input for return on capital employed.
Equity/assets ratio	Equity at the end of the period as a percentage of total assets. The equity/assets ratio represents the amount of assets on which shareholders have a residual claim.	This ratio is an indicator of the company's leverage used to finance the firm.
Gross debt	Gross current and non-current borrowings, credit overdraft facilities, derivative financial instruments and interest payables.	Gross debt represents the total debt obligation of the company irrespective its maturity.
Net debt	Gross debt less cash and cash equivalents.	Net debt is used as an indication of the ability to pay off all debts if these were to fall due simultaneously on the day of calculation, using only available cash and cash equivalents.
Net debt/EBITDA	Net debt at the end of the period divided by the EBITDA, adjusted, for the last 12 months, taking into consideration the annualization of EBITDA for acquired or divested companies.	The net debt/EBITDA ratio approximates the company's ability to decrease its debt. It represents the number of years it would take to pay back debt if net debt and EBITDA are held constant, ignoring the impact from cash flows from interest, tax and capital expenditure.
Net debt/equity ratio	Net debt at the end of the period divided by equity at the end of the period.	The net debt/equity ratio measures the extent to which the company is funded by debt. Because cash and overdraft facilities can be used to pay off debt at short notice, this is calculated based on net debt rather than gross debt.
Working capital	Total inventories and trade and other receivables adjusted for trade and other payables.	Working capital is used to measure the company's ability, besides cash and cash equivalents, to meet current operational obligations.
Data per share	**Definition/calculation**	**Purpose**
Cash flow from operating activities per share	Cash flow from operating activities in the period divided by the average number of shares.	The cash flow from operating activities per share measures the amount of cash the company generates per share from the revenues it brings in irrespective the capital investments and cash flows related to the financing structure of the company.
Earnings per share	Profit for the period divided by the average number of shares adjusted for the effect of forward contracts to repurchase own shares.	The earnings per share measures the amount of net profit that is available for payment to its shareholders per share.
Equity per share	Equity at the end of the period divided by number of shares at the end of the period.	Equity per share measures the net-asset value backing up each share of the company's equity and determines if a company is increasing shareholder value over time.

Definitions, Continued

Other definitions	Definition/calculation	Purpose
EBIT	Operating profit consists of comprehensive income before net financial items and income tax.	This measure enables the profitability to be compared across locations where corporate taxes differ and irrespective the financing structure of the company.
EBIT, adjusted	Operating profit adjusted for items affecting comparability.	Operating profit, adjusted increases the comparability of operating profit.
EBITDA	Operating profit before depreciation and amortization.	EBITDA is used to measure the cash flow generated from operating activities, eliminating the impact of financing and accounting decisions.
EBITDA, adjusted	Operating profit, adjusted for items affecting comparability, before depreciation and amortization.	EBITDA, adjusted increases the comparability of EBITDA.
Effective tax rate	Income tax as a percentage of profit before tax.	This measure enables comparison of income tax across locations where corporate taxes differ.
Items affecting comparability	Items affecting comparability are those significant items which are separately disclosed by virtue of their size or incidence in order to enable a full understanding of the Group's financial performance such as restructurings, impact from acquisitions or divestments.	Items affecting comparability increase the comparability of the Group's financial performance.
Net financial items	The total of exchange differences on borrowings and cash and cash equivalents in foreign currencies, other financial income and other financial expenses.	The net financial items reflects the company's total costs of the external financing.
Net sales, change	Net sales as a percentage of net sales in the comparative period of the previous year.	Net sales, change reflects the company's realized top-line growth over time.
Organic growth	Net sales, change excluding acquisition-driven growth and changes in exchanges rates.	Organic growth excludes the impact of changes in group structure and exchange rates, enabling a comparison on net sales growth over time.
Structural changes	Net sales, change resulting from changes in group structure.	Structural changes measure the contribution of changes in group structure to net sales growth.

Glossary

Brand extension	Totally new products developed under an established brand.
BRC Global Standards for Food Safety	A leading safety and quality certification programme. Many European and global retailers will only consider business with suppliers that have been certified according to the BRC Global Standard.
Contract manufacturing	Manufacturing of external brands, i.e. insourcing production of products from external parties.
GRI Global Reporting Initiative	A network-based organization whose founders include the UN. GRI has pioneered the development of a framework for the structure and content of sustainability reporting.
ICC	International Chamber of Commerce.
ILO	International Labour Organization, United Nations agency dealing with labour issues.
ISO 9001 and ISO 14001	International Organization for Standardization. ISO 9001 addresses quality management and ISO 140001 addresses environmental management.
Line extension	New packaging, sizes and flavours for an established brand.
OHSAS 18001	International occupational health and safety management system specification.
Polyols	Sugar alcohols that resemble sugar and are used as sweeteners.
Pick & mix concept	Cloetta's range of candy and natural snacks that are picked by the consumers themselves.
UTZ	Certified standards for sustainable farming with a number of social and environmental criteria.

Sustainability

Core values

Cloetta has four core values that guide the way of working and acting, both within and outside the company. These core values are Focus, Passion, Teamplay and Pride.

Focus

is about doing the fundamentals with self-confidence, ambition and a "will do" attitude.

Passion

is about "going the extra mile", being positive and having fun.

Teamplay

is about mutual responsibility, doing your part and supporting each other.

Pride

is about being proud of our company, our brands, our products and our personal contribution.

Long-term sustainability

Cloetta's overall goal for corporate responsibility is to build sustainable long-term value. For Cloetta, sustainable value is about growing as a company while at the same time ensuring that the people and environments that are affected by Cloetta's operations or products are positively impacted.

Steered by Code of Conduct and core values

Cloetta's work with corporate responsibility is steered by the Group's Code of Conduct. The Code of Conduct is a set of guidelines and principles for the way in which the company conducts operations and the employees' actions in relation to consumers, customers, suppliers, shareholders and colleagues. They are based on Cloetta's core values; Focus, Passion, Teamplay and Pride.

Long-term undertaking

Cloetta's sustainability commitment is a long-term undertaking. Cloetta has therefore formulated a number of goals that extend until 2020.

However, the journey to a sustainable society will not end in 2020. Cloetta is therefore working continuously to evaluate the achieved results and improve its working methods in order to continuously improve our corporate responsibility work.

Cloetta's goals for 2020 are shown under the respective headings; Greater well-being, Reduced environmental impact and Sustainable sourcing.

Sustainability every day

Cloetta's continuous striving for sustainable development is daily focused on respect for the employees' health and development, control of raw materials and first line suppliers, manufacturing safe products, handling complaints/returns effectively and reducing the Group's environmental impact.

Measures to achieve day-to-day sustainability are described in this report within the targeted areas, such as product safety in the Supply Chain section and efforts to create a good working environment in the Employees and Production sections.

Scope

Cloetta's sustainability work primarily covers the company's own operations, meaning Cloetta's direct impact on the environment and people. However, Cloetta's commitment to corporate responsibility is integrated throughout the entire value chain.

This means that aside from taking responsibility for the aspects that are under the company's direct control, Cloetta also takes a certain responsibility for indirect aspects outside of its direct control, i.e. from raw material supplier to the recyclability of the product packages.

Sustainability and Cloetta's overall strategies

Cloetta's sustainability commitment supports and is firmly grounded in the company's overall strategies:

Focus on driving growth

By creating sustainability programmes for the prioritized raw material groups and communicating these programmes on Cloetta's

Cloetta's Code of Conduct

The Code of Conduct covers the entire value chain, from raw material to consumer, and applies to all activities in all markets and countries where Cloetta is represented. The principles in the Code of Conduct are consistent with:

- The UN's Declaration of Human Rights
- ILO conventions
- Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises
- The ICC framework for responsible marketing of food and beverages
- European Brand Association

From raw materials to cherished brands

Cloetta works with responsibility throughout the supply chain, from raw material to finished product. Cloetta supports the relevant ILO conventions and complies with the laws and rules in the countries where it conducts operations. The same requirements are placed on the suppliers, and in order to become an approved supplier to Cloetta, the supplier must undergo an approval process and accept Cloetta's general supplier requirements.

Cloetta – every day

Cloetta has clearly defined guidelines for mutual respect and a shared set of core values. Cloetta has joined the UN Global Compact and works to promote its ten principles in the communities and environments where the company conducts business.
Special emphasis is placed on:

- Equality and non-discrimination
- Freedom of association and collective bargaining
- Occupational health and safety
- Working hours

Cloetta's commitment to product content

When it comes to product content and quality, Cloetta is subject to a number of national and international laws and rules. However, Cloetta wishes to take its responsibility further and is a forerunner in developing the content of the products. For example, Cloetta is conducting an internal long-term programme called NAFNAC (No Artificial Flavours, No Artificial Colours), which is aimed at offering a portfolio of products that contain no artificial flavours or colours.

Cloetta's environmental impact

Systematic environmental management provides a foundation for Cloetta's efforts to minimize its environmental impact. Cloetta's environmental work is aimed at complying with the applicable laws and rules, engaging the employees and focusing on continuous improvements in the environmental area. Cloetta's foremost environmental impact arises through water and energy consumption, wastewater emissions, waste and transports.

packages, the brands are further strengthened among customers and consumers. UTZ-certified cocoa and palm oil certified according to the Roundtable on Sustainable Palm Oil (RSPO)'s principles are two such examples.

Focus on cost-efficiency

Efforts to continuously reduce the company's environmental impact go hand in hand with lower costs. Lower energy use and waste volumes from the factories contribute to greater cost-efficiency.

Focus on the employees and organization

Cloetta works determinedly to create an attractive workplace for all employees and promotes the development of a high-performing organization by continuously developing and training its staff, designing competitive remuneration systems, upholding an inspiring corporate culture and building a clear corporate identity.

Organization for sustainability work

The overall strategies for Cloetta's corporate responsibility work are adopted by the Group Management Team and are controlled and monitored through business planning processes at several levels in the company. Ultimate responsibility for corporate responsibility lies with Cloetta's President/CEO.

Cloetta's sustainability work is overseen by the Director Corporate Responsibility, who functions as a spokesman for issues related to corporate responsibility and is responsible for identifying prioritized areas, acting as the stakeholders' link to the management and supporting the implementation of Cloetta's corporate responsibility strategy. Environmental and occupational health and safety managers are found in all factories.

Independent verification and assurance

Cloetta has commissioned KPMG to make a limited review and assure the sustainability report. The independent review focuses on the most significant aspects of sustainability, as well as assurance that the report satisfies reporting criteria in line with Global Reporting Initiative (GRI) G4. See page 154.

Cloetta supports

Cloetta is involved in projects primarily in its local markets but also takes part in initiatives at the global level. These can include environmental projects driven within the framework of Cloetta's sustainability work and projects to promote an active and healthy lifestyle.

Community engagement

The local commitment to sustainable development is aimed at strengthening the surrounding community but also Cloetta's brand both within and outside the company. This engagement is mainly focused on consideration to the local environment where Cloetta's production facilities are based, but can also consist of other activities. Cloetta maintains an ongoing dialogue with local authorities in the locations where it has factories, as well as with the media and schools/universities, among others.

Whistleblower service

Cloetta's whistleblower service that gives all Cloetta employees the opportunity to report concerns about conduct that is not in line with the company's values or ethical principles. As a first course of action, Cloetta's employees are encouraged to contact their manager. If an employee feels unable to openly disclose the information, Cloetta offers an opportunity to report their concerns anonymously.

All reports are treated confidentially. Personal data relating to violation of laws is handled only by key persons or individuals in management positions. Two cases were notified in 2017 and none in 2016. Neither related to corruption or fraud.

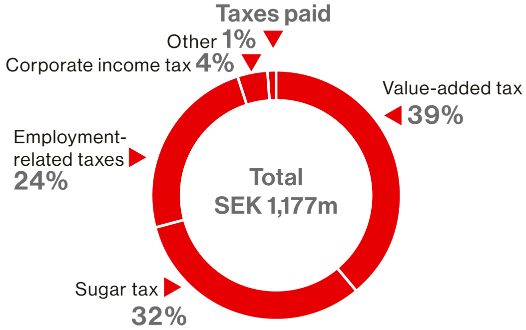
Strategic components

Policy and prioritized areas	Cloetta's overall strategy and operational policy. Code of Conduct. Responsible marketing. Materiality analysis and Cloetta's sustainability commitment.
Goals and KPIs	Overall financial targets. Goals and KPIs have been defined for each part of Cloetta's sustainability commitment.
Data	See entire sustainability report.
Management systems, programmes and certifications	Lean 2020, IFRS. Cloetta's leadership platform. BRC, ISO 14001, UTZ and RSPO.
External statutes or initiatives	UN Global Compact and other relevant ILO conventions. EWC (European Works Council).

Tax information

Cloetta paid SEK 1,177m in various taxes in 2017. These were mainly value-added tax, sugar taxes and employment-related taxes. Considering the reported profit before tax, the amount of corporate income tax paid is relatively low due to the availability of tax losses carried forward. The majority of the remaining tax losses carried forward are expected to be utilized in the near future.

Taxes paid



Anti-bribery and -corruption policy

The anti-bribery and -corruption policy is closely related to Cloetta's Code of Conduct, and together they are designed to ensure compliance with the applicable principles to combat bribery and corruption.

The policy applies to all of our activities in all markets and the principles outlined in this document apply to our relationships with employees, customers, consumers, suppliers, competitors, official authorities and Non Governmental Organizations (NGO).

The policy summarizes key features of anti-bribery and corruption control principles in order to prevent bribery and corruption within Cloetta. It explains compliance procedures to be followed by all Cloetta employees, along with information about applicable reporting and record keeping, and penalties for non-compliance with the policy. It applies to Cloetta, all of its employees, and all persons engaged to perform work for Cloetta, including temporary agency personnel, contractor personnel, and non-employee agents acting on its behalf.

Stakeholders and materiality issues

The areas that are prioritized in Cloetta's sustainability commitment have been defined through a materiality analysis. Every year, Cloetta performs a materiality analysis based on the sustainability issues that have been identified in discussions with Cloetta's stakeholders.

Cloetta's primary stakeholders are customers, consumers, employees, shareholders/investors, business partners/suppliers and the local communities. These groups are directly critical for Cloetta's long-term survival. In addition, there are a number of other important stakeholders. These are shown in the illustration below in the outer circle. Cloetta has a continuous, open dialogue above all with the primary stakeholders based on the expectations and requirements of each stakeholder group.

The methodology behind Cloetta's materiality analysis is aimed at classifying different types of sustainability issues on the basis of two parameters:

- The stakeholder perspective – i.e. what importance a specific issue has for Cloetta's stakeholders.
- The impact perspective – i.e. the direct impact a specific issue can have on Cloetta from a financial perspective, goodwill, etc.

The issues that are classified as being of critical importance from both a stakeholder and impact perspective are those that have the highest priority for Cloetta. It is these sustainability issues and areas that are defined in Cloetta's sustainability commitment.

Cloetta's stakeholders

Materiality analysis

Importance for Cloetta's stakeholders: Very important → Important

Impact on Cloetta: High → Very high

Fulfill
- Follow the health-related issues surrounding artificial ingredients.
- Laws and conventions.

Prioritize
- Social, environmental and economic challenges in developing countries for prioritized raw materials (sustainable sourcing).
- Environmental impact in Cloetta's operations.
- Employee safety and well-being.
- Product safety and quality.
- Sugar-free alternatives.

Administrate
- Charity.
- Local community engagement.
- Tax issues.

Monitor and supervise
- Combat corruption and fraud.
- Social, environmental and economic challenges in countries of origin for other raw materials.
- Responsible marketing.
- Ensure diversity.

The stakeholders' key sustainability issues

Stakeholder	Key issues – sustainability	Communication and cooperation
Customers/ Consumers	• Product safety and quality. • Clear declaration of ingredients. • Eco-friendly packages. • Cloetta takes responsibility for the environment and working conditions. • Ethical issues in general. • Efficient transports to the retail trade.	• With consumers via annual surveys and via websites and social media. • With customers through personal customer and sales meetings on a tertial basis and via customer surveys, but also collaborative initiatives for eco-friendly transports.
Employees	• Good and stimulating working conditions. • A safe working environment. • Health and fitness activities. • Ethical issues in general. • Good financial development for the company.	• Daily meetings to discuss occupational health and safety in the factories. • Annual performance reviews with all employees. • Systematic skills development activities. • Up-to-date information provided monthly, e.g. via managers, the intranet and union representatives. • Employee survey "Great Place to Work" every other year.
Shareholders and investors	• Sustainable long-term financial value growth. • Ethical issues in general.	• Annual report, website, analyst and investor meetings, interim reports and annual general meeting.
Suppliers	• Ethics and business codes in procurement. • Product safety. • Sustainable long-term development. • Support of human rights among raw material producers.	• Collaborative projects for sustainability. • Annual supplier evaluations, sponsorship evaluations and development projects.
Local communities, the public/society	• Cloetta takes responsibility for the environment and working conditions as far as possible. • Laws, regulations and standards. • Cloetta makes a positive contribution to development of society, including the local environment.	• Continuous contact with the local communities/municipalities around Cloetta's factories with regard to the local environment. • Continuous contact with public authorities in areas related to occupational health and safety, environmental and product responsibility, schools and universities. • Annual audits by Certification bodies for ISO and BRC. • Continuous contact with key opinion leaders.

GRI-index

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Cloetta reports in accordance with the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines, G4, Core. Cloetta's sustainability reporting covers all of its operations unless otherwise stated. The most recent sustainability report was presented on 8 March 2017. The table of contents above contains all standard disclosures and the specific disclosures that have been identified as the most relevant in view of Cloetta's long-term sustainability targets. The specific disclosures and other contents of the sustainability report have been selected based on Cloetta's materiality analysis on page 153. The focus of Cloetta's sustainability work and therefore also the reporting is on the well-being of employees and consumers, reduced environmental impact and sustainable sourcing. The key performance indicators have been collected with the help of internal reporting systems. KPMG has performed limited assurance procedures on Cloetta's sustainability report, see page 157.

Contact for sustainability information

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Director Corporate Responsibility and Special Sales

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E-mail: thomas.wiesgickl@cloetta.se

Membership of organizations

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

World Cocoa Foundation (WCF)

The World Cocoa Foundation (WCF) manages a range of programmes aimed at increasing the cocoa farmers' 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

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.

Round Table on Sustainable Palm Oil

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

UN Global Compact

The UN's Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour environment and anti-corruption.

UTZ

UTZ Certified stands for sustainable farming and better opportunities for farmers, their families and our planet. The UTZ programme enables farmers to learn better farming methods and to improve their working conditions and the environment.

Bonsucro

With more than 400 members from 32 countries that represent all parts of the delivery chain, Bonsucro is an organization that has the resources to realize its vision: *"A sugarcane sector that is continuously improving and verified as sustainable"*.

Global Shea Alliance

The GSA is a nonprofit organization that promotes sustainability in the shea industry. The GSA's mission is to design, develop and propose strategies that provide a foundation for a competitive and sustainable shea industry worldwide, and to support and empower the rural African women and their communities.

Industry organizations

- Bord Bia, Irish Food Board, (Irish industry association).
- Chokofa is a Swedish industry association.
- Choprabisco, Belgium.
- DI (Danish Chocolate and Confectionery Industries).
- ETL (Finnish Food Industries' Federation).
- FNLI (The Dutch Food Industry Federation).
- HSH (The Federation of Norwegian Commercial and Service Enterprises).
- VBZ (Association of the Dutch Bakery and Confectionery Industry), the Netherlands.

Auditor's Limited Assurance Report

on Cloetta ABs Sustainability Report and statement regarding the Statutory Sustainability Report

To Cloetta AB (publ), Corp. id. 556308-8144

Introduction

We have been engaged by the Board of Directors and the CEO of Cloetta AB to undertake a limited assurance engagement of Cloetta ABs Sustainability Report for the year 2017. Cloetta AB has defined the scope of the Sustainability Report on page 10 in this document, the Statutory Sustainability Report is defined on page 68.

Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 155 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance engagements other than audits or reviews of financial information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR:s accounting standard RevR12 The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Cloetta AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our conclusions below.

Conclusions

Based on the limited assurance procedures performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

A Statutory Sustainability Report has been prepared.

Stockholm 7 March 2018

KPMG AB

Tomas Forslund
Authorized Public Accountant

Torbjörn Westman
Expert member of FAR

Cloetta's history filled with legendary brands

The Cloetta brothers

In 1862 the three Swiss Cloetta brothers, Bernard, Christoffer and Nutin Cloetta, founded the company "Brødrene Cloëtta" for manufacturing of chocolate and confectionery in Copenhagen, Denmark. The brothers later moved their manufacturing to Sweden and the company was owned by the Cloetta family until 1917, when the Svenfelt family took over the majority shareholding in Cloetta via the newly formed Svenska Chokladfabriks AB. The Svenfelt family has major ownership interests in Cloetta to this day.

1800s

Cloetta's oldest brands date from the 1800s

In 1878 Venco is launched when Gerrit van Voornveld started manufacturing liquorice and peppermint pastilles in a steam factory in Amsterdam. Liquorice, peppermint and jujubes have long been known for their cough suppressing effects.

1900–1910

1900–1913, industrialization can be exploited

Electrification and railway construction accelerate the pace of industrialization, a critical enabler for businesses like the Swedish companies Ahlgrens and Cloetta, which are active in industrial production of confectionery. Läkerol is launched in 1909 and Guldnougat in 1913. Läkerol is also launched in Denmark in 1910 and Norway in 1912.

1920

The roaring twenties

The confectionery industry grows after the war. The slogan "Choose right – choose Cloetta" is created in 1921. In the Netherlands, the pastille brand King is launched in 1922. In 1928 Sisu is launched in Finland, Red Band in the Netherlands and Tarragona in Sweden.

1930–1940

The 1930–40s, launch of strong brands

Malaco (Malmö Lakrits Compani) is founded in 1934 during the period between the two world wars. Sportlunch (then called Mellanmål) is launched in 1937. Kexchoklad is introduced in 1938 and Center in 1941. Plopp is launched after WWII in 1949.

1950–1960

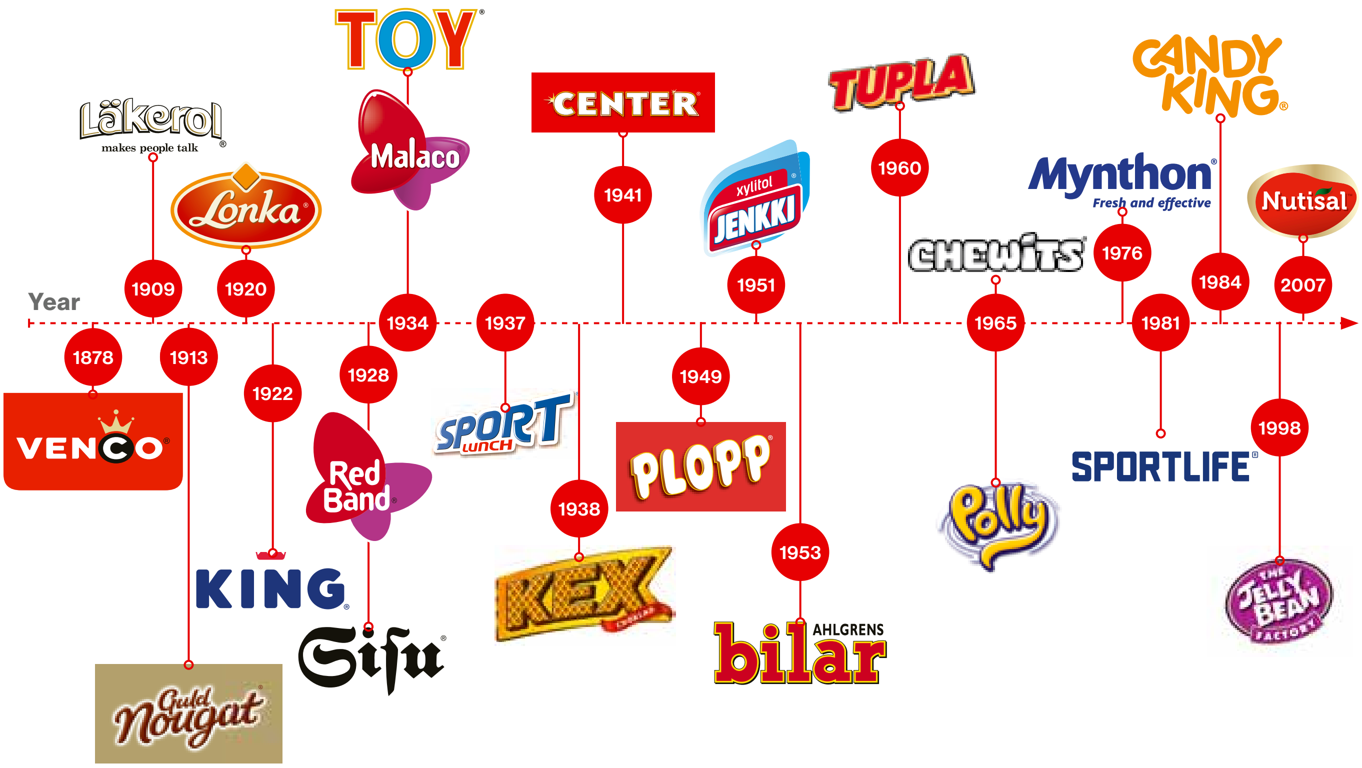
1950–60s – an interest in the USA and cars

The chewing gum Jenkki (Yankee) was launched in Finland in 1951.

Ahlgrens bilar – the world's best-selling car, was launched in 1953 with Italian Bugatti as its inspiration.

The double countline Tupla was launched in Finland in 1960. In Sweden, Polly was launched in 1965 and Bridgeblandning in 1966. Chewits were launched in the United Kingdom in 1965. The first marshmallow Santas were also sold in the 1960s.

Strong brands with long traditions



1970	1980	1990	2000	2010–

1970s – fresh and healthy

In 1975, the world's first chewing gum with xylitol is launched by Jenkki in Finland. The Mynthon pastille is introduced in Finland in 1976.

In Sweden, the mixed candy bag Gott&blandat is launched in response to the growing popularity of pick-and-mix.

1980s, more chewing gum

In 1981 Sportlife is launched as the first chewing gum in "blister" packaging. In the Netherlands, the country's first chewing gum with 100 per cent xylitol, Xylifresh, is launched in 1988.

1990s – consolidation of the industry

CSM, a Dutch sugar and food products company, acquires Red Band in 1986. Leaf acquires Ahlgrens (with Läkerol and Ahlgrens bilar) in 1993, CSM acquires Malaco in 1997, Cloetta acquires Candelia (with Polly and Bridgeblandning) in 1998 and CSM acquires Leaf in 1999. Cloetta's share is listed on the Stockholm Stock Exchange in 1994.

2000s – new groups formed

During the period from 2000 to 2009, Cloetta is part of the Cloetta Fazer group. After the demerger in 2009, the independent Cloetta is relisted on NASDAQ OM Stockholm. In 2000 CSM acquires Continental Sweets and thereby strengthens its position primarily in France and Belgium, but also in the Netherlands and the UK. In 2001 CSM acquires Socalbe in Italy (with Dietorelle and Dietor). In 2005 CVC and Nordic Capital acquire CSM's confectionery division and changes its name to Leaf.

2010s – Cloetta grows

Cloetta and Leaf are merged in 2012. In 2014 Cloetta acquires Nutisal, a leading Swedish company that roasts and sells dry roasted nuts.

In the same year Cloetta acquires The Jelly Bean Factory with the main market in the UK.

In 2015 Cloetta acquired Lonka, a Dutch company that produces and sells fudge, soft nougat and chocolate.

In 2017, Cloetta acquires Candyking and becomes market leader in pick & mix in Sweden. The Italian operations are divested.

Kexchoklad – Tasty and Happy for 80 years

1938

Kexchoklad is one of Sweden's best-known brands. Cloetta started producing "Five o'clock wafer chocolate" back in 1921 but it was 80 years ago in 1938 that the chocolate-coated wafer changed its name to Kexchoklad. Ever since, Kexchoklad has been associated with its good flavour, familiar chequered pattern and red and yellow packaging.

Kexchoklad as Sweden's best-tasting between meal snack is strongly associated with the Swedish mountains and downhill skiing. Back in the 1940s Kexchoklad was recommended in advertisements as a "great 'food' for ski trips and long walks". In 1999-2012 Kexchoklad sponsored the Swedish National Alpine Ski Team and everyone remembers world champion and Olympic gold medallist Anja Pärson and her triumphant 'seal' dive with Kexchoklad on the arms of her race suit.

During the summer, Kexchoklad sponsors running events such as Göteborgs-varvet, Midnattsloppet, the Stockholm Half Marathon, the Vemdalen Mountain Marathon and the Stafesten for UNICEF run.

Keywords for Kexchoklad are active, popular and rewarding, words which were brought to life in 1994 through sponsorship in the ski centres of Sälen and Vemdalen. The popular Kexchoklad Hunt, a combined ski orienteering and word hunt in which people search for big Kexchoklad letters placed in the lift systems, is for many families an obvious part of their trip to the mountains attracting hundreds of thousands of participants in recent years.

Kexchoklad is Sweden's best-selling chocolate countline. In 2017 Cloetta sold the equivalent of 67 million 60-gram bars.

2018

Shareholder information

Shareholder contact

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Danko Maras, CFO, +46 76 627 69 46.

Annual General Meeting

The Annual General Meeting of Cloetta AB (publ) will be held on Monday, 16 April 2018, at 3:00 p.m., at Stockholm Waterfront Congress Centre in Stockholm.The Notice of the Annual General Meeting will be published in March 2018 and will also be posted on www.cloetta.com.

Registration

Registration to participate in the AGM must be received by the company no later than Tuesday, 10 April 2018.

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To order the annual report

The annual report is published in Swedish and English.
The printed annual report can be ordered via the website.
It can also be downloaded from www.cloetta.com.

Financial calender 2018

Annual Report
8 March 2018

Annual General Meeting
in Stockholm
16 April 2018

JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC

Interim report Q1
24 April 2018

Interim report Q2
13 July 2018

Interim report Q3
26 October 2018

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THANK YOU

Cloetta, founded in 1862, is a leading confectionery company in the Nordic region and the Netherlands. In total, Cloetta products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands on the market, such as Läkerol, Cloetta, Candyking, Jenkki, Kexchoklad, Malaco, Sportlife and Red Band. Cloetta has eight production units in five countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

Cloetta

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