

Words from the President

A year of strong sales and improved profitability

How would you summarise the year 2022?

Needless to say it was a turbulent year with major consequences from the war in Ukraine which led to a lot of focus on the supply chain, raw materials, energy and general cost inflation.

At the same time, our business progressed very well – under the circumstances – and we were able to deliver on our strategic agenda when it comes to cost control and pricing while retaining healthy volumes.

Our Branded packaged products continued on its growth path, now eight quarters in a row. This was thanks to great innovations and marketing support leading to stronger loyalty to Cloetta's core brands. I believe this loyalty is really a great strength not the least during times when pricing is and will be needed.

With a combination of pricing, cost control and volume growth we were also able to improve the profitability within the Pick & mix business while outperforming the market growth. The key to success here is to work closely together with our customers to make Pick & mix an important part of the store strategy and consumer experience. We believe we can contribute to the store of the future, meeting trends on individualisation and plastic free packaging, and improve the in-store experiences with even stronger visual merchandising.

What was the most important achievement during the year?

Well, I am proud that we early on saw the new tough economic environment coming and that we accordingly made our plans on pricing in time. We have also been very transparent with our customers regarding our pricing strategy, which is based on implementing price increases to balance the higher costs for raw material, packaging and energy prices in absolute terms. We have not tried to improve our own profitability at

their expense and I believe this has led to the fact that our customers trust us.

Another priority I would like to mention is the work we have put in over the last four to five years to premiumise our brands, making them more clear, innovative and more supported. This year's results prove that our work was well worth it – stronger brands leads to higher value.

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Which important steps did you take within your sustainability agenda?

There is a huge enthusiasm within the group on the whole sustainability agenda and our clear action plan. An important step we took in this area was to put the strategic responsibility on these issues under the marketing department, taking the consumer angle into consideration in every decision we make.

Another large step we took this year was the approval of our science-based targets, where we have identified areas where Cloetta can contribute the most to reduce our carbon emissions with 46 per cent by 2030. It is necessary to make progress and work closely with our customers, suppliers and other parties in order to reach our targets. In five

to ten years there will be no room on the shelves for our products any more if we do not take action in this area.

What was the most important decision during the year?

Short-term I would say pricing, and long-term the new greenfield facility.

Cloetta has been on a journey for some time to make its production more efficient. To give some perspective, historically a lot of the smaller plants in Europe were closed or transferred to other factories in Ljungsbro or Levice. In the mid-European markets that process has not taken place yet, so there are still some benefits from creating scale in these markets. On top of that we have now seen many years of growth in our core candy business, and are starting to run out of our own capacity. One path to consider could be to turn to third party suppliers, but that is an expensive alternative and there is not a lot of capacity available in Europe.

We have evaluated various options, focusing on cost savings and extra capacity, and eventually found a strong rationale to build a new site in our core business region. In addition, with a new site we can make it sustainable in every aspect and with the latest technology. We have a long-term perspective and do realise this is a big investment for Cloetta – we will do our utmost to continuously choose the most attractive solutions along the way and inform the investor community on the progress and its effects.

What are your greatest challenges?

The economic environment in which we operate has yet again changed dramatically. We have to navigate in an environment with high inflation, high interest rates and lower disposable income among consumers – and it will be a big adaption for us to navigate through that.

But challenges will remain. There will



possibly be a recession, which means that we can not only look at pricing as a tool in a tough economy – but also cost savings and making our operations even more efficient. I would like to point out the defensive character of this business and good results from previous economic crises – people tend to keep on buying candy. Even though people might be cutting down on other areas, we will of course still be impacted, but we are fairly adaptable. It will be dependent on how strong your brand is – and the differentiation you are able to make. Brand is everything – strong brands with innovation and pricing power will be winners.

And your greatest opportunity?

Our basis is strong, and we will continue to execute on our strategy.

1. Growth in the Branded packaged product business by continuously improving our commercial strategy, we are certainly not at the end of that.

2. Pick & mix towards an EBIT margin of 5-7 per cent in the medium-term, carrying all allocated costs. The key drivers to reach that are more volume, premiumisation, the effect from full pricing and cost control.
3. Efficiency in our factories and cost control. The new greenfield facility will help us in this direction but we also work through our Perfect Factory programme in all the other plants.

There are still a lot of improvements to make within the existing business to reach our financial targets. We will of course focus on growing our high-margin pastilles and chewing gum categories and continue to grow our International Markets, that is showing fantastic growth. We have opportunities in Germany and the UK with a lot of consumers and where we are still quite small.

What is focus going forward?

Cloetta has a very strong position and there are still many ways to strengthen our business. We have been steering in a good way through 2022, and we will continue to do so.

We are still expecting a lot of inflation to come through, so balancing pricing and cost will still be the major theme during 2023. We will continue to adjust our commercial strategy to the economic environment and give the consumers value.

In short, we will keep on executing on our strategy: building stronger brands, deliver sustainable value in Pick & mix and bring our cost down and efficiency up. Although dark clouds in the sky – people tend to buy candy in all times. It is a relatively small amount of money you spend that gives you great moments of joy.

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