Cloetta

Interim report, Q4 October – December 2015

Stockholm, 18 February 2016

- **Net sales** for the quarter increased by 2.7 per cent to SEK 1,622m (1,579), including a positive impact from foreign exchange rates of 0.2 per cent.
- **Operating profit** was SEK 239m (262).
- **Cash flow from operating activities** improved to SEK 367m (290).
- **Net debt/EBITDA** was 3.03x (3.97).
- The Board proposes a **dividend** of SEK 0.50 (–) per share.

	Fourth quarter			Full year		
SEKm	Oct–Dec 2015	Oct–Dec 2014	Change, %	2015	2014	Change, %
Net sales	1,622	1,579	2.7[1]	5,674	5,313	6.8[1]
Operating profit, adjusted	255	257	–0.8	690	632	9.2
Operating profit margin, adjusted, %	15.7	16.3	–0.6-pts	12.2	11.9	0.3-pts
Operating profit (EBIT)	239	262	–8.8	671	577	16.3
Operating profit margin (EBIT margin), %	14.7	16.6	–1.9-pts	11.8	10.9	0.9-pts
Profit before tax	191	191	–	493	338	45.9
Profit for the period	157	158	–0.6	386	242	59.5
Earnings per share, basic and diluted, SEK	0.55	0.55	–	1.35	0.84	60.7
Net debt/EBITDA (Rolling 12 months), x	3.03	3.97	–23.7	3.03	3.97	–23.7
Cash flow from operating activities	367	290	26.6	927	500	85.4

1 Organic growth at constant exchange rates and comparable units was –2.3 per cent for the quarter and 1.5 per cent for the year. See further under Net sales on page 3.

Message from the CEO

Strong cash flow, decreased debt and proposed dividend

David Nuutinen, President and CEO

Cloetta stands strong

2015 was a record year for Cloetta. All in all, sales were up by 6.8 per cent, of which 1.5 per cent was organic growth. This sales growth, combined with lower restructuring costs and good cost control, enabled us to boost our profitability yet again in 2015. Operating profit for the full year reached a record high of SEK 671m (577). Profit after tax was SEK 386m (242), which is equal to earnings per share of SEK 1.35 (0.84). And in spite of a completed acquisition, the net debt/EBITDA ratio has continued to decrease and is currently 3.03x (3.97). We are thus well on track towards our targeted net debt/EBITDA ratio of 2.5x, and in response to this the Board of Directors is proposing a dividend of SEK 0.50 per share. This shows that Cloetta stands strong.

Stable operating profit

Cloetta's operating profit (EBIT) for the quarter amounted to SEK 239m (262) and the EBIT margin was 14.7 per cent (16.6). Organic sales fell in the quarter but overall sales were up by 2.7 per cent, driven by acquisitions and foreign exchange movements.

Operating profit, adjusted for one-off items, amounted to SEK 255m (257) and the operating margin, adjusted for one-off items, was 15.7 per cent (16.3). Profit for the period was SEK 157m (158).

Compared to the same quarter of last year, operating profit was affected by increased one-off costs, mainly related to the planned closure of the factory in Dieren, the Netherlands. Last year was impacted by a large one-off effect in the fourth quarter that improved the operating result. Operating profit margin, adjusted, declined during the quarter mainly as a result of the performance of one of the acquisitions.

Very strong cash flow

Cash flow from operating activities remained very strong and amounted to SEK 367m (290) in the quarter. For the full year, cash flow from operating activities was SEK 927m (500). This once more demonstrates the strength of Cloetta's cash-generating ability.

Decrease in debt

The continued strong cash flow and improved EBITDA contributed to a net debt/EBITDA ratio of 3.03x (3.97). The long-term target of a net debt/EBITDA ratio of 2.5x remains unchanged. The ambition is to use future cash flows for repayment of debt and payment of dividends, while at the same time providing financial flexibility for complementary acquisitions. The net debt/EBITA ratio decreased during the year despite the completion of an acquisition.

Confectionery market

The confectionery market as a whole developed positively in Sweden, Norway, Denmark and Finland. In the Netherlands market development was unchanged and in Italy the development was negative.

Acquisition-driven growth

Cloetta's sales for the quarter rose by 2.7 per cent, of which organic growth accounted for –2.3 per cent, the acquisition of Lonka for 4.8 per cent and exchange rate differences for 0.2 per cent. The lower organic sales for the quarter are mainly attributable to a sharp decrease in sales of seasonal products in Italy. However, organic sales growth excluding Italy was 1.8 per cent, which shows that Cloetta otherwise achieved stable organic growth during the quarter.

Cloetta's sales in the quarter increased or were unchanged in all markets except Italy, Denmark and the UK. The positive sales trend in Sweden was driven by the new pick-and-mix concept. Sales of pick-and-mix were also up in Finland. In Denmark sales were down primarily in pastilles.

The declining sales in Italy are explained by our introduction of price increases of approximately 20 per cent for the important seasonal products. These price increases led to a steep drop in volumes, since the competitors have not raised their prices to the same extent. The prices have been increased to compensate for a surge in the price of hazelnuts and almonds, two important ingredients in the Italian seasonal products. Cloetta's strategy is to always pass along changes in raw material prices to customers and consumers even when this can have a short-term impact on sales and profitability.

Integration of Lonka according to plan

Lonka, which was acquired in July 2015, has significantly strengthened Cloetta's position in the Netherlands. The Nordic countries and the UK are other important markets, especially within pick-and-mix.

The process of integrating Lonka into Cloetta's organization is moving forward according to plan. A new joint sales and marketing organization has been implemented in the Netherlands.

In December 2015 a decision was made to close the factory in Dieren, the Netherlands, at the end of 2016 and transfer its production to the factory in Levice, Slovakia. Preparations for the closure and transfer of the factory have been started.

When the cost synergies from the acquisition of Lonka have been realized, we expect these to support Cloetta's target of an EBIT margin of 14 per cent in 2017. With regard to sales and profitability, Lonka developed according to plan during the quarter.

The strategy stands firm

The strategy for Cloetta stands firm. Our ambition for 2016 is therefore to continue focusing on profitable growth, operational excellence in the supply chain through our Lean2020 initiative, growth and cost synergies in the acquired companies, and new growth initiatives in pick-and-mix.

Financial overview

Development in the fourth quarter

Net sales

Net sales for the fourth quarter rose by SEK 43m to SEK 1,622m (1,579) compared to the same period of last year. Organic growth was SEK –2.3 per cent and acquisition-driven growth was 4.8 per cent. The decrease in organic sales in the quarter is mainly attributable to a sharp decline in sales of seasonal products in Italy.

Cloetta's sales for the quarter increased or were unchanged in all markets except Italy, Denmark and the UK. The positive sales trend in Sweden was driven by the new pick-and-mix concept. Sales of pick-and-mix were also up in Finland. In Denmark sales were down primarily in pastilles.

The declining sales in Italy are explained by the introduction of price increases of approximately 20 per cent for the important seasonal products. These price increases led to a steep drop in volumes, since the competitors have not raised their prices to the same extent. The prices have been increased to compensate for a surge in the price of hazelnuts and almonds, two important ingredients in the Italian seasonal products.

Changes in net sales, %	Oct-Dec 2015	2015
Organic growth	–2.3	1.5
Structural changes	4.8	3.9
Changes in exchange rates	0.2	1.4
Total	**2.7**	**6.8**

Gross profit

Gross profit amounted to SEK 631m (596), which is equal to a gross margin of 38.9 per cent (37.7). The improvement in gross margin is mainly explained by higher efficiency in the factories.

Operating profit

Operating profit was SEK 239m (262). The change is due to increased one-off costs, mainly related to the planned closure of the factory in Dieren, the Netherlands. Lower sales of seasonal products in Italy also had a negative impact on operating profit in the quarter.

One-off items

Operating profit for the fourth quarter includes one-off items of in total amount of SEK –16m (5) that are mainly related to the planned closure of the factory in Dieren, the Netherlands.

Net financial items

Net financial items for the quarter amounted to SEK –48m (–71). Interest expenses related to external borrowings were SEK –26m (–38) and other financial items amounted to SEK –22m (–33). Of the total net financial items SEK –13m (–15) is non-cash in nature.

Profit for the period

Profit for the period was SEK 157m (158), which is equal to basic and diluted earnings per share of SEK 0.55 (0.55). Income tax for the period was SEK –34m (–33). The effective tax rate for the quarter is 17.8 per cent (17.3).

Acquisitions and divestments

No acquisitions or divestments took place in the fourth quarter.

Development during the year

Net sales

Net sales for the full year were up by SEK 361m to SEK 5,674m (5,313) compared to last year. Organic growth was 1.5 per cent, acquisition-driven growth was 3.9 per cent and changes in exchange rates accounted for 1.4 per cent.

Sales increased in all markets but Italy, Norway and the UK. Contract manufacturing also declined. The higher sales in Sweden were driven mainly by the new pick-and-mix concept for Coop. Sales of pick-and-mix also contributed to the sales growth in Finland. In Denmark sales were up mainly for chocolate. Increased distribution and new product launches contributed to higher sales in Germany.

Sales in Italy declined substantially during the year, partly owing to weak market development but mainly due to the introduction of price increases of approximately 20 per cent for the important seasonal products. These price increases led to a steep drop in volumes. The prices have been increased to compensate for a surge in the price of hazelnuts and almonds, two important ingredients in the Italian seasonal products.

Gross profit

Gross profit amounted to SEK 2,211m (1,988), which is equal to a gross margin of 39.0 per cent (37.4). The improvement in gross margin is mainly explained by higher efficiency in the factories and lower restructuring costs.

Operating profit

Operating profit was SEK 671m (577). The improvement is mainly due to higher efficiency in the factories and lower restructuring costs compared to 2014. A remeasurement of the contingent earn-out consideration for completed acquisitions also had a positive impact on operating profit.

One-off items

Operating profit for the full year includes one-off items of in total amount of SEK –19m (–55) that are mainly related to costs for the acquisition of Locawo B.V, the closure of the factory in Dieren, the Netherlands, and the reorganization in Italy. In addition, they include a remeasurement of the contingent earn-out consideration for completed acquisitions.

Net financial items

Net financial items for the year amounted to SEK –178m (–239). Interest expenses related to external borrowings were SEK –120m (–146) and other financial items amounted to SEK –58m (–93). Of the total net financial items SEK –43m (–69) is non-cash in nature.

Profit for the period

Profit for the year was SEK 386m (242), which is equal to basic and diluted earnings per share of SEK 1.35 (0.84). Income tax for the period was SEK –107m (–96). The effective tax rate for the year is 21.7 per cent (28.4).

Acquisitions and divestments

In the third quarter Cloetta acquired Locawo B.V. which owns the brand "Lonka" – a Dutch company producing and selling fudge, nougat and chocolate. Lonka is a well-known brand that will significantly strengthen Cloetta's position in the Netherlands. The acquisition diversifies Cloetta's product range into new technologies and categories, including the Dutch chocolate market. It will also create cost synergies, thereby supporting Cloetta's target of an EBIT margin, adjusted for one-off items, of 14 per cent. In addition, there are long-term revenue synergies that can be realized. For the preliminary accounting for the business combination, see page 17.

Cash flow from operating and investing activities

Cash flow for the fourth quarter

Cash flow from operating activities was SEK 367m (290). Cash flow from operating activities before changes in working capital was SEK 295m (267). The improvement compared to the prior year is mainly the result of a decrease in interest expenses by an amount of SEK 17m. Cash flow from changes in working capital was SEK 72m (23). Cash flow from operating and investing activities was SEK 319m (230).

Working capital

Cash flow from changes in working capital follows normal seasonal pattern and was SEK 72m (23).

Investments

Cash flow from investing activities was SEK –48m (–60). The cash flow from investments in property, plant and equipment and intangibles amounted to SEK –48m (–64).

Cash flow for the full year

Cash flow from operating activities was SEK 927m (500). Cash flow from operating activities before changes in working capital was SEK 697m (492). The improvement compared to the prior year is the result of an increase in operating profit by SEK 94m, a decrease in interest expenses by SEK 46m and other positive cash flows amounting to a total of SEK 65m. The cash flow from changes in working capital was SEK 230m (8). Cash flow from operating and investing activities was SEK 560m (131).

Working capital

The cash flow from changes in working capital was SEK 230m (8). The cash flow from changes in working capital is mainly attributable to higher collection of receivables of SEK 225m (–117) that are mainly related to the seasonal sales. Inventories decreased further, which impacted cash flow positively by an amount of SEK 87m (51). Trade paybles decreased during the year, which impacted cash flow negatively by an amount of SEK –82m (74).

Investments

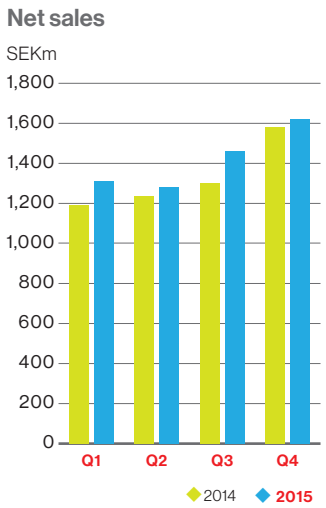
Cash flow from investing activities was SEK –367m (–369). Cash flow for 2015 was impacted by a net amount of SEK –206m attributable to the acquisition of Locawo B.V. In 2014 the acquisitions of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) for an amount of SEK –110m and Aran Candy Ltd. for a net amount of SEK –140m, offset by the proceeds from the sale of the Gävle property of SEK 53m, were included in the cash flow from investing activities. Cash flow from investments in property, plant and equipment and intangibles amounted to SEK –161m (–182).

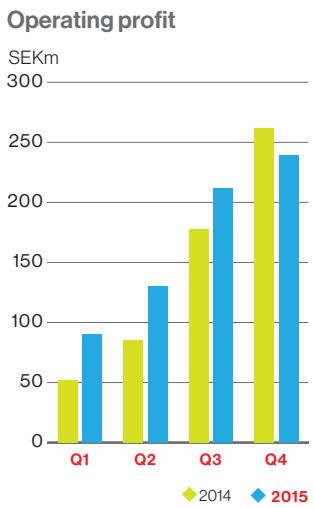
Financial position

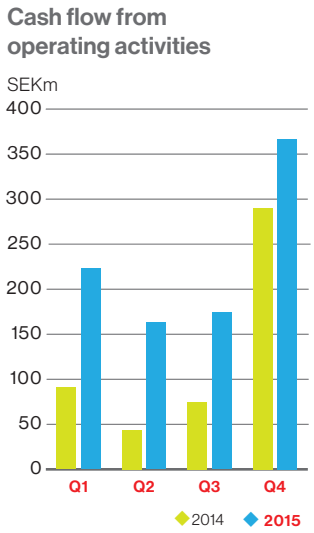
Consolidated equity at 31 December 2015 amounted to SEK 4,344m (4,048), which is equal to SEK 15.1 (14.0) per share. Net debt at 31 December 2015 was SEK 2,818m (3,308).

Non-current borrowings totalled SEK 2,612m (2,993) and consisted of SEK 1,625m (2,026) in gross loans from credit institutions, senior secured notes of SEK 1,000m (1,000) and SEK –13m (–33) in capitalized transaction costs.

Total current borrowings amounted to SEK 344m (423) and consisted of SEK 360m (229) in gross loans from credit institutions, SEK –17m (–18) in capitalized transaction costs, SEK 0m (211) in credit overdraft facilities, and accrued interest on loans from credit institutions and senior secured notes for an amount of SEK 1m (1). The short-term gross loans from credit institutions in an amount of SEK 360m (229) consist of a short-term repayment obligation for 2016.







SEKm	31 Dec 2015	31 Dec 2014
Gross non-current borrowings	1,625	2,026
Gross current borrowings	360	229
Credit overdraft facility	–	211
Senior secured notes	1,000	1,000
Derivative financial instruments (current and non-current)	78	70
Interest payable	1	1
Gross debt	**3,064**	**3,537**
Cash and cash equivalents	–246	–229
Net debt	**2,818**	**3,308**

Cash and cash equivalents at 31 December 2015, excluding long-term unutilized overdraft facilities, amounted to SEK 246m (229). At 31 December 2015 Cloetta had unutilized overdraft facilities for a total of SEK 699m (478).

Other disclosures

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 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 and Italy in connection with the holiday season.

Employees

The average number of employees during the quarter was 2,563 (2,516). The increase is mainly attributable to the impact of the acquisition of Locawo B.V.

The Board's proposed dividend

For the financial year 2015 the Board proposes a dividend of SEK 0.50 per share (–), corresponding to around 37 per cent (–) of profit for the year. Thursday, 14 April 2016, is proposed as the record date for dividends and payment is expected to be made on Tuesday, 19 April 2016.

Cloetta has previously communicated that the company's long-term target is a net debt/EBITDA ratio of around 2.5x. In light of the strong cash flow and improved EBITDA, the Board proposes a dividend before the long-term target for net debt has been met. The long-term target remains unchanged. The ambition is to continue using future cash flows for repayment of debts and payment of share dividends, while at the same time providing financial flexibility for complementary acquisitions. The long-term target to distribute 40–60 per cent of profit after tax continues to apply.

Annual General Meeting 2016

The Annual General Meeting of Cloetta AB will be held on Tuesday 12 April, 04.00 p.m at Norra Latin in Stockholm. Notice of the AGM will be published in the middle of March 2016 and will also be available at www.cloetta.com.

Annual report

The annual report for the financial year 2015 will be published in March 2016 at www.cloetta.com.

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.

Selection of product launches during Q4

Sweden
Juleskum Clementin

Italy
Sperlari

The Baltics
Mynthon

Switzerland
RedBand

The Netherlands
Venco
Sportlife
KING

Finland
Nutisal Dry Roasted Peanuts

The Board of Directors hereby gives its assurance that the year-end report provides 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.

Stockholm, 18 February 2016
Cloetta AB (publ)

Caroline Sundewall
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

Olof Svenfelt
Member of the Board

Lena Grönedal
Employee Board member

David Nuutinen
President and CEO

The information in this year-end report has not been reviewed by the company's auditors.

Financial statements in summary

Consolidated profit and loss account

SEKm	Fourth quarter		Full year	
	Oct–Dec 2015	Oct–Dec 2014	2015	2014
Net sales	1,622	1,579	5,674	5,313
Cost of goods sold	–991	–983	–3,463	–3,325
Gross profit	**631**	**596**	**2,211**	**1,988**
Other income	–	1	0	5
Selling expenses	–237	–237	–949	–892
General and administrative expenses	–155	–98	–591	–524
Operating profit	**239**	**262**	**671**	**577**
Exchange differences on borrowings and cash and cash equivalents in foreign currencies	–6	–14	–1	–11
Other financial income	6	0	6	4
Other financial expenses	–48	–57	–183	–232
Net financial items	**–48**	**–71**	**–178**	**–239**
Profit before tax	**191**	**191**	**493**	**338**
Income tax	–34	–33	–107	–96
Profit for the period	**157**	**158**	**386**	**242**
Profit for the period attributable to:				
Owners of the Parent Company	**157**	**158**	**386**	**242**
Earnings per share, SEK				
Basic	0.55	0.55	1.35	0.84
Diluted[1]	0.55	0.55	1.35	0.84
Number of shares at end of period	288,619,299	288,619,299	288,619,299	288,619,299
Average number of shares (basic)[1]	286,051,689	286,481,689	286,290,840	286,987,990
Average number of shares (diluted)[1]	286,359,672	286,622,223	286,561,607	287,092,780

1 Cloetta entered into long-term forward contracts to repurchase own shares in order to fulfill its future obligation to deliver shares to the participants in the long-term share-based incentive plan. Earnings per share are calculated on the average number of shares adjusted for the effect of the forward contracts to repurchase own shares. The contracts covers a total of 2,567,610 (2,137,610) Cloetta AB shares. One contract covers 937,610 (937,610) Cloetta AB shares for an amount of SEK 18.50678 (18.50678) per share, one contract covers 1,200,000 (1,200,000) Cloetta AB shares for an amount of SEK 23.00000 (23.00000) per share and the last contract covers 430,000 (–) Cloetta AB shares for an amount of SEK 26.40000 (–) per share.

Consolidated statement of comprehensive income

SEKm	Fourth quarter		Full year	
	Oct–Dec 2015	Oct–Dec 2014	2015	2014
Profit for the period	**157**	**158**	**386**	**242**
Other comprehensive income				
Remeasurement of defined benefit pension plans	32	–40	127	–146
Income tax on other comprehensive income that will not be reclassified subsequently to profit or loss for the period	–7	9	–28	33
Items that will never be reclassified to profit or loss for the period	**25**	**–31**	**99**	**–113**
Currency translation differences	–121	91	–124	232
Hedge of a net investment in a foreign operation	26	–21	25	–47
Income tax on other comprehensive income that will be reclassified subsequently to profit or loss for the period, when specific conditions are met	–5	5	–5	10
Items that are or may be reclassified to profit or loss for the period	**–100**	**75**	**–104**	**195**
Total other comprehensive income	**–75**	**44**	**–5**	**82**
Total comprehensive income, net of tax	**82**	**202**	**381**	**324**
Total comprehensive income for the period attributable to:				
Owners of the Parent Company	82	202	381	324

Net financial items

SEKm	Fourth quarter		Full year	
	Oct–Dec 2015	Oct–Dec 2014	2015	2014
Exchange differences on borrowings and cash	**–6**	**–14**	**–1**	**–11**
Other financial income, third parties	1	0	1	4
Unrealized gains on single currency interest rate swaps	5	–	5	–
Other financial income	**6**	**0**	**6**	**4**
Interest expenses on third-party borrowings and realized losses on single currency interest rate swaps	–26	–38	–120	–146
Interest expenses, contingent earn-out liabilities	–2	–4	–13	–14
Amortization of capitalized transaction costs	–5	–5	–18	–19
Unrealized losses on single currency interest rate swaps	–1	–3	–	–23
Other financial expenses	–14	–7	–32	–30
Other financial expenses	**–48**	**–57**	**–183**	**–232**
Net financial items	**–48**	**–71**	**–178**	**–239**

Condensed consolidated balance sheet

SEKm	31 Dec 2015	31 Dec 2014
ASSETS		
Non-current assets		
Intangible assets	5,948	5,882
Property, plant and equipment	1,698	1,667
Deferred tax asset	64	84
Other financial assets	27	105
Total non-current assets	**7,737**	**7,738**
Current assets		
Inventories	786	853
Other current assets	978	1,124
Derivative financial instruments	1	2
Cash and cash equivalents	246	229
Total current assets	**2,011**	**2,208**
Assets held for sale	11	16
TOTAL ASSETS	**9,759**	**9,962**
EQUITY AND LIABILITIES		
Equity	**4,344**	**4,048**
Non-current liabilities		
Long-term borrowings	2,612	2,993
Deferred tax liability	621	483
Derivative financial instruments	44	56
Other non-current liabilities	43	147
Provisions for pensions and other long-term employee benefits	378	505
Provisions	10	16
Total non-current liabilities	**3,708**	**4,200**
Current liabilities		
Short-term borrowings	344	423
Derivative financial instruments	35	16
Other current liabilities	1,271	1,210
Provisions	57	65
Total current liabilities	**1,707**	**1,714**
TOTAL EQUITY AND LIABILITIES	**9,759**	**9,962**

Condensed consolidated statement of changes in equity

SEKm	2015	2014
Equity at beginning of period	**4,048**	**3,747**
Profit for the period	386	242
Other comprehensive income	–5	82
Total comprehensive income	**381**	**324**
Transactions with owners		
Reversal of Capital contribution[1]	–84	–
Forward contract to repurchase own shares	–12	–27
Share-based payments	11	4
Total transactions with owners	**–85**	**–23**
Equity at end of period	**4,344**	**4,048**

1) Reversal of capital contribution relates to the derecognition of the tax indemnity receivable. This reversal is non-cash in nature.

Condensed consolidated cash flow statement

	Fourth quarter		Full year	
SEKm	Oct–Dec 2015	Oct–Dec 2014	2015	2014
Cash flow from operating activities before changes in working capital	295	267	697	492
Cash flow from changes in working capital	72	23	230	8
Cash flow from operating activities	**367**	**290**	**927**	**500**
Cash flow from investments in property, plant and equipment and intangible assets	–48	–64	–161	–182
Cash flow from other investing activities	–	4	–206	–187
Cash flow from investing activities	**–48**	**–60**	**–367**	**–369**
Cash flow from operating and investing activities	**319**	**230**	**560**	**131**
Cash flow from financing activities	**–211**	**–114**	**–518**	**–24**
Cash flow for the period	**108**	**116**	**42**	**107**
Cash and cash equivalents at beginning of period	153	134	229	167
Cash flow for the period	108	116	42	107
Foreign exchange difference	–15	–21	–25	–45
Cash and cash equivalents at end of period	**246**	**229**	**246**	**229**

Condensed consolidated key figures

SEKm	Fourth quarter		Full year	
	Oct–Dec 2015	Oct–Dec 2014	2015	2014
Profit				
Net sales	1,622	1,579	5,674	5,313
Net sales, change, %	2.7	9.6	6.8	8.6
Organic net sales, change, %	–2.3	1.7	1.5	1.0
Gross margin, %	38.9	37.7	39.0	37.4
Depreciation	–59	–55	–227	–198
Amortization	–1	–1	–4	–3
Operating profit, adjusted	255	257	690	632
Operating profit margin, adjusted, %	15.7	16.3	12.2	11.9
Operating profit (EBIT)	239	262	671	577
Operating profit margin (EBIT), %	14.7	16.6	11.8	10.9
EBITDA, adjusted	315	313	921	833
EBITDA	299	318	902	778
Profit margin, %	11.8	12.1	8.7	6.4
Financial position				
Working capital	628	819	628	819
Capital expenditure	–47	–62	–161	–186
Net debt	2,818	3,308	2,818	3,308
Capital employed	7,756	8,041	7,756	8,041
Return on capital employed, % (Rolling 12 months)	8.6	7.5	8.6	7.5
Equity/assets ratio, %	44.5	40.6	44.5	40.6
Net debt/equity, %	64.9	81.7	64.9	81.7
Return on equity, %	3.6	3.9	8.9	6.0
Equity per share, SEK	15.1	14.0	15.1	14.0
Net debt/EBITDA, x (Rolling 12 months)	3.03	3.97	3.03	3.97
Cash flow				
Cash flow from operating activities	367	290	927	500
Cash flow from investing activities	–48	–60	–367	–369
Cash flow after investments	319	230	560	131
Cash conversion, %[1]	85.1	80.2	82.5	77.7
Cash flow from operating activities per share, SEK	1.3	1.0	3.2	1.7
Employees				
Average number of employees	2,563	2,516	2,583	2,533

1) The comparative figures have been restated due to a change in the definition of cash conversion.

Condensed consolidated quarterly data

SEKm	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Profit and loss account									
Net sales	1,622	1,459	1,280	1,313	1,579	1,303	1,238	1,193	1,441
Cost of goods sold	–991	–894	–756	–822	–983	–803	–770	–769	–939
Gross profit	**631**	**565**	**524**	**491**	**596**	**500**	**468**	**424**	**502**
Other income	–	0	0	0	1	3	1	0	0
Selling expenses	–237	–228	–239	–245	–237	–195	–257	–203	–219
General and administrative expenses	–155	–125	–155	–156	–98	–130	–127	–169	–108
Operating profit	**239**	**212**	**130**	**90**	**262**	**178**	**85**	**52**	**175**
Exchange gains/losses on borrowings and cash and cash equivalents in foreign currencies	–6	–4	3	6	–14	7	–3	–1	–5
Other financial income	6	0	0	0	0	1	2	1	2
Other financial expenses	–48	–39	–42	–54	–57	–60	–65	–50	–45
Net financial items	**–48**	**–43**	**–39**	**–48**	**–71**	**–52**	**–66**	**–50**	**–48**
Profit/loss before tax	**191**	**169**	**91**	**42**	**191**	**126**	**19**	**2**	**127**
Income tax expense	–34	–39	–25	–9	–33	–39	–10	–14	59
Profit/loss for the period	**157**	**130**	**66**	**33**	**158**	**87**	**9**	**–12**	**186**
Profit/loss for the period attributable to:									
Owners of the Parent Company	157	130	66	33	158	87	9	–12	186
Key figures									
Operating profit, adjusted	255	194	133	108	257	193	108	74	n/a
EBITDA, adjusted	315	253	189	164	313	242	156	122	n/a
EBITDA	299	271	186	146	318	227	133	100	220
Operating profit margin, adjusted, %	15.7	13.3	10.4	8.2	16.3	14.8	8.7	6.2	n/a
Operating profit margin (EBIT margin), %	14.7	14.5	10.2	6.9	16.6	13.7	6.9	4.4	12.1
Earnings per share, kr SEK									
Basic	0.55	0.45	0.23	0.12	0.55	0.30	0.03	–0.04	0.65
Diluted[1]	0.55	0.45	0.23	0.12	0.55	0.30	0.03	–0.04	0.65
Financial position									
Share price, last paid, kr SEK	28.00	23.90	25.10	25.30	22.60	21.60	22.80	23.60	19.40
Return on equity, %	3.6	3.0	1.6	0.8	3.9	2.3	0.2	–0.3	5.0
Return on equity, % (Rolling 12 months)	8.9	8.9	8.4	7.1	6.0	7.0	7.0	5.7	7.0
Equity per share, SEK	15.1	15.0	14.3	13.9	14.0	13.3	13.2	13.0	13.0
Net debt/EBITDA, x (Rolling 12 months)	3.03	3.39	3.30	3.60	3.97	4.30	4.55	4.47	4.19
Cash flow									
Cash flow from operating activities per share, SEK	1.3	0.6	0.6	0.8	1.0	0.3	0.2	0.3	0.4

1 Cloetta entered into long-term forward contracts to repurchase own shares in order to fulfill its future obligation to deliver shares to the participants in the long-term share-based incentive plan. Earnings per share are calculated on the average number of shares adjusted for the effect of the forward contracts to repurchase own shares. The contracts cover a total of 2,567,610 (2,137,610) Cloetta AB shares. One contract covers 937,610 (937,610) Cloetta AB shares for an amount of SEK 18.50678 (18.50678) per share, one contract covers 1,200,000 (1,200,000) Cloetta AB shares for an amount of SEK 23.00000 (23.00000) per share and the last contract covers 430,000 (–) Cloetta AB shares for an amount of SEK 26.40000 (–) per share.

Parent Company

Condensed parent company profit and loss account

SEKm	Fourth quarter		Full year	
	Oct–Dec 2015	Oct–Dec 2014	2015	2014
Net sales	23	19	88	88
Gross profit	**23**	**19**	**88**	**88**
Other income	–	–	–	0
General and administrative expenses	–26	–23	–113	–104
Operating loss	**–3**	**–4**	**–25**	**–16**
Net financial items	52	29	27	–8
Profit or loss before tax	**49**	**25**	**2**	**–24**
Income tax	–10	–6	0	5
Profit or loss for the period	**39**	**19**	**2**	**–19**

Profit or loss for the period corresponds to comprehensive income for the period.

Condensed parent company balance sheet

SEKm	31 Dec 2015	31 Dec 2014
ASSETS		
Non-current assets	**5,307**	**5,184**
Current assets	**90**	**62**
TOTAL ASSETS	**5,397**	**5,246**
EQUITY AND LIABILITIES		
Equity	**4,218**	**4,205**
Non-current liabilities		
Borrowings	1,122	990
Derivative financial instruments	3	11
Provisions	1	1
Total non-current liabilities	**1,126**	**1,002**
Current liabilities		
Derivative financial instruments	14	9
Current liabilities	39	30
Total current liabilities	**53**	**39**
TOTAL EQUITY AND LIABILITIES	**5,397**	**5,246**
Pledged assets	4,882	4,623
Contingent liabilities	2,763	3,219

Condensed parent company statement of changes in equity

SEKm	2015	2014
Equity at beginning of period	**4,205**	**4,221**
Profit or loss for the period	2	–19
Total comprehensive income	**2**	**–19**
Transactions with owners		
Share-based payments	11	3
Total transactions with owners	**11**	**3**
Equity at end of period	**4,218**	**4,205**

Disclosures, risk factors and accounting policies

Disclosures

Parent Company

Cloetta AB's primary activities include head office functions such as group-wide management and administration. The comments below refer to the period from 1 January to 31 December 2015. Net sales in the Parent Company amounted to SEK 88m (88) and referred mainly to intra-group services. Operating profit was SEK –25m (–16). Net financial items totalled SEK 27m (–8). Profit before tax was SEK 2m (–24) and profit after tax was SEK 2m (–19). Cash and cash equivalents and short-term investments amounted to SEK 0m (0).

The Cloetta share

Cloetta's class B share is listed on Nasdaq Stockholm, Mid Cap. During the period from 1 January to 31 December 2015, a total of 159,022,268 shares were traded for a combined value of SEK 4,063m, equal to around 57 per cent of the total number of class B shares at the end of the period.

The highest quoted bid price during the period from 1 January to 31 December 2015 was SEK 28.20 (3 December) and the lowest was SEK 22.40 (7 January). The share price on 31 December 2015 was SEK 28.00 (last price paid).

During the period from 1 January to 31 December 2015, the Cloetta share rose by 23 per cent, while the Nasdaq Stockholm PI index rose by 7 per cent.

Cloetta's share capital at 31 December 2015 amounted to 1,443,096,495. The total number of shares is 288,619,299, consisting of 9,861,614 class A shares and 278,757,685 class B shares, equal to a quota value of SEK 5 per share.

Shareholders

On 31 December 2015 Cloetta AB had 14,164 shareholders. The largest shareholder was AB Malfors Promotor with a holding corresponding to 41.5 per cent of the votes and 23.6 per cent of the share capital in the company. AMF Försäkring & Fonder was the second largest shareholder with 5.2 per cent of the votes and 6.8 per cent of the share capital. The third largest shareholder was Threadneedle (Ameriprise Financial Inc.) with 5.1 per cent of the votes and 6.6 per cent of the share capital.

Institutional investors held 91.0 per cent of the votes and 88.3 per cent of the share capital. Foreign shareholders held 27.0 per cent of the votes and 35.3 per cent of the share capital.

Taxes

The net effect of international tax rate differences, changes in filing positions and non-deductible expenses impacted the effective tax rate of the group favourably. Cloetta's deferred tax balances have been calculated according to the enacted or substantially enacted tax rates.

Risk factors

Cloetta is an internationally active company that is exposed to a number of market and financial risks. All identified risks are monitored continuously and, if needed, risk mitigating measures are taken to limit their impact. The most relevant risk factors are described in the annual report for 2014 and consist of industry- and market-related risks, operational risks and financial risks. Compared to the annual report for 2014, which was issued on 12 March 2015, no new risks have been identified.

Accounting policies

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. The applied standards and interpretations are those that were in force and had been endorsed by the EU at 1 January 2015. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied. The consolidated interim report is presented compliant with IAS 34, Interim Financial Reporting, and in compliance with the relevant provisions in the Swedish Annual Accounts Act and the Swedish Securities Market Act. The interim report for the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Securities Market Act, which are consistent with the provisions in recommendation RFR 2, Accounting for Legal Entities.

The same accounting policies and methods of computation are applied in the interim financial statements as in the most recent annual financial statements, except for amendments to standards that are effective for annual periods beginning on 1 January 2015 that were not already applied in preparing the 2014 consolidated financial statements. The changes in these standards have not had any material impact on recognition or measurement or the financial reporting disclosure requirements.

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 and the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and the contingent consideration arising from the option agreement for Aran Candy Ltd. categorized at level 3, as well as assets held for sale, in cases where the fair value less cost to sell is below the carrying amount. The fair values of 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 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 were measured at fair value at 31 December 2015

SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
- Non-current assets measured at fair value	–	–	11	11
- Forward foreign currency contracts	–	1	–	1
Total assets	**–**	**1**	**11**	**12**
Liabilities				
Liabilities at fair value through profit or loss				
- Interest rate swaps	–	22	–	22
- Contingent consideration	–	–	125	125
- Forward foreign currency contracts	–	0	–	0
Total liabilities	**–**	**22**	**125**	**147**

The liabilities measured at fair value are reflected in the 'other non-current liabilities', 'derivative financial instruments' and 'other current liabilities'.

The non-current assets measured at fair value at 31 December 2015 consisted of the land and building in Zola Predosa, Italy.

The following table presents the Group's assets and liabilities that were measured at fair value as per 31 December 2014

SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
- Non-current assets measured at fair value	–	–	16	16
- Forward foreign currency contracts	–	2	–	2
Total assets	**–**	**2**	**16**	**18**
Liabilities				
Liabilities at fair value through profit or loss				
- Interest rate swaps	–	27	–	27
- Contingent consideration	–	–	147	147
Total liabilities	**–**	**27**	**147**	**174**

The liabilities measured at fair value are reflected in the 'other non-current liabilities' and 'derivative financial instruments'.

Movements in financial instruments categorized at level 3 of the fair value hierarchy can be specified as follows:

SEKm	2015	2014
Opening balance	**147**	**2**
Business combinations	–	158
Remeasurements recognized in profit or loss		
- Unrealized remeasurements on contingent consideration recognized in general and administrative expenses	–33	–27
- Unrealized interest on contingent consideration recognized in other financial expenses	12	14
Remeasurements recognized in other comprehensive income		
- Unrealized currency translation differences	–1	0
Closing balance	**125**	**147**

No transfer between fair value hierarchy levels has occured 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 at level 2. The valuation of the instruments is based on quoted market prices, but the underlying swap amounts are based on the specific requirements of the Group. These instruments are therefore included at level 2. The fair value measurement of the contingent earn-out liability requires the use of significant unobservable inputs and is thereby 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 rates.
- The fair value of the assets held for sale is based on valuations by external independent valuators.
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value of the remaining financial instruments.

The fixed 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 because the fair value less cost to sell is below the carrying amount. The contingent earn-out liabilities are measured at fair value using a scenario model with an earn-out threshold, different results and related changes, and an applicable multiplier as input. These data are aligned with the earn-out contracts.

The inter-relationship between significant unobservable inputs and fair value measurement are:

- The estimated fair value of the contingent earn-out consideration would increase (decrease) if:
  –the forecasted profit before indirect cost for 2015 and 2016 were higher (lower).
- The estimated fair value of the contingent consideration arising from option agreements would increase (decrease) if:
  –the working capital at 31 December 2015 were higher (lower),
  –the cash balance at 31 December 2015 were higher (lower),
  –the adjusted gross profit for 2015 were higher (lower).

For detailed information about the accounting policies, see Cloetta's annual report for 2014 at www.cloetta.com.

Acquisition of Locawo B.V.

On 17 July 2015, Cloetta acquired control of Locawo B.V, a manufacturer of a wide range of sweets, by acquiring 100 per cent of the total outstanding ordinary shares. This transaction has provided Cloetta with 100 per cent of the voting rights in Locawo B.V. The acquisition has significantly strengthened Cloetta's position in the Netherlands and broaden Cloetta's product portfolio as part of it's 'Munchy Moment' strategy.

SEKm	
Consideration paid	
Cash paid	206
Contingent consideration	–
Consideration transferred	**206**
Recognized amounts of identifiable assets and liabilities assumed:	
Non-current assets	**264**
Intangible assets (excl. goodwill)	143
Property, plant and equipment	119
Other non-current assets	2
Current assets	**83**
Inventories	31
Trade and other receivables	52
Cash and cash equivalents	–
Non-current liabilities	**–74**
Borrowings	–21
Provisions	–2
Deferred tax liabilities	–51
Current liabilities	**–107**
Borrowings	–30
Trade payables	–26
Derivative financial instruments	–3
Taxes and social security premiums	–6
Payables to related parties	–27
Other current liabilities	–15
Total identifiable net assets	**166**
Goodwill	40
Consideration transferred	**206**

The total consideration amounts to SEK 206m in cash. No contingent consideration has been arranged in the transaction.

The goodwill of SEK 40m relates primarily to the potential of new distribution channels, the workforce, the creation of diversity in Cloetta's brand portfolio and new market/sales opportunities in Cloetta's markets. The total goodwill of SEK 40m is not expected to be deductible for tax purposes.

The acquired receivables consist of accounts receivable of SEK 34m that are expected to be collected in full. The contingent liabilities recognized as part of the purchase price allocation amount to SEK 1m. The total of transaction cost related to the acquisition amounted to SEK 9m and is fully recognized in the income statement for the period concerned as 'General and administratives'.

Due to the short-term nature of the receivables, the fair value approximates the gross contractual amounts. The contractual cash flows which are expected not to be collected are immaterial.

Locawo B.V. contributed SEK 151m to the consolidated revenues of Cloetta from acquisition date up to 31 December 2015. Had Locawo B.V. been consolidated from 1 January 2015, it would have (pro forma) contributed SEK 296m to consolidated revenues over the period from 1 January 2015 to 31 December 2015. Because Locawo B.V. was acquired on 17 July 2015, 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 the Middle group of cash-generating units.

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	
Gross margin	Net sales less cost of goods sold as a percentage of net sales.
Operating profit margin (EBIT margin)	Operating profit expressed as a percentage of net sales.
Operating profit margin, adjusted	Operating profit, adjusted for one-off items, as a percentage of net sales.
Profit margin	Profit/loss before tax expressed as a percentage of net sales.
Return	
Cash conversion	Operating profit, adjusted for one-off items, before depreciation and amortization less capital expenditures as a percentage of operating profit, adjusted for one-off items, before depreciation and amortization.
Return on capital employed	Operating profit plus financial income as a percentage of average capital employed.
Return on equity	Profit for the period as a percentage of total equity.
Capital structure	
Capital employed	Total assets less interest-free liabilities (including deferred tax).
Equity/assets ratio	Equity at the end of the period as a percentage of total assets.
Gross debt	Gross current and non-current borrowings including credit overdraft facilities, derivative financial instruments and interest payables.
Net debt	Gross debt less cash and cash equivalents.
Net debt/EBITDA ratio	Net debt/EBITDA according to the definition in the credit facility agreement. The difference between net debt in the credit facility agreement and the external net debt definition is that the definition in the credit facility agreement includes the minimum contingent earn-out consideration but excludes financial derivative instruments. The definition of EBITDA in the credit facility agreement corresponds to operating profit, adjusted, before depreciation and amortization, and includes the rolling twelve-month EBITDA of acquired companies.
Net debt/equity ratio	Net debt at the end of the period divided by equity at the end of the period.
Working capital	Total inventories and trade and other receivables adjusted for trade and other payables.
Data per share	
Earnings per share	Profit for the period divided by the average number of shares.
Other definitions	
EBIT	Operating profit consists of comprehensive income before net financial items and income tax.
EBITDA	Operating profit before depreciation and amortization.
EBITDA, adjusted	Operating profit, adjusted for one-off items, before depreciation and amortization.
Net sales, change	Net sales as a percentage of net sales in the comparative period of the previous year.
One-off items	One-off items are items such as restructurings and impact from acquisitions.
Operating profit, adjusted	Operating profit adjusted for one-off items.

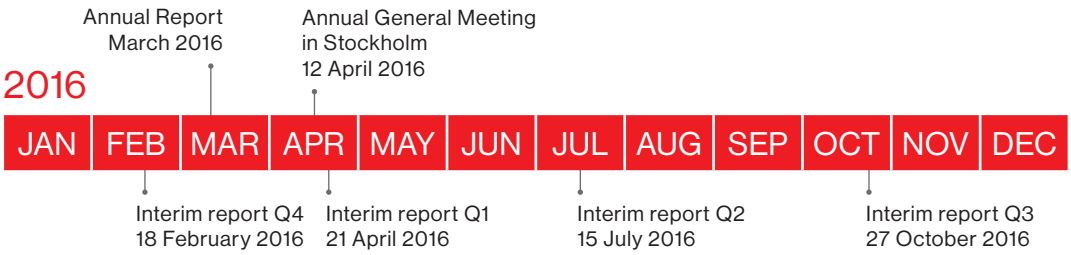
Glossary

pick-and-mix concept	Cloetta's range of candy and natural snacks that are picked and mixed by the consumers themselves.

Exchange rates

	31 Dec 2015	31 Dec 2014
EUR, average	9.3445	9.1051
EUR, end of period	9.1679	9.3829
NOK, average	1.0432	1.0882
NOK, end of period	0.9563	1.0439
GBP, average	12.8736	11.3118
GBP, end of period	12.4835	12.0340
DKK, average	1.2529	1.2215
DKK, end of period	1.2287	1.2604

Financial calendar



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The information in this interim report is such that Cloetta is required to disclose in accordance with the Securities Market Act. The report was released for publication at 8:00 a.m. CET on 18 February 2016.

About Cloetta

Cloetta, founded in 1862, is a leading confectionery company in the Nordic region, the Netherlands and Italy. 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, Jenkki, Kexchoklad, Malaco, Sportlife, Saila, Red Band and Sperlari. Cloetta has 13 production units in six countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

Vision

To be the most admired satisfier of Munchy Moments

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

Business model

Cloetta's business model is to offer strong local brands in Munchy Moments and provide effective sales and distribution to the retail trade. Together, this will ensure continued positive development of the company's leading market positions.

Strategies

- **Focus on margin expansion and volume growth.**
- **Focus on cost-efficiency.**
- **Focus on employee development.**

Long-term financial targets

- **Cloetta's target is to increase organic sales at least in line with market growth.**
- **Cloetta's target is an EBIT margin, adjusted for one-off items, of at least 14 per cent.**
- **Cloetta's long-term target is a net debt/EBITDA ratio of around 2.5.**
- **Cloetta's long-term intention is a dividend payout of 40–60 per cent of profit after tax.**

Value drivers

- **Strong brands and market positions in a non-cyclical market.**
- **Excellent availability in the retail trade with the help of a strong and effective sales and distribution organization.**
- **Good consumer knowledge and loyalty.**
- **Innovative product and packaging development.**
- **Effective production with high and consistent quality.**

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