

# Clouetta

SUSTAINABILITY REPORT

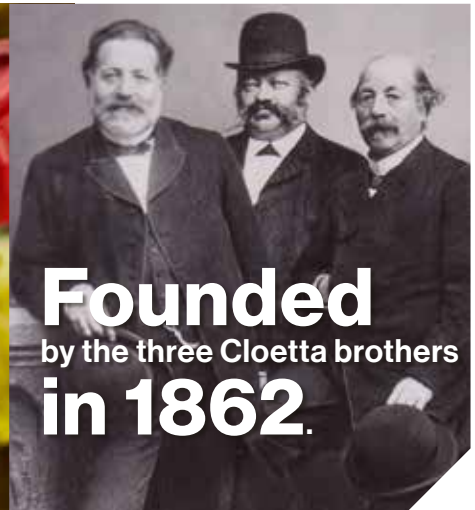
**2016**

Malaco Sportlunch Läkerol  
Chewits King Xylifresh Sait  
Bridge Nutsal Polly Galatin  
Lexchoklad Lonka Myntho  
Dietorelle Ahlgrens Bilar  
Goody Good Stuff Juleskur  
Venco Läkerol Dents Jenkl  
Sperlari Center Sportlife  
The  Jelly Bean Factory  
Upla Red Band Plopp Sisu

# ► This is Cloetta



- A leading confectionery company in the Nordic region, the Netherlands and Italy.
- Listed on Nasdaq Stockholm.



**Founded**  
by the three Cloetta brothers  
**in 1862.**



## 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.

## Vision

**To be the most admired satisfier  
of Munchy Moments**

## Mission

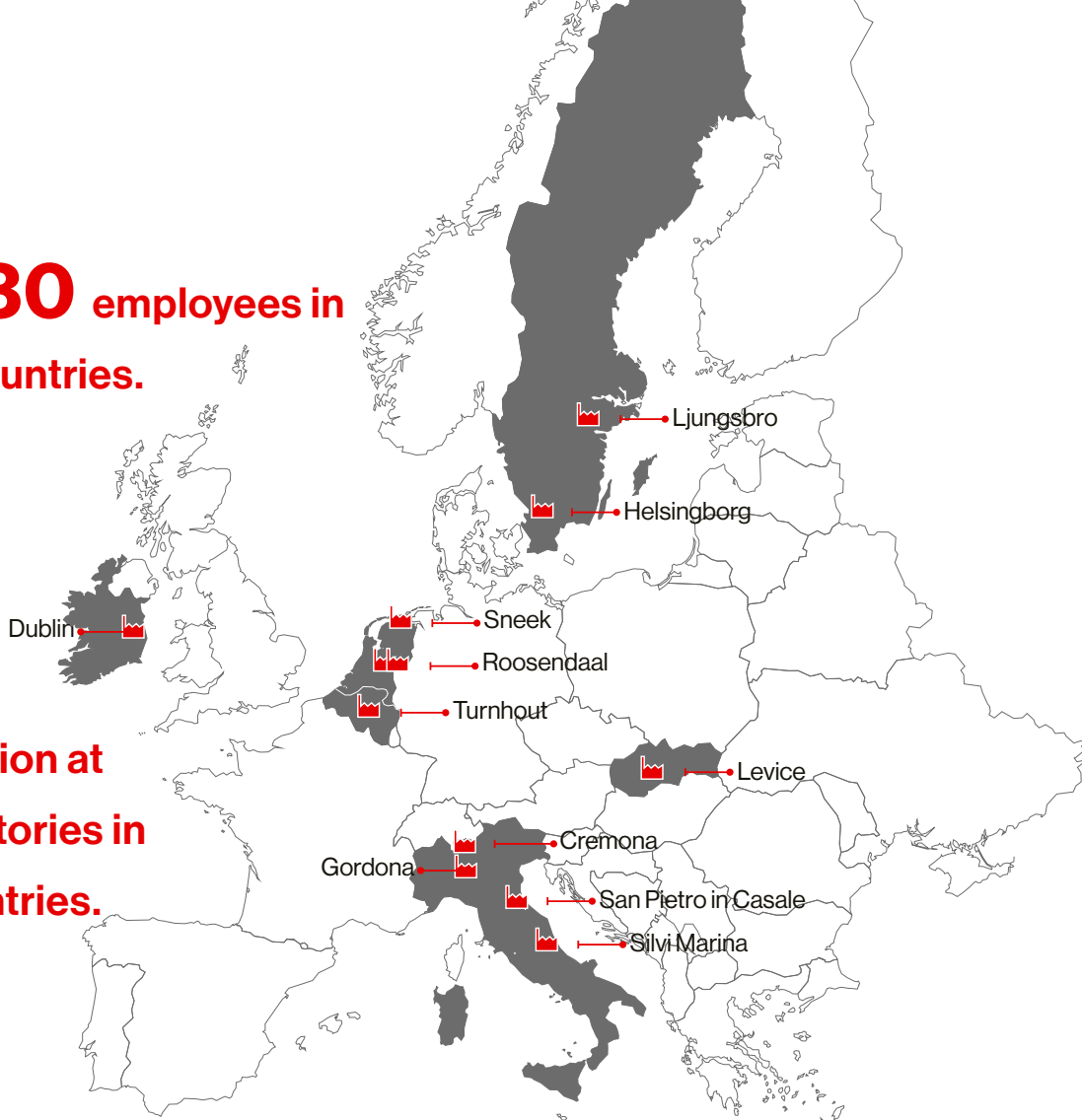
**To bring a smile to your  
Munchy Moments**

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

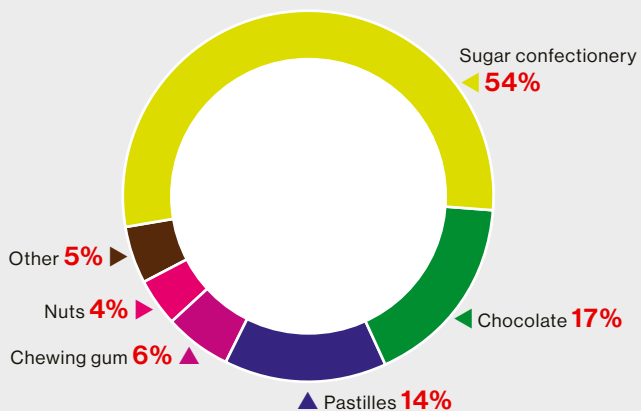


 **2,530** employees in **14** countries.

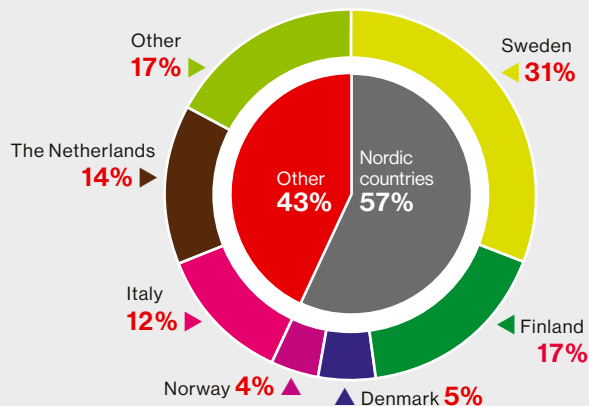
 **Production at 12** factories in **6** countries.



Cloetta's net sales by category



Cloetta's net sales by country



**Categories where Cloetta is the market leader**

**Sweden**

- Sugar confectionery
- Chocolate countlines
- Pastilles
- Chocolate bags



**Norway**

- Pastilles
- Sugar confectionery



**Denmark**

- Pastilles
- Sugar confectionery



**Netherlands**

- Pastilles
- Sugar confectionery
- Chewing gum



**Finland**

- Pastilles
- Chewing gum
- Sugar confectionery



**Italy**

- Seasonal products
- Sweetener
- Sugar confectionery





# Cloetta continues on the right path

Cloetta has performed well in recent years. But as a company, we can never allow ourselves to stand still. We must continuously strive to develop and become better.

We have launched an effort to initiate strategic activities that can promote profitable growth. This essentially consists normal development work that is being pursued to adapt to a changing world and live up to the demands of our customers and consumers. With our Munchy Moments strategy we have an excellent platform for realizing new initiatives that drive more profitable growth.

### Sustainability work enhanced

Cloetta's goal is to build long-term sustainable values by growing as a company while at the same time ensuring that both people and the environment are positively impacted. Cloetta's sustainability commitment is focused on three central areas; greater well-being, reduced environmental impact and sustainable sourcing. For all prioritized areas, there are action plans, targets and key ratios in place.

Already in 2009 Cloetta joined the United Nations' Global Compact and ratified its principles. Cloetta continues to support the 10 principles in the UN's Global Compact, which have been 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 are UTZ-certified, which means that we provide oppor-

**“I am both proud and delighted that we have been able to deliver another outstanding year.”**

tunities for cocoa growers to develop sustainable farming. We have a policy for palm oil that is aimed at combatting destruction of rainforest and in 2016 we made a decision to change over segregated palm oil according to RSPO (Round Table of Sustainable Palm Oil) principles, thereby improving the traceability of our palm oil. We have also decided to eliminate the amount of palm oil found in Cloetta's glazes. This means that the vast majority of Cloetta's products will be free from palm oil by the end of 2017, which is something that many customers and consumers have asked for.

Cloetta's long-term environmental goals extend until 2020. It is therefore highly satisfying that in 2016, just as in 2015, we were able to see that our efforts to reduce the company's environmental impact are moving in the right direction. Most of our environmentally-related key ratios have improved or are unchanged in relation to earlier years.

In order to enhance our communication about sustainability issues, the year's sustainability report has been reviewed by the auditing firm of KPMG. As it is our ambition to meet international standards, our sustainability report has been prepared in accordance with the Global Reporting Initiatives (GRI) guidelines.

### Cloetta on the right path

I am both proud and delighted that we have been able to deliver another outstanding year for Cloetta. Despite changes in management, during my leadership in the second half of 2016,

we have been able to continue developing and advancing our business. This is clearly visible in the fact that in the past year we achieved both an increase in sales and an improvement in underlying operating profit.

Thanks to our positive development in 2016, we have met our financial target for the net debt/EBITDA ratio. This means that we now have the financial flexibility for both acquisitions and dividends, which has been realized in a proposed 50-per cent increase in the dividend and the recently announced acquisition of Candyking.

Interest, support and appreciation for Cloetta remain powerful among shareholders, customers and consumers, and are key factors behind our successes. This strengthens both the employees and myself in the belief that Cloetta is on the right path.

Stockholm, March 2017

Danko Maras  
*Interim President and CEO*  
until 14 February 2017





# Long-term sustainability targets

## Greater well-being

### Employees

The number of days between occupational accidents with >1 day of sickness absence will exceed 24.3 days in 2017.

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

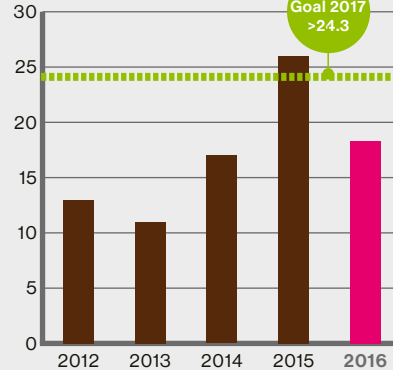
### Consumers – Complaints/feedback

The number of complaints about Cloetta products from consumers will not exceed 5.7 ppm (number per million units sold) in 2017.

### No artificial colours or flavours

Cloetta is committed to increasing the share of natural ingredients. Cloetta's product portfolio will contain no artificial flavours by 2018 at the latest, and no artificial colours by 2019.

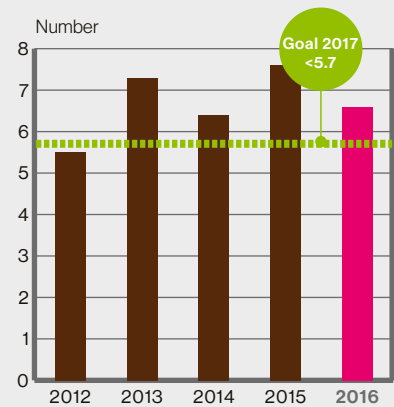
**Days between occupational accidents**  
(number of days between accidents leading to >1 day of absence)  
Days



### Comments on the year's outcome

After several years with a steady decrease in occupational accidents, 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 during 2016. This will continue to be a priority in 2017. Roosendaal Borchwerf has not been included. Read more on page 14.

**Complaints, feedback per million sold consumer units**  
Number



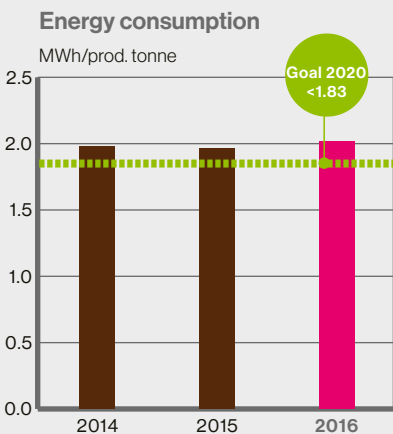
### Comments on the year's outcome

The result for 2016 was a clear improvement compared to last year. This was achieved through an increased focus on Cloetta's product quality management system, which will continue to be a prioritized area in 2017.

## Reduced environmental impact

### Energy consumption

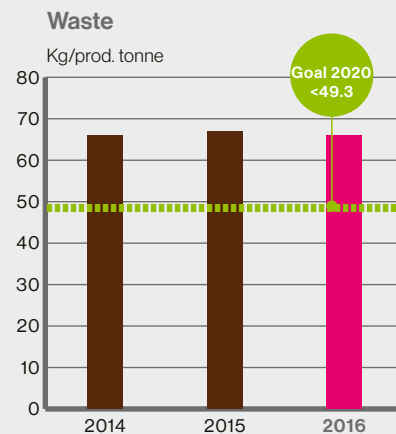
Reduce energy consumption in relation to the produced volume (MWh/tonne) by 5 per cent by 2020.



The base year for the three 2020 targets is 2014.

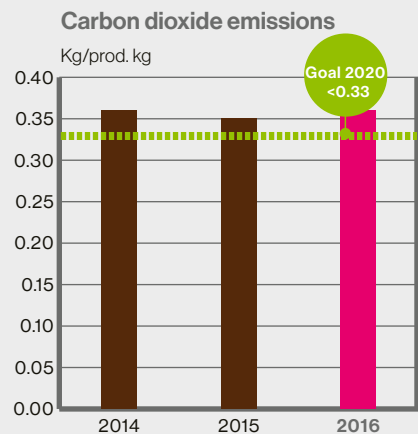
### Waste

Reduce the volume of waste in relation to the produced volume (kg/tonne) by 25 per cent by 2020.



### Carbon dioxide emissions

Reduce CO<sub>2</sub> emissions from production in relation to the produced volume (kg/kg) by 5 per cent by 2020.



CO<sub>2</sub> equivalents are linked to the Group's use of different energy types. Transports are excluded.

## 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 must 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.
- By the end of 2017, Cloetta will have implemented RSPO-segregated palm oil throughout the product portfolio.
- By the end of 2017, Cloetta's glazing agent will be free from palm oil.

### Comments on the year's outcome

- Sustainability programmes have been implemented for cocoa and palm oil. For shea butter and raw sugar, sustainability programmes are under development.
- 100 per cent of the cocoa purchases were UTZ-certified.
- In 2016 Cloetta decided to improve the traceability of the palm oil that is found in parts of the product range and started efforts to formulate a new palm oil policy.





## Strategies and activities

In connection with the merger between Cloetta and Leaf in 2012, the Group formulated its strategies for profitable long-term growth. Since then, net sales have risen by around 26 per cent through both organic and acquisition-driven growth. Cloetta's adjusted operating profit has increased significantly in recent years. The improvement in earnings is mainly attributable to higher efficiency in the supply chain and good cost control.

### Strategies

#### ► Focus on margin expansion and volume growth

- Improve the strong brands with local traditions.
- Strengthen the strong position in the Nordic market.
- Widen and expand the product portfolio geographically.
- Launch and acquire new products and brands.
- Implement strategic pricing.

#### ► Focus on cost-efficiency

- Improve internal processes and systems.
- Improve cost-efficiency.
- Implement a programme for operational excellence ("Lean 2020") in the supply chain.
- Increase breadth in production technology to create flexibility in product development.

#### ► Focus on employee development

- Develop Cloetta's culture based on the results of the employee survey "Great Place to Work".
- Attract, develop and retain competent employees.
- Develop leadership and teamwork.



## 2012 • Merger between Cloetta and Leaf

- New vision for the Group
- New Group Management Team
- New organization
- New financial targets
- New strategy

## 2013 • Factory restructuring programme was carried out

- The credit facility was renegotiated and senior secured notes were issued
- New vision, mission and values were communicated in the organization

## 2014 • Factory restructuring programme was completed

- Nutisal and The Jelly Bean Factory were acquired
- New sustainability goals were formulated

## 2015 • Delivered improved profitability with support of LEAN and new ERP system

- New pick & mix concept and the acquisition of Lonka
- The first sustainability programmes for prioritized raw materials was introduced

## 2016 • Improved profitability

### Refinancing

#### Growth

- New pick & mix contracts in Sweden and Finland.
- Organic sales growth, primarily for chocolate and nuts.
- Lonka, which was acquired in July 2015, also contributes to acquisition-driven growth during first half of the year.

#### Cost-efficiency

- Operational excellence programme Lean 2020 in the supply chain.
- Synergies from the acquisition of Lonka.
- Good cost control.
- Refinancing of the existing bank loans and repayment of senior secured notes.

#### Sustainability

- New targets set for the palm oil that Cloetta uses. New palm oil policy under development.
- Sustainability report on which limited assurance procedures have been performed by external auditors.
- Clear goals set for elimination of artificial colours and flavours.

# 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.

## 1 Product development

- Product development is driven by a combination of consumer needs/preferences, innovation and possibilities in the existing production structure.

## 2 Purchasing

- Cloetta's total purchasing costs amounted to SEK 3,607m, of which SEK 2,152m 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.

## 3 Production

- Cloetta had 2,530 employees during 2016 and total personnel costs amounted to SEK 1,304m.
- Cloetta's 12 factories had 1,825 employees.
- During the year, Cloetta produced 120 thousand tonnes of confectionery, chewing gum and nuts.

Value creation

Sustainable corporate responsibility

- A long-term programme, NAFNAC, is being conducted to offer a portfolio of products that contain No Artificial Flavours, No Artificial Colours. In 2016 the project resulted in setting of clear goals for elimination of artificial colours and flavours from Cloetta's product portfolio.

- 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 24–27.

### Environment

- Development of more energy-efficient processes and lower CO<sub>2</sub> emissions.
- Waste is sent to material recycling and energy recovery.
- Systematic environmental management in all production units.

### Occupational Health and Safety (OHS)

- Focus on personal safety.
- OHS activities with systematic monitoring and follow-up.

### Product Safety

- Product safety system.
- Focus on measures to prevent serious product complaints. Read more on pages 3 and 16.







**Investments**

A large share of the capital that is generated is normally reinvested in operations, for example through investments in activities aimed at strengthening competitiveness and creating long-term value for the Group and its stakeholders.

**Repayment of borrowings**

**4 Customers**

- Total net sales amounted to SEK 5,852m. 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.

**5 Consumers**

- We satisfy Munchy Moments.
- Feedback about complaints and viewpoints.

- Products of a high quality that are marketed responsibly.
- Offer consumers a wide range of natural products.

**Loss for the year, SEK -191m**

Profit for the year excl. impact of impairment loss SEK 403m.

**Shareholders**

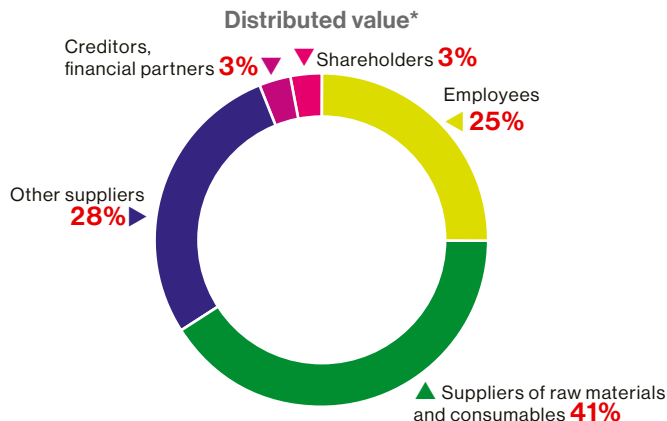
A certain share of non-restricted equity is distributed to Cloetta's shareholders in the form of dividends, after the operations have been provided with the capital necessary for development. For 2016 the Board has proposed a dividend of SEK 0.75 per share, equal to a total of SEK 216m, to be paid in 2017. In 2016, SEK 144m was distributed to the shareholders.

**Economic impact**

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

**Generated value from customers**

**SEK 5,852m**



\* Excluding amortization/depreciation and impairment losses, tax income and profit/loss for the year and including paid dividends and net financial items, total SEK 5,229m.



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



# 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«.





## 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.

### Treating ourselves



Many people live stressful lives and need an occasional break to take a moment for themselves, be happy, enjoy and treat themselves to something special.

There is also a clear trend towards more indulgent and sophisticated products.

### 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 labeling and certification.

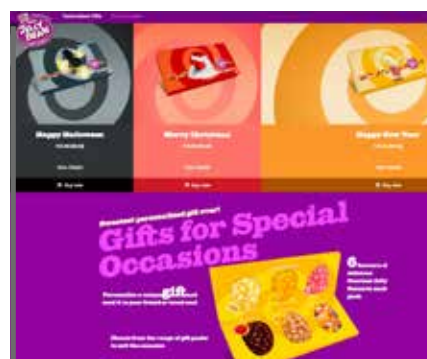
### Health and functional confectionery/snacks



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.

### E-commerce and social media gaining importance



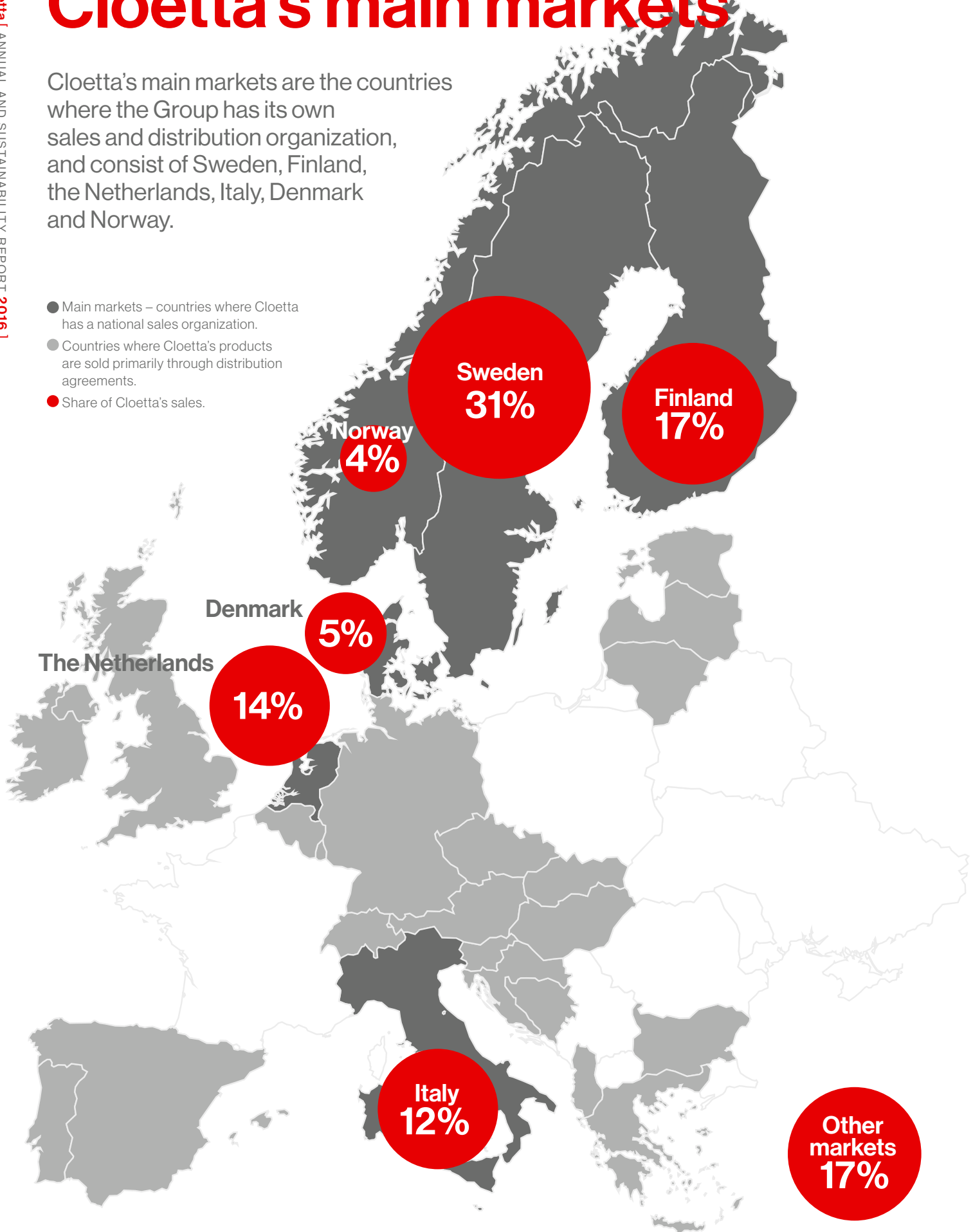
E-commerce is growing rapidly across all sectors, including the grocery retail trade. Both grocery retailers and food producers are building up their own e-commerce capacity to sell their goods online, and new players are also capitalizing on the powerful growth of online sales. Alongside e-commerce, 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.



# 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, Italy, Denmark and Norway.

- Main markets – countries where Cloetta has a national sales organization.
- Countries where Cloetta's products are sold primarily through distribution agreements.
- Share of Cloetta's sales.





# 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.



# Supply chain

At year-end 2016 Cloetta had 12 factories in Sweden, Italy, the Netherlands, Belgium, Slovakia and Ireland. All in all, Cloetta produced approximately 120 thousand tonnes of confectionery in 2016.

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 and to integrate the factory in Roosendaal, the Netherlands, that came with the acquisition of Lonka. In 2016 the factory in Dieren, the Netherlands, was closed.

### 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. Added to this, 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. In 2016 further transfers between the factories were carried out in order to optimize utilization of our factory network.

At the end of 2016 the factory in Dieren, the Netherlands, was closed as part of the synergy programme related to the acquisition of Lonka and its production was transferred to the factory in Levice, Slovakia, which has been expanded in connection with this. The transfer has also made it possible to insource additional production to the factory in Levice.

### Occupational safety

Employee safety is fundamental and is the top priority in every production facility. Continuous risk assessments and increased reporting of near misses contribute to greater knowledge about the causes of accidents in the workplace, which contributes to making preventative measures an integral part of day-to-day operations and minimizes the risk for accidents. The key elements of these activities are discussions and workshops that are held in the various workplaces to promote safety awareness and influence behaviour.

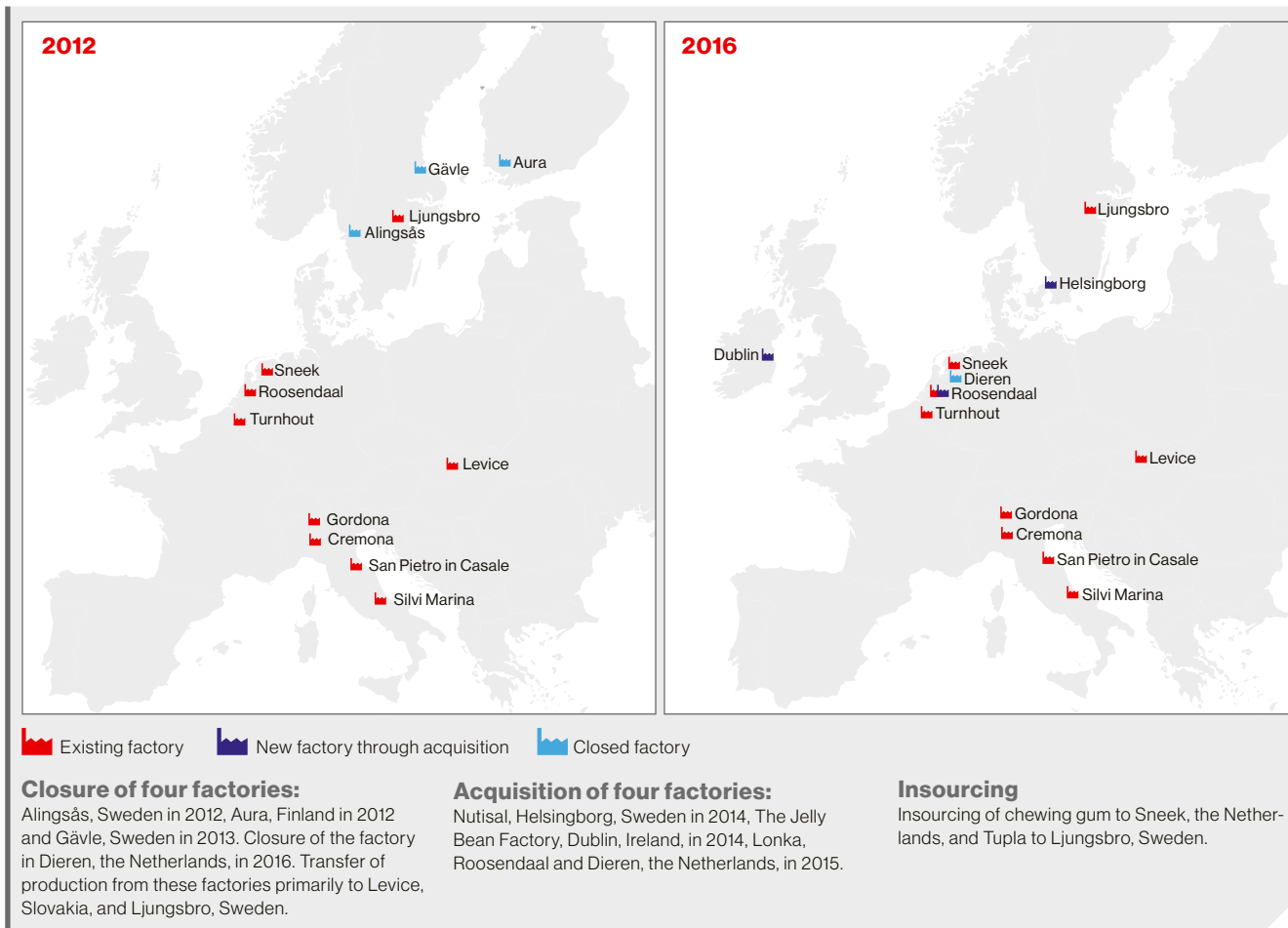
Cloetta  
produced approximately  
**120,000**  
tonnes of confectionery  
in 2016

After a couple of years of steady decreases in occupational injuries, the trend was broken in 2016 and the target of 28 days between accidents was not met. The number of days fell from 26 in 2015 to 18.3 in 2016 (between occupational accidents with >1 day of sickness absence). Seven of the accidents took place in connection with different types of machine interventions, which is normally prevented through robust LOTO procedures (lockout-tagout). As a result of the accidents, a new safety standard was drawn up for immediate implementation in all factories during 2016. This will continue to be a priority in 2017.

When factories are acquired, the historical data for LTAs is recalculated. For this reason, the figures for 2012-2015 may differ from the previously reported outcome.



## Changes in the production structure 2012–2016



### 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 30–31.

### 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 Group's 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 60 per cent of total costs, are raw materials and packaging.

Raw materials are purchased only from suppliers that can be verified against Cloetta's ethical, quality, product, safety and environ-

mental 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.

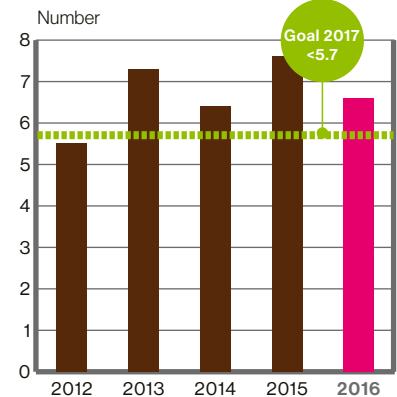
**Consumer and customer feedback**

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. 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 mixing of products in the bags and damaged packaging.

**Complaints**, feedback per million sold consumer units



The result for 2016 was a clear improvement compared to last year. This was achieved through an increased focus on Cloetta's product quality management system, which will continue to be a prioritized area in 2017.





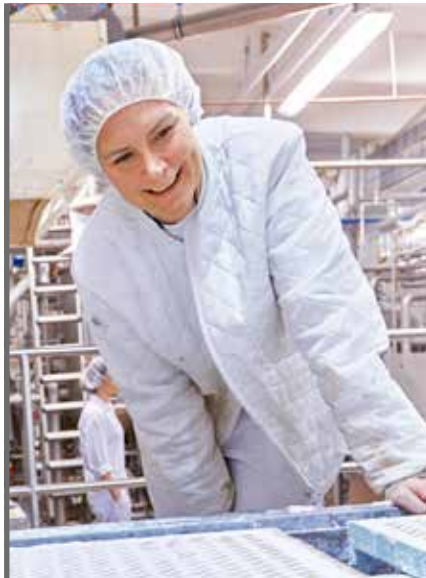
# Success factors for production

## Engaged employees



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



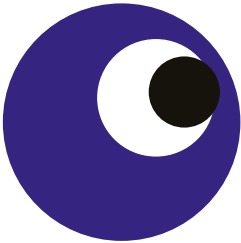
Cloetta's sales are based on large volumes. Cost-efficiency is necessary in order to stay competitive.



# 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 margin expansion and volume growth

By creating sustainability programmes for the prioritized raw material groups and communicating these programmes on Cloetta's 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 vol-

## ► 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.



umes from the factories contribute to greater cost-efficiency.

**Focus on employee development**

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 49.

**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 environ-

mental 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.

**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).



**▶ Anti-bribery and -corruption policy**

During 2016 Cloetta adopted a new policy on anti-bribery and -corruption. The policy is closely related to Cloetta’s Code of Conduct and together they intend to ensure compliance with applicable anti-bribery and corruption control principles. 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 Organisations (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 at right, 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:

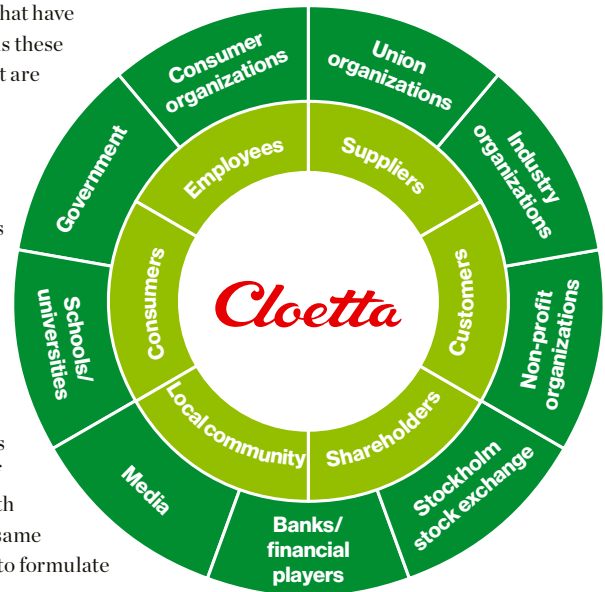
- The stakeholder perspective – i.e. what importance a specific issue has for Cloetta's stakeholders.
- The impact perspective – i.e. the direct impact a specific issue can have on Cloetta from a financial perspective, goodwill, etc.

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.

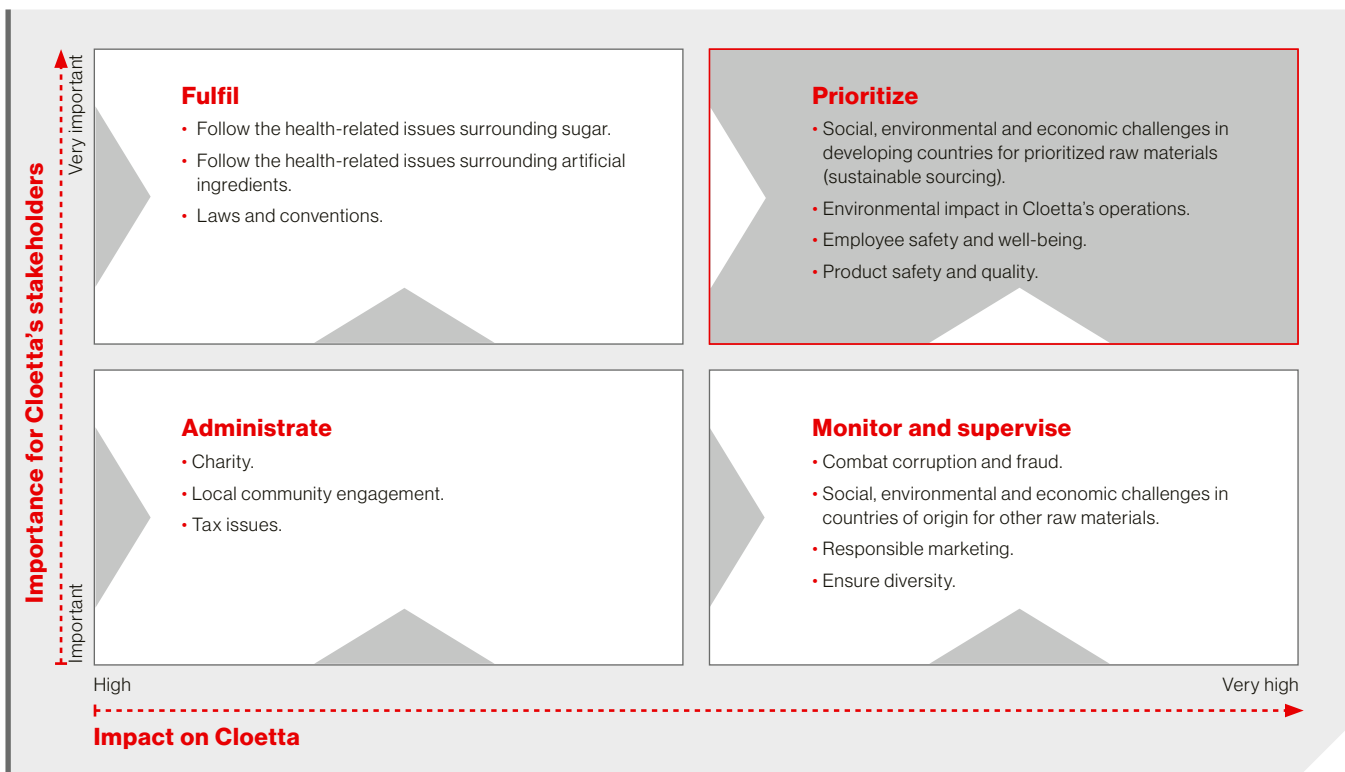
### Cloetta listens

In 2016, more and more customers and consumers demanded increased traceability for the palm oil that is used in some of Cloetta's products. For that reason, Cloetta made a decision during the year to change over to segregated palm oil according to the RSPO's principles and to replace the small amount of palm oil used in Cloetta's glaze with other vegetable oils. Based on the same decision, efforts were also started to formulate a new long-term palm oil policy.

### Cloetta's stakeholders



## Materiality analysis





## ► The stakeholders' key sustainability issues

Stakeholder	Key issues – sustainability	Communication and cooperation
<b>Customers/ Consumers</b>	<ul style="list-style-type: none"> <li>Product safety and quality.</li> <li>Clear declaration of ingredients.</li> <li>Eco-friendly packages.</li> <li>Cloetta takes responsibility for the environment and working conditions.</li> <li>Ethical issues in general.</li> <li>Efficient transports to the retail trade.</li> </ul>	<ul style="list-style-type: none"> <li>With consumers via annual surveys and via websites and social media.</li> <li>With customers through personal customer and sales meetings on a tertial basis and via customer surveys, but also collaborative initiatives for eco-friendly transports.</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Good and stimulating working conditions.</li> <li>A safe working environment.</li> <li>Health and fitness activities.</li> <li>Ethical issues in general.</li> <li>Good financial development for the company.</li> </ul>	<ul style="list-style-type: none"> <li>Daily meetings to discuss occupational health and safety in the factories.</li> <li>Annual performance reviews with all employees.</li> <li>Systematic skills development activities.</li> <li>Up-to-date information provided monthly, e.g. via managers, the intranet and union representatives.</li> <li>Employee survey "Great Place to Work" every other year.</li> </ul>
<b>Shareholders and investors</b>	<ul style="list-style-type: none"> <li>Sustainable long-term financial value growth.</li> <li>Ethical issues in general.</li> </ul>	<ul style="list-style-type: none"> <li>Annual report, website, analyst and investor meetings, interim reports and annual general meeting.</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Ethics and business codes in procurement.</li> <li>Product safety.</li> <li>Sustainable long-term development.</li> <li>Support of human rights among raw material producers.</li> </ul>	<ul style="list-style-type: none"> <li>Collaborative projects for sustainability.</li> <li>Annual supplier evaluations, sponsorship evaluations and development projects.</li> </ul>
<b>Local communities, the public/society</b>	<ul style="list-style-type: none"> <li>Cloetta takes responsibility for the environment and working conditions as far as possible.</li> <li>Laws, regulations and standards.</li> <li>Cloetta makes a positive contribution to development of society, including the local environment.</li> </ul>	<ul style="list-style-type: none"> <li>Continuous contact with the local communities/municipalities around Cloetta's factories with regard to the local environment.</li> <li>Continuous contact with public authorities in areas related to occupational health and safety, environmental and product responsibility, schools and universities.</li> <li>Annual audits by Certification bodies for ISO and BRC.</li> <li>Continuous contact with key opinion leaders.</li> </ul>



# Sustainability goals

Cloetta has defined three central areas for sustainability work that provide guidance in its sustainability commitment. All prioritized issues related to Cloetta's sustainability work are encompassed in these three areas.

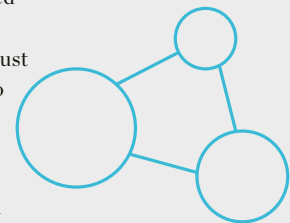


## Implement sustainable sourcing

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

### Goal

- Sustainability programmes implemented for all prioritized raw materials.
- By 2020 at the latest, Cloetta's suppliers of oils and fats must 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.
- By the end of 2017, Cloetta will have implemented RSPO-segregated palm oil throughout the product portfolio.
- By the end of 2017, Cloetta's glazing agent will be free from palm oil.



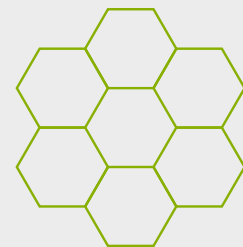
**Read more on 24–27.**

## Reduced environmental impact

Systematic environmental management provides a foundation for Cloetta's efforts to minimize its environmental impact. Cloetta's environmental work is governed by the Code of Conduct, which states that the applicable laws and regulations shall be followed, that Cloetta's environmental impact shall be minimized and that continuous improvements shall be made in the environmental area.

### Goal

- Reduce energy consumption in relation to the produced volume (MWh/tonne) by 5 per cent by 2020.
- Reduce the volume of waste in relation to the produced volume (kg/tonne) by 25 per cent by 2020.
- Reduce CO<sub>2</sub> emissions from production in relation to the produced volume (kg/kg) by 5 per cent by 2020.



**Read more on 30–31.**

## 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 of the utmost importance that the safety of our employees is continuously improved. All of Cloetta's factories adhere to the same mantra: "Safety first".

### Goal

- The number of days between occupational accidents with >1 day of sickness absence will exceed 24.3 days in 2017.
- Great Place to Work – improved Trust Index compared to the previous survey (2014: 52%).

## Greater well-being – Consumers

Cloetta's responsibility for consumer well-being includes high and consistent quality, correct and detailed content labelling and responsible marketing. Cloetta also strives to take responsibility for the consumers' well-being through an increased number of natural products.

### Goal

- Cloetta's consumers should know that the products are safe and of a high quality. The number of consumer complaints in 2017 will not exceed 5.9 ppm (number per sold million).
- Cloetta is committed to increasing the share of natural ingredients. Cloetta's product portfolio will contain no artificial flavours by 2018 at the latest, and no artificial colours by 2019.



**Read more on about employees on page 32–35 and about consumers on page 28.**



## Sustainable sourcing

Sustainable sourcing in Cloetta's supply chain is a prioritized area. By incorporating sustainability aspects into the company's purchasing strategy, Cloetta creates a platform for ensuring the supply of high quality raw materials to the factories while at the same time improving the opportunities for growers in the countries of origin to develop sustainable farming.

### Supplier controls

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 against Cloetta's requirements for quality, product safety and sustainability, including human rights. Suppliers to Cloetta are evaluated and approved before they are permitted to deliver to the factories. The process varies in relation to the risks, type of supplier involved and which raw material is delivered. Certain suppliers are evaluated and tested by Cloetta's employees via visits according to an established schedule.

### Challenges

Secondly, sustainable sourcing at Cloetta is about directly addressing different types of social, environmental and economic challenges that are found in the value chain beyond first line suppliers of specific raw material groups. Cloetta's sustainable sourcing programme is based on external certifications and/or verification according to the guidelines defined in Cloetta's Code of Conduct.

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 has defined sustainability programmes for a number of raw materials and the long-term goal is to have sustainability programmes in place for all prioritized raw materials by 2020.

### ► Evaluation methodology

In prioritizing Cloetta's raw materials portfolio, the following aspects have been taken into account:

- What are the sustainability challenges for each raw material?
- What types of sustainability initiatives have been defined?
- Is this a strategic raw material for Cloetta?
- How large are the volumes purchased by Cloetta?
- What scope does Cloetta have to create sustainability projects independently?
- What are the delivery and quality risks?

Cloetta had  
a total of  
**463**  
suppliers to  
production in 2016





## ► Sustainable cocoa farming through UTZ

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



### Challenge:

- aging trees
- diseases in the cocoa trees
- reduced soil fertility

### Leads to:

- lower yields
- lower income
- lower quality of life

at the same time that demand for cocoa has been rising steadily for 100 years

### Through UTZ the cocoa farmers are given

- Training in new farming methods.
- Support to buy better plants, which leads to higher yields.
- UTZ-certified cocoa farmers produce more than growers who are not affiliated with UTZ.

### 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  
**453** kg/hectares

Not UTZ-certified  
**329** kg/hectares

### Cocoa farmers in Ghana

UTZ-certified  
**444** kg/hectares

Not UTZ-certified  
**405** kg/hectares

In Cote d'Ivoire, **98%** of UTZ-certified farmers say that their cocoa beans meet the cooperatives' quality standards.

In Cote d'Ivoire, **37%** of UTZ-certified farmers feel that the quality of their cocoa beans has improved since joining the UTZ programme.

Cloetta has programmes in place for cocoa and palm oil. Sugar cane sugar and shea butter are two other prioritized raw materials.

### Sustainable cocoa

Since 2014 Cloetta buys only sustainable cocoa from UTZ-certified farmers. This means that all cocoa and chocolate that is delivered to Cloetta's factories is UTZ-certified. 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. There, cocoa is cultivated by three million smallholder farmers, and each farm consists of an average of 2–4 hectares of land with an average yield of 1–2 tonnes of cocoa beans per year. Local intermediaries then distribute the raw materials to the international cocoa wholesalers and exporters, 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 cocoa farmers

The West African cocoa farmers face a number of economic, social and environmen-

tal 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.

### UTZ-certified cocoa – for a better future

With UTZ-certified cocoa, the growers are assisted in building a better future with sustainable farming practices. Through the UTZ programme, they are provided with training in better farming methods, improved working conditions and sustainable growing. The farmers are also given support to buy better plants. All in all, this generates more income and creates better prospects for the individual farmers while better safeguarding the environment.

To earn UTZ certification the farmer must meet strict requirements, which are closely monitored by an independent third party. These requirements include better farming methods and farm management, safe and healthy working conditions, the abolishment of child labour and protection of the environment. Read more about UTZ certification at [www.utz.org](http://www.utz.org).

### Palm oil

From a sustainability perspective, there are a number of problems surrounding cultivation and production of palm oil and palm kernel

oil. As a result, in April 2014 Cloetta adopted a new palm oil policy that is aimed at preventing destruction of rainforest in the countries of origin and increasing the traceability of the palm oil that Cloetta uses indirectly. In order to take further steps toward traceability, Cloetta has worked during 2016 to update the policy from 2014. Read more on the next page.

Palm oil is a high-yield crop that is one of the most traded vegetable oils in the world. Malaysia and Indonesia account for around 90 per cent of total global palm oil production, and if cultivated in a sustainable manner it can be an important source of income and economic development in these countries. However, there are a number of environmental and social challenges associated with production of palm oil, such as deforestation in environmentally sensitive areas, that have a negative impact on the entire ecosystem.

Due to the urgency of combating the long-term negative effects of palm oil production, Cloetta has decided to formulate a sustainable plan that contributes to preserving the rainforests for future generations. Consequently, in its palm oil policy Cloetta declares a commitment to not contribute to destruction of rainforest.

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.

All palm oil (part of the content in an oil or fat) that was purchased by Cloetta in 2016 is covered by GreenPalm certificates in



## ▶ Goals for sustainable sourcing

### Goal 2020

Responsibility for raw material suppliers:

- Sustainability programmes implemented for all prioritized raw materials.
- By the end of 2020, Cloetta’s suppliers of oils and fats must have a fully traceable pipeline of palm oil fractions back to known plantations.
- 100 per cent of the cocoa and chocolate purchased by Cloetta will be UTZ-certified.

### Outcome 2016

Responsibility for raw material suppliers:

- Sustainability programmes for two new raw materials, sugarcane and shea butter, are under development.
- Efforts to formulate a new palm oil policy started.
- Cloetta decided to change over entirely to RSPO-segregated palm oil and to remove the amount of palm oil used in Cloetta’s glaze.
- All cocoa that Cloetta purchased was UTZ-certified.



accordance with the Roundtable on Sustainable Palm Oil (RSPO). Purchases of GreenPalm certificates in 2016 have not yet been audited. This will take place in the spring of 2017. This means that for each tonne of palm oil that is used in production, Cloetta pays a premium to palm oil producers that work according to the RSPO standard. Today, RSPO is the most widely supported method for achieving sustainable palm oil production.

### Cloetta’s palm oil policy – from 2017 and onwards

At the end of 2016 Cloetta decided to update its palm oil policy. One central part of the new policy is an ambition to improve traceability back to known mills and plantations. In order to maximise traceability, Cloetta will change over to 100% RSPO-segregated volumes in 2017. Unlike GreenPalm certificates, after implementation Cloetta will be able to guarantee that only RSPO-certified palm oil is found physically in Cloetta’s products. At the same time, Cloetta will know which mills, and related plantations, the palm oil comes from.

Furthermore, Cloetta’s palm oil policy goes beyond that which is currently required in the RSPO standard. By the end of 2017, 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 2016 a decision was made to replace the amount of palm oil that is found in Cloetta’s glaze. Confectioner’s glaze is used in most of Cloetta’s products to create a shiny and protective surface that prevents the products

from sticking together, for example in a bag. This means that the great majority of Cloetta’s products will be free from palm oil by the end of 2017.

The reason for this decision is that at present is difficult to achieve a traceable pipeline back to the mills and plantations for the small amount of palm oil contained in the glaze.

### Sugarcane

To address the sustainability challenges found in the sugarcane industry, Cloetta has become a member of Bonsucro – a global non-profit organization that fosters sustainability in the sugarcane industry.

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

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. For a long time the European sugar market has been regulated, which has made Europe a net importer of sugar. Today, Europe imports 3 million tonnes of sugarcane-based sugar annually.

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”. In addition to support Bonsucro’s vision, this membership

will give Cloetta the opportunity to better understand the challenges found in the sugarcane industry.

### Shea butter

Shea butter is a vegetable oil that is found in some of Cloetta’s chocolate products. The oil comes from the nuts of the shea trees that grow wild in central Africa, which are collected and dried in small villages on the savannah. The shea industry has nearly doubled over the past ten years and currently employs around 16 million poor rural women in 21 African countries. Shea butter is an important ingredient in food products, cosmetics and pharmaceuticals around the world.

But there are a number of major challenges for the shea industry in Africa. One primary problem is the declining quality of the shea nuts that are collected from year to year. Another problem is that the women who collect shea nuts have been largely alienated from the rest of the market, and are thereby prevented from receiving adequate compensation for their harvest. Furthermore, the number of shea trees is decreasing continuously, which indicates lower volumes in the future.

To overcome the sustainability challenges in the shea industry, Cloetta has joined the Global Shea Alliance (GSA). The GSA is a non-profit 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.



► **Sustainable shea through Global Shea Alliance**



**16 million**  
women support themselves on shea

- Nearly 2 billion shea trees grow naturally on parklands in 21 African countries, from Senegal to South Sudan. 16 million women in rural communities support themselves by collecting the fresh fruit and processing the kernels. From the shea kernel, a healthy vegetable oil is extracted, also known as shea butter. Shea butter is also used in some of Cloetta's chocolate products.
- The GSA's sustainability programme has been developed in consultation with women's groups, non-profits, food and cosmetics brands and international suppliers of oils and fats based on four guidelines:

- Promote women's empowerment**
- Decent working conditions**
- Development of local communities**
- Protection of ecosystems**

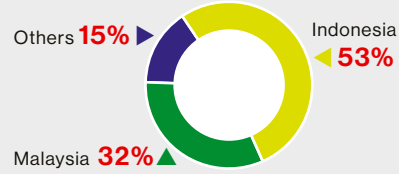
Conservation of the savannah ecosystem is critical to ensure a sustainable future for the shea industry.

Read more at: [www.globalshea.com](http://www.globalshea.com)



► **Sustainable palm oil through RSPO**

Where is palm oil produced?



Around **85%** of all palm oil comes from Malaysia and Indonesia.



**How do cultivation and production of palm oil impact the environment?**

In certain regions, cultivation of palm oil has caused and continues to cause destruction of rain forest.

**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.

**What is RSPO-certified palm oil?**

By respecting eight key principles, it is possible to reduce the negative impacts of palm oil cultivation on the environment and communities.



► **Bonsucro certifies for sustainable sugarcane production**



**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.

**470**  
members

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

Worker wages are  
on average  
**26.5 per cent**  
higher than minimum wage  
(at farms and mills)

The average yield  
per certified hectare is  
**3.4%**  
higher than for  
non-certified





# 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, Diator and Diorelle.

## 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. Xylitol is found in several of Cloetta's chewing gum products, such as Jenkki, Mynthon, DentaFresh and Toy.

## 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.

**New goal as of 2017** increase the share of natural ingredients. The aim is for Cloetta's product portfolio to be free from artificial flavours by 2018 and artificial colours by 2019.

## 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 16.**



## Låkerol Let's Talk

Låkerol's language training app "Let's Talk" to help new arrivals learn Swedish has been downloaded by more than 32,000 people. The goal of Låkerol Let's Talk is to exemplify the brand and while the same time contributing to integration in Sweden – to Make People Talk for real.

Let's Talk is a language training app from Låkerol that brings together people who speak fluent Swedish with those who need to practice their skills. The app matches users on the basis of common interests, making it easier to find topics of conversation. Over 32,000 people have downloaded the app and registered themselves as users since the launch in September 2016. The share of "teachers" and "students" is evenly distributed between the app users. Around 900,000 chat messages have been sent and a large number of voice and video conversations have been held, of which the longest lasted a full 128 minutes.

### Language, the fastest path to integration

Language is one of the fastest and easiest paths to integration, and the best way to learn

a language is to use it as often as possible in everyday life. Many new arrivals to Sweden have trouble finding a way to do that, at the same time that there are many established Swedes who are eager to help. That makes Let's Talk an excellent alternative.

Låkerol has collaborated with people who have in-depth integrity and credibility when it comes to integration issues. These include stand-up comedian Kristoffer Appelquist and hip hop artist Jason "Timbuktu" Diakité, who has taught Swedish to the world famous Egyptian singer Ramy Essam. The ambassadors took part in many different videos to create attention for Let's Talk that have been viewed a total of around nine million times on YouTube, Unruly, Facebook and Instagram.

### Integrated campaign across different media

Let's Talk was launched through a major integrated campaign with a focus on social media such as Facebook and Instagram, but also through mobile, search word and banner ads. The campaign also collaborated with various podcast profiles. In addition, the campaign was supported by more traditional media such as outdoor ads, radio and the daily press. To ensure contact with all target groups in Sweden, the campaign was translated to a total of seven different languages.

Let's Talk has helped to make "Låkerol Makes People Talk" relevant in our time, for both existing and new consumers.

Read more about Let's Talk at [www.lakerol.se/letstalk](http://www.lakerol.se/letstalk). The app can be downloaded from App Store and Google Play.

# Reduced environmental impact

In 2016, the Paris Agreement was signed within the UN's Framework Convention on Climate Change. The Paris Agreement shows a pathway and 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.

**The focus in Cloetta's climate change work is on the following areas:**

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

At present, our efforts are mainly focused on the Group's production units. In a longer perspective, Cloetta aims to widen the focus to also include the environmental impact arising from raw material production.

For the current scope, Cloetta has defined goals, strategies and action programmes for the period until 2020.

Cloetta works to reduce its environmental impact through systematic environmental management. Cloetta complies with the statutory environmental requirements and the Group is not party to any environmental disputes. Environmental initiatives are 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.

**Environmental work in the factories**

All of Cloetta's factories conduct systematic environmental management that includes action plans and monitoring in a number of different areas. Seven of the 12 factories are certified according to the ISO 14001 standard.

Since 2015, all production units that already have ISO 14001 certification will be added to Cloetta's multi-site certificate. The factories that are not yet certified will be added to Cloetta's multi-site certificate successively.

**Central environmental management system**

To ensure the use of a structured and systematic approach to Cloetta's environmental issues, a decision was made in 2014 to implement a central environmental management system encompassing the entire Group.

The goal is to develop and integrate the environmental management system with Cloetta's central ERP system. A fully integrated methodology creates better potential to live up to the Code of Conduct and deliver results in line with Cloetta's production policy.

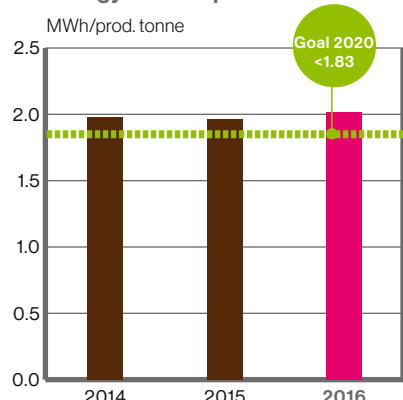
**Environmental goals 2020**

Continuous reduction of the company's environmental impact is a central component of Cloetta's sustainability management. One important part of this work is the formulation of long-term goals and action programmes with clearly defined roles and responsibilities in order to meet the targets. For this purpose, Cloetta has defined three long-term environmental goals that extend until 2020, see graphs below.

**Working methods**

Every year, Cloetta carries out an assessment of environmental aspects to identify the existing risks and opportunities. Cloetta has an action plan that defines and governs the activities to be carried out in order to reduce the company's environmental impact.

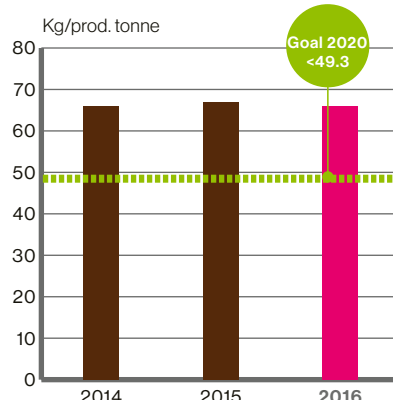
**Energy consumption**



**Outcome 2016**

- Energy consumption in relation to the produced volume increased by 3.1 per cent.

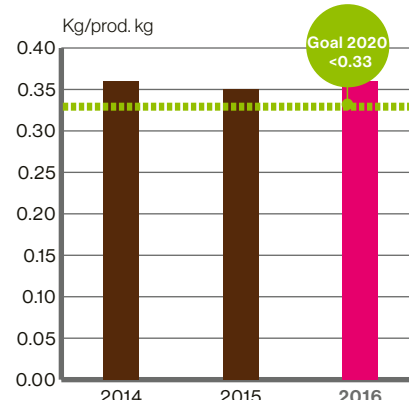
**Waste**



**Outcome 2016**

- The volume of waste in relation to the produced volume decreased by 3.0 per cent.

**Carbon dioxide emissions**



**Outcome 2016**

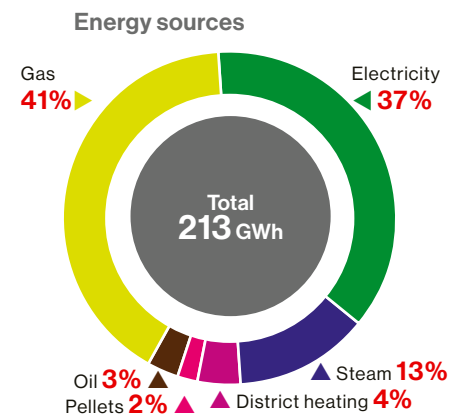
- CO<sub>2</sub> emissions in production in relation to the produced volume increased by 3.0 per cent.



## ▶ Environmental key performance indicators

	2016	2015	2014
Total energy consumption, GWh	213	208	209
Energy consumption per produced tonne, MWh	2.02	1.96	1.98
CO <sub>2</sub> per produced kilo, kg	0.36	0.35	0.36
Wastewater per produced tonne, m <sup>3</sup>	2.7	2.9	2.9
COD* per produced tonne, kg	14.1	17.6	16.6
Waste per produced tonne, kg	66	67	66
Recycled waste, %	83	81	80

For energy consumption, energy consumption per produced tonne and for CO<sub>2</sub> Dublin and Helsingborg are included as of 2014.  
For wastewater, COD, waste and recycled waste, Dublin and Helsingborg are included as of 2016.  
Roosendaal Borchwerf is not included in the figures.



### Environmental impact and priorities

Environmental impact in the confectionery industry arises among other things from water and energy consumption, wastewater emissions, waste and transports. Certain environmental effects are also caused by coolants, other chemicals, noise and particles. Outside Cloetta's direct influence, there is also significant environmental impact connected to production of raw materials and packaging.

The priorities for Cloetta's environmental work have been set based on how the direct operations impact the environment, the scope of Cloetta's impact as a whole, the probability of unplanned environmental events occurring, the requirements of public authorities and other stakeholders and, finally, the extent to which Cloetta can influence development. The prioritized areas for Cloetta's environmental work are:

- energy consumption,
- waste volume, type and recycling,
- reduction of carbon dioxide emissions.

### Energy consumption

The Group's aggregated energy consumption during the financial year was 213 GWh (208).

### Waste management

All of Cloetta's production units pre-sort their waste. The goal is to continuously develop waste management and reduce the total

volume of production-related and other waste. A decrease in raw material waste has a positive impact on both the environment and the Group's total costs. At present, 83 per cent (81) is recycled. The volume of hazardous waste is very minor and consists of fluorescent tubes and similar.

### 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 CO<sub>2</sub> equivalents generated by the chosen energy types.

In 2016 Cloetta had emissions of 0.36 kg CO<sub>2</sub> per produced kg (0.35). CO<sub>2</sub> emissions within scope 1 (direct emissions) amounted to around 21,500 tonnes in 2016, while the corresponding figure for scope 2 (indirect emissions) was 16,500 in 2016. Cloetta purchases renewable electricity for some of the factories, and assumes 0 kg in CO<sub>2</sub> emissions for this power.

### Transports

Since 2014 Cloetta calculates CO<sub>2</sub> emissions from transports that Cloetta is responsible for. In 2016, 45 kg of CO<sub>2</sub> were released per produced tonne including Roosendaal (Borchwerf), the Netherlands. To reduce both freight

costs and CO<sub>2</sub> emissions, Cloetta uses stackable pallets for transports between the factories and warehouses. Furthermore, Cloetta chooses transporters that have two-level trailers and extra-long bodies and that use a combination of road/rail/water transports, when possible. If viable, without jeopardizing product quality, refrigerated transports are avoided.

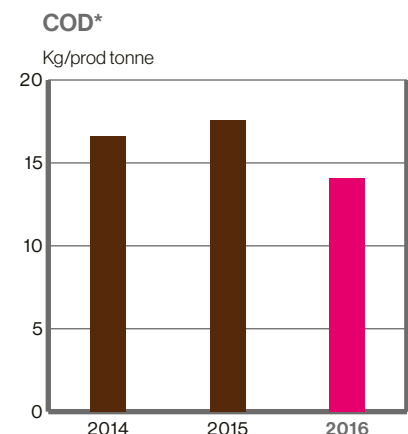
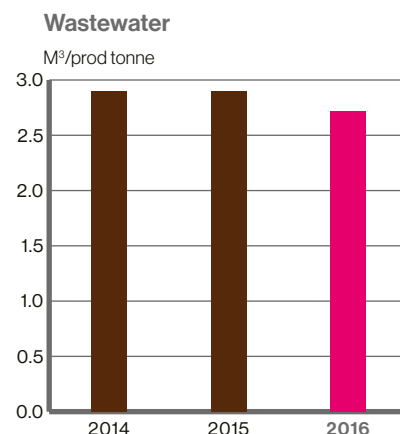
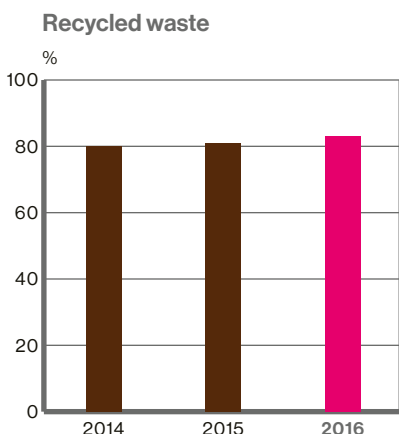
### Wastewater

The volume of wastewater was 2.7 m<sup>3</sup> (2.9) 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. There are several projects in progress to improve the quality of the wastewater.

### Packaging

The packaging materials must perform several functions, such as protecting the product on its way to the consumer, enabling easy handling of the product and communicating the brand. The most common method for consumer packaging is so-called "flexibles", a material that can be recycled or incinerated.



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



# Employees

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

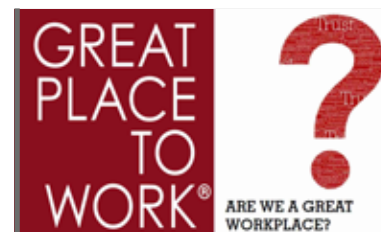
To create an attractive workplace for all employees, it is essential that there is a genuine interest in understanding how the employees see their place of work, i.e. what they appreciate and what they find lacking or are simply dissatisfied with.

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.

Total number of employees in 2016  
**2,530**

### ▶ Great place to work



Great Place to Work® helps organizations in all industries and of all sizes to evaluate and develop their workplace cultures. With the help of an employee survey, GPTW offers benchmarks with other workplaces from a base of 10 million employees in 50 countries and approximately 7,000 organizations worldwide. Cloetta has worked with GPTW since 2013.





During the year Cloetta conducted the recurring employee survey “Great Place to Work” in the commercial units. The response rate was high, with 95 per cent of the employees participating, and Cloetta achieved a total Trust Index of 73 per cent. Denmark, Norway, the Netherlands, Finland and Sweden all have a trust index of between 75–90 per cent. Sweden, the Netherlands and Finland have maintained the same high level since the previous survey in 2013. The Trust Index for Norway and Denmark improved by 14 and 11 percentage points, respectively, to a level of 83 and 90 per cent. However, Italy and the International Sales unit (Cloetta’s export business) with offices in Italy have had a tougher journey, with a lower result than previously, leading to a Trust Index of 50 per cent.

**Follow-up**

In 2016 Cloetta analyzed the results of “Great Place to Work” for each country and department in greater detail. In the majority of Cloetta’s teams, the main focus has been on improving communication between the management and employees, and between departments. How we can ensure a good working environment despite a high working pace has been another focus area in the follow-up.

In 2017 the “Great Place to Work” employee survey will be carried out in the supply chain. The target is to improve the Trust index compared to the previous survey (2014: 52%). To optimize handling and communication related to the survey and to maintain the focus on ongoing improvement initiatives, the survey will be conducted every other year in the commercial units and every other year in the supply chain.

**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 flex-time 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 20.

**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 be caused by illness and thereby indicate a risk for long-term sickness absence.

After several years with a steady decrease in occupational accidents, 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 during 2016. This will continue to be a priority in 2017.

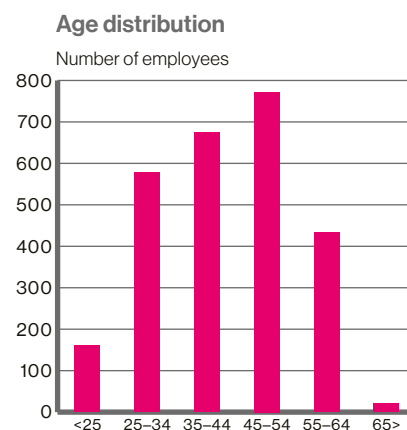
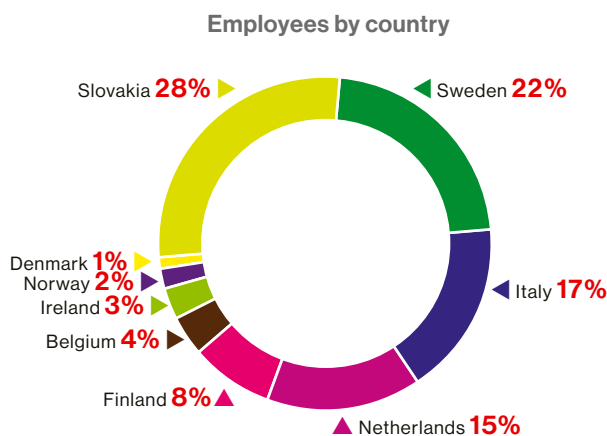
In 2017 projects will be initiated to highlight the importance of maintaining the right balance in life. The projects include activities, lectures and training with a focus on exercise, diet and sleep as key components for achieving a healthy work/life equilibrium.

**Diversity**

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”.

**Average number of employees and sickness absence**

Employees	Slovakia	Sweden	Italy	The Netherlands	Finland	Belgium	Ireland	Norway	Denmark	Germany	Other	Total
Average number of employees	705	547	423	392	193	102	80	39	36	9	4	2,530
– of whom, women	474	251	171	133	153	22	35	18	19	3	2	1,281
Sickness absence, %	6.3	5.3	5.0	5.4	1.8	6.5	2.7	7.7	2.0	2.8	0.0	5.2





**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 interdisciplinary 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.

**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' 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 will be launched in 2017.

**Cloetta's leadership**

As a leader, it is vital that you dare to trust in both your own leadership and in others. It is 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 is a vital part in realizing Cloetta's vision and goals.

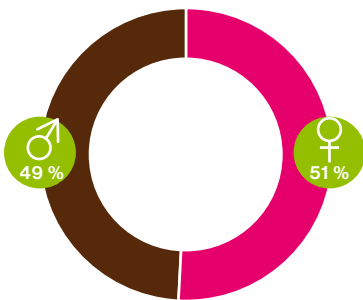
In 2016 some 65 managers were trained in Cloetta's Leadership Dimensions at the central level, where the Group Management Team also took part. In the second half of the year the local rollout continued in a number of countries. In addition to the follow-up carried out by the managers in their own teams following the course, several follow-up meetings are held for those who have completed the training. In 2017 the training will continue within the organisation.

**Framework for remuneration**

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

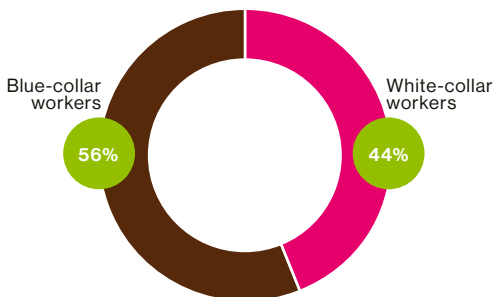
**Fördelning kvinnor och män**

31 december 2016



**Employee categories**

31 December 2016





company.

For several years Cloetta has been working closely with one of the major consulting companies to develop an optimized 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 now been established.

**Number of employees**

The average number of employees in 2016 was 2,530 (2,583). 72 per cent of the employees are covered by collective agreements. The employees at Cloetta's factory in Levice, the only factory not covered by a collective agreement, are instead covered by a separate agreement. Of the average number of employees, 56 per cent are employed under collective agreements and 44 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.

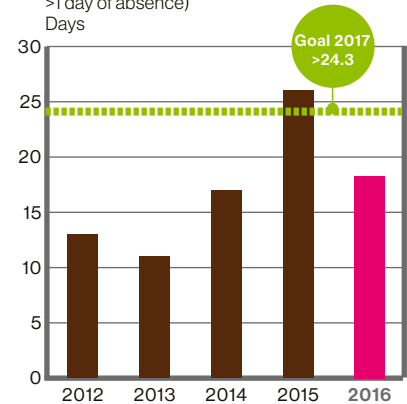
Cloetta is organized according to function and its commercial activities are organized separately from the supply chain organization. Human Resources, finance and administrative units are found in each main market and serve as support functions for both the local sales and marketing organization and for production. 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.



**Goals for greater well-being Employees**

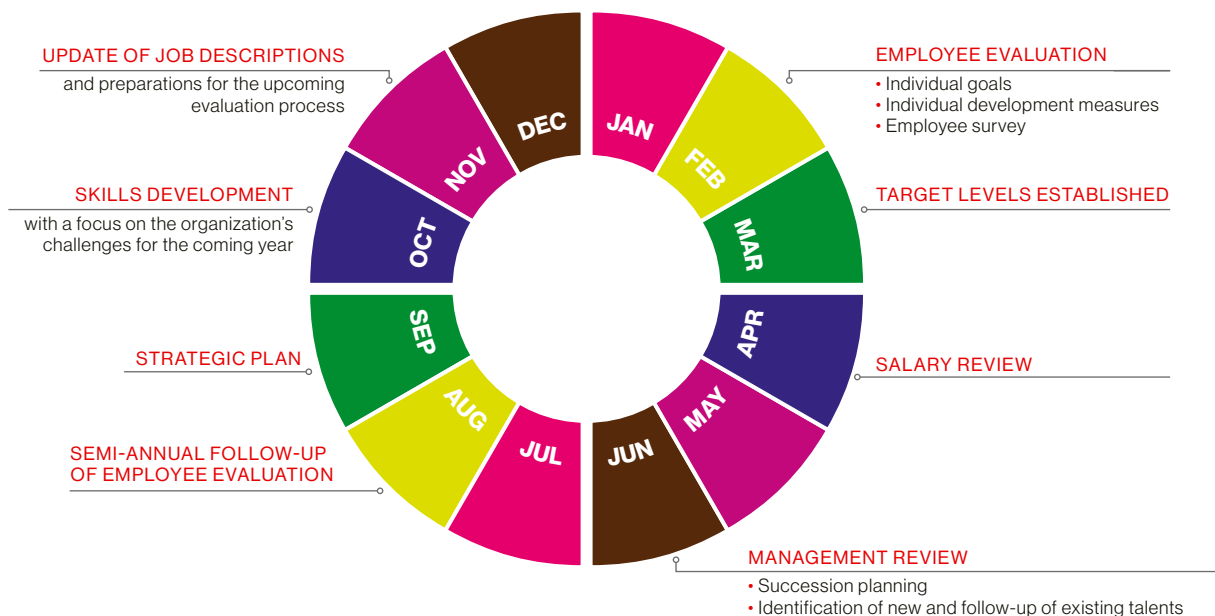
- The number of days between occupational accidents with >1 day of sickness absence will exceed 24.3 days in 2017.
- Great Place to Work – the Trust Index will be in line with or exceed the previous year's high level. In Sweden, the Netherlands and Finland it was in line with the previous year's high level and in Norway and Denmark it exceeded the year-earlier level. The country that showed a lower score compared to earlier was Italy.

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



After two years of steadily decreasing occupational accidents, the trend was broken in 2016 and the target of 28 days was not met. As a result, a new safety standard was drawn up and immediately implemented in all factories during 2016. This will continue to be a priority in 2017. Roosendaal Borchwerf has not been included. Read more on page 14.

**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.

# 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 they wouldn't be profitable.

**How will you meet your margin target?**

Profitable growth will contribute to higher earnings. Our aim is to grow in line with the market while at the same time focusing on growth in pick & mix, where we see good potential. We can also consider additional acquisitions. We are currently implementing the Lean 2020 programme in the supply chain that will help to boost profitability. Furthermore, we are committed to driving profitability in our past acquisitions. Lastly, we have deployed a joint ERP system throughout the Group that will create better conditions for strengthening profitability.

**When will you meet your 14 per cent margin target for adjusted operating profit?**

In recent years we have successively strengthened our margin and in 2016 achieved a level of 13.0, which is an improvement compared

to earlier years. However, we have not 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 for 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 distribution chain.

**Will you use the strong cash flow for acquisitions, to reduce debt or to pay dividends to the shareholders?**

In 2016 we met our targeted net debt/EBITDA ratio of 2.5x and now 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 cereal, 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, 30 per cent of Cloetta's products are sugar-free. So for those seeking an alternative to products with sugar, Cloetta offers options such as nuts, chewing gum with xylitol, pastilles and sugar-free candy.

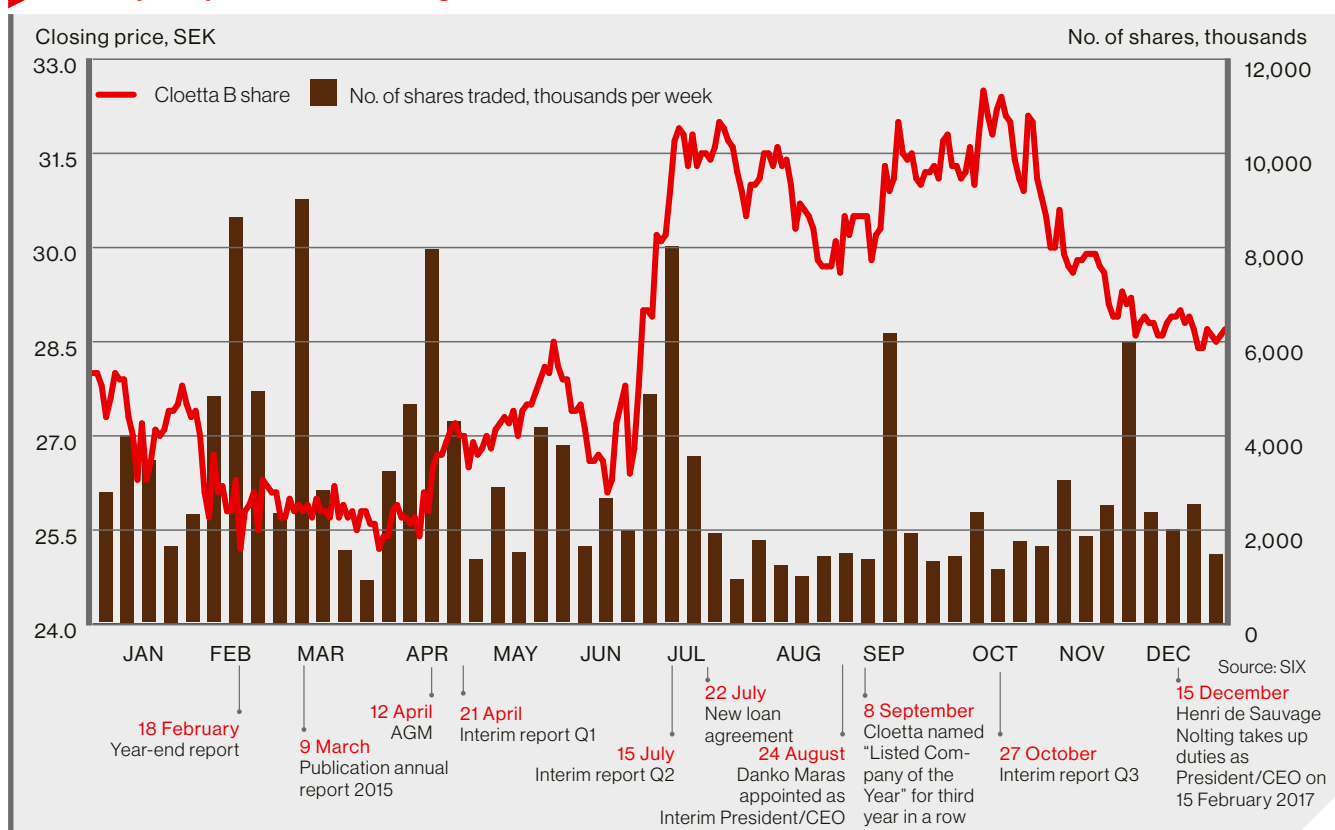
**How big is the risk that various sugar taxes will be introduced, and how will that affect you?**

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?**

Our ambition is to eliminate palm oil from all products with the exception of certain chocolate and fudge products during 2018 at the latest. In those products where there is no satisfactory alternative to palm oil, mainly chocolate confectionery, we use RSPO-segregated, GreenPalm-certified palm oil.

**Share price performance during 2016**





# 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.

## 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 28 in the annual report.






Pages 86–87 in the annual report contain a description of the internal control processes and risk assessment aimed at preventing misstatements in the financial reporting.

Management of risks in the working environment is described on pages 14 and 33.



# 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
<b>Market climate</b>	 <p>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.</p>	 <p>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.</p>
<b>Competition</b>	 <p>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.</p> <p>Cloetta may also need to increase its investments in marketing and product development in order to maintain or expand its market shares.</p>	 <p>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.</p> <p>It is important that Cloetta's products are perceived as providing the consumers with greater value added than the cheaper alternatives.</p> <p>Cloetta strives for effective marketing.</p>
<b>Retail trade development</b>	 <p>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.</p>	 <p>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.</p> <p>Cloetta has a relatively wide and diversified customer base. In 2016, Cloetta's ten largest customers accounted for around 43 (40) per cent of the Group's total sales.</p>
<b>Consumer trends Health Social responsibility</b>	 <p>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.</p> <p>In view 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.</p>	 <p>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 has an extensive offering of sugar-free products and 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).</p> <p>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.</p>
<b>Laws and taxes</b>	 <p>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.</p>	 <p>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.</p> <p>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.</p>
<b>Raw material prices</b>	 <p>Price development for raw materials is steered mainly by supply and demand, and is beyond Cloetta's control. The prices of 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.</p>	 <p>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 2016, profit before tax for the year would have been around SEK 150m lower/higher.</p> <p>Cloetta's policy is to compensate for higher raw material costs by raising prices to its customers.</p>



# 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 risks related to the brand, relocation of production, insurable risks and environmental, health and safety-related risks.

	Risks Probability	Management Impact
<b>Business ethics and brand risks</b>	 <p>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.</p>	 <p>Cloetta takes a proactive approach to its sustainability responsibility by implementing a Code of Conduct, ethical guidelines and routines.</p>
<b>Sustainability risks in the supply chain</b>	 <p>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.</p>	 <p>As far as possible, Cloetta strives to include supplier codes of conduct in all agreements.</p> <p>Cloetta has evaluated all raw material groups and prioritized them based on the existing sustainability challenges and Cloetta's opportunities to address these challenges.</p> <p>Cloetta purchases UTZ-certified cocoa.</p> <p>By the end of 2017, Cloetta will have implemented RSPO-segregated palm oil throughout the product portfolio.</p> <p>By the end of 2017, Cloetta's glazing agent will be free from palm oil.</p>
<b>Product safety risks</b>	 <p>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.</p>	 <p>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.</p>
<b>Insurable risks</b>	 <p>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.</p>	 <p>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.</p>
<b>Relocation of production lines</b>	 <p>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.</p>	 <p>Cloetta has an experienced and efficient organization with well established routines for handling relocation of production lines.</p>
<b>Access to the right expertise</b>	 <p>To a large extent, Cloetta's future is dependent on its capacity to recruit, retain and develop competent senior executives and other key staff.</p>	 <p>Cloetta endeavors 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.</p>
<b>Environmental risks</b>	 <p>Environmental risks arise mainly through water and energy consumption, wastewater emissions, raw material and packaging waste, production waste and transports.</p>	 <p>Cloetta sets environmental requirements for its production and regularly monitors the company's impact on the environment, in addition to conducting systematic efforts to reduce its environmental impact.</p>



# 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

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 Code of Corporate Governance, as well as internal steering instruments such as the Articles of Association, instructions, policies and guidelines.

In 2016 Cloetta complied with the Code.

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 2016 was 288,619,299 of which 278,757,685 were of class B and 9,861,614 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 2016 was 16,236 (compared to 14,164 at 31 December 2015).

pany 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.

Every shareholder has the right to request that a matter should 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.

## 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 com-

## 2016 AGM

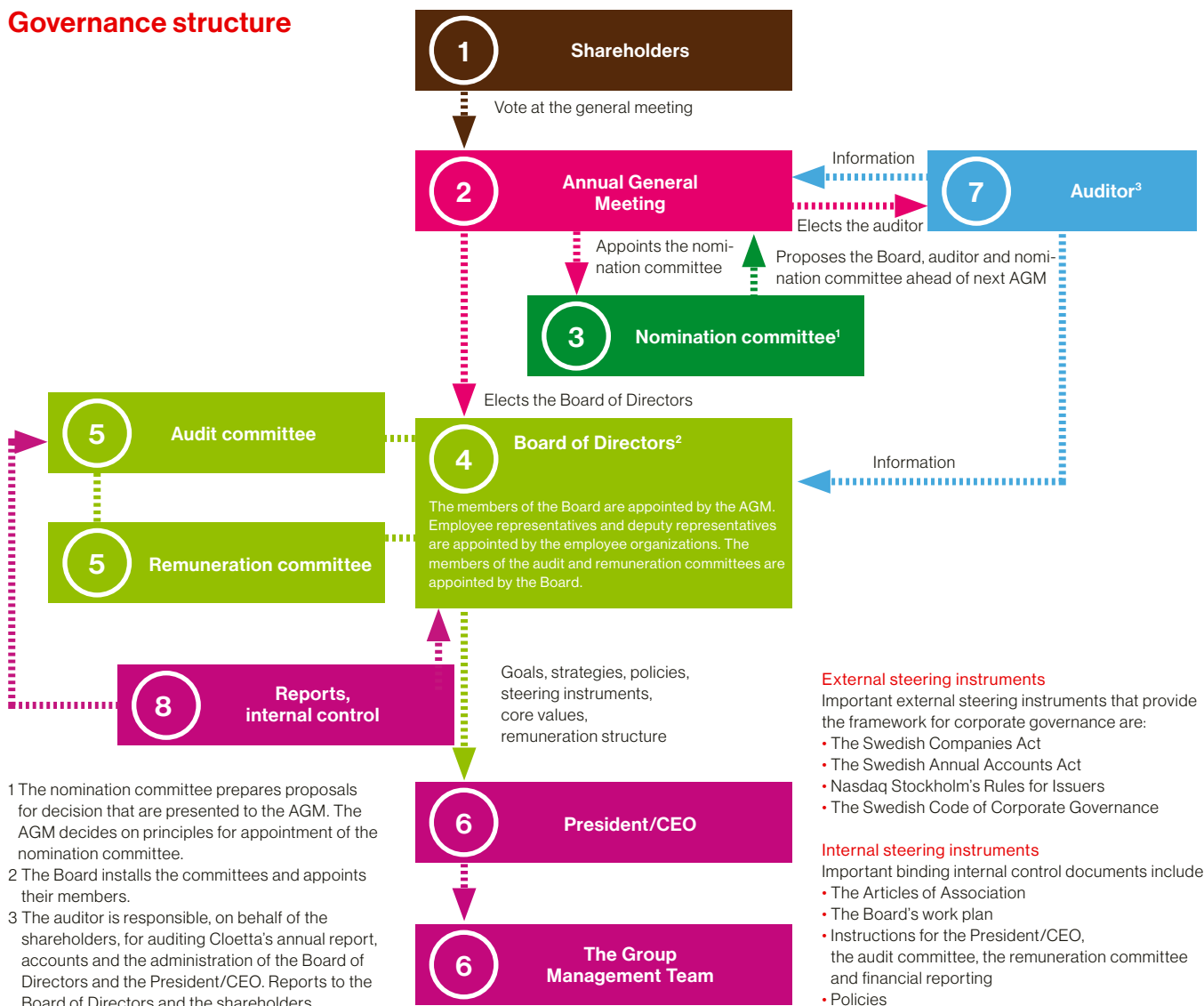
The latest AGM was held on 12 April 2016 in Stockholm. The AGM was attended by 275 individuals representing 59.6 per cent of the votes in the company. The President/CEO, all

## 1 Shareholders

The class B shares in Cloetta AB (publ) have been listed on Nasdaq Stockholm since 16



## 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.

Board members, the company's independent auditor, the chairman of the nomination committee, the group's 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 0.50 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 Adriaan Nühn, Mikael Svenfelt, Lottie Knutson and Mikael Norman. Lilian Fossum Biner, Hans Porat and Camilla Svenfelt were elected as new Board members. The AGM elected Lilian Fossum Biner as Chairman of the Board. Former Board member Caroline Sundewall and Olof Svenfelt resigned in connection with the AGM. Aside from the members elected by the AGM, the employee organizations PTK and LIVS appointed an employee representative and a deputy representative each 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 50,000 for each member of the remuneration committee;

### 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

- 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](http://www.cloetta.com).

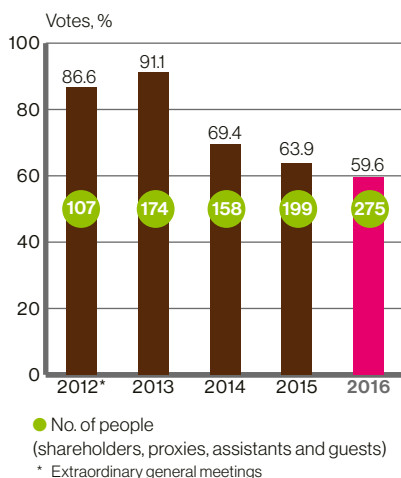
## 3 Nomination committee

### 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, 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 activities during the year to the nomination committee, which

### Attendance at AGMs/EGMs





provides a basis for the nomination committee's work together with the provisions in the Swedish Code of Corporate Governance 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](http://www.cloetta.com).

### Composition of the 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.

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](mailto:nominationcommittee@cloetta.com).

## 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 Code of Corporate Governance. 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.

### 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 elected by the AGM. The AGM on 12 April 2016 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 4 April 2017, the AGM on 12 April 2016 elected Board members Lilian Fossum Biner (Chairman), Lottie Knutson, Mikael Norman, Adriaan Nühn, Mikael Svenfelt, Hans Porat and Camilla Svenfelt. 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 53 at year-end 2016, and three of the seven are women. For information about the Board members' assignments outside the Group and holdings of shares in Cloetta, see [cloetta.com](http://cloetta.com).

### Independence of the Board

In accordance with the Swedish Code of Corporate Governance, 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.

### 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 and instructions for financial reporting. Among other things, these regulate the segregation of duties between the Board of Directors, the Board Chairman, the President 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.

### 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 2016 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.

## 5 Board committees

### Audit committee

According to the Swedish Code of Corporate Governance, the audit committee shall consist of at least three members who are appointed by the Board on a yearly basis. One of the members shall be chairman of the committee. In 2016 the Board audit committee consisted of members Mikael Norman (chairman), Hans Porat and Adriaan Nühn. Of the audit committee's three members, all three are independent in relation to the company and its management and all are independent in relation to the company's major shareholders.

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

### 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 (anonymous reporting of violation of laws, the Code of Conduct or other rules at Cloetta)
- Fraud and whistleblower policy
- Anti-bribery and -corruption policy
- Trade control policy

### Nomination committee ahead of the 2017 AGM

Member	Appointed by	Independent <sup>1)</sup>	Share of votes at 31 Dec. 2016, %
Olof Svenfelt, Chairman	AB Malfors Promotor	Yes/No	42.3%
John Strömgren	Carnegie Fonder	Yes/Yes	1.7%
Johan Törnqvist	Ulla Håkanson	Yes/Yes	1.3%
Lilian Fossum Biner	Board of Cloetta AB	Yes/Yes	0%

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

to participate in the meetings of the audit committee. Once a year, the committee shall meet without the presence of any member of the Group Management. In 2016 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), Adriaan Nühn and Lilian Fossum Biner.

Of the remuneration committee's members, all are independent in relation to the company and its management. 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 to Group Management as adopted by the AGM and of the current remuneration structures and levels in the Group. In 2016 the committee held five meetings.

### Board Chairman

The Board Chairman shall be elected by the general meeting of shareholders, and the AGM on 12 April 2016 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/CEO 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.

Danko Maras has been Interim President/CEO of Cloetta since 1 September 2016, when David Nuutinen resigned at his own request.

On 15 December 2016 the Board decided to appoint Henri de Sauvage Nolting as President/CEO of Cloetta AB. He took up duties on 15 February 2017.

## 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 auditors' reporting to the shareholders takes place at the AGM through presentation of the auditor's report. The AGM on 12 April 2016 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.

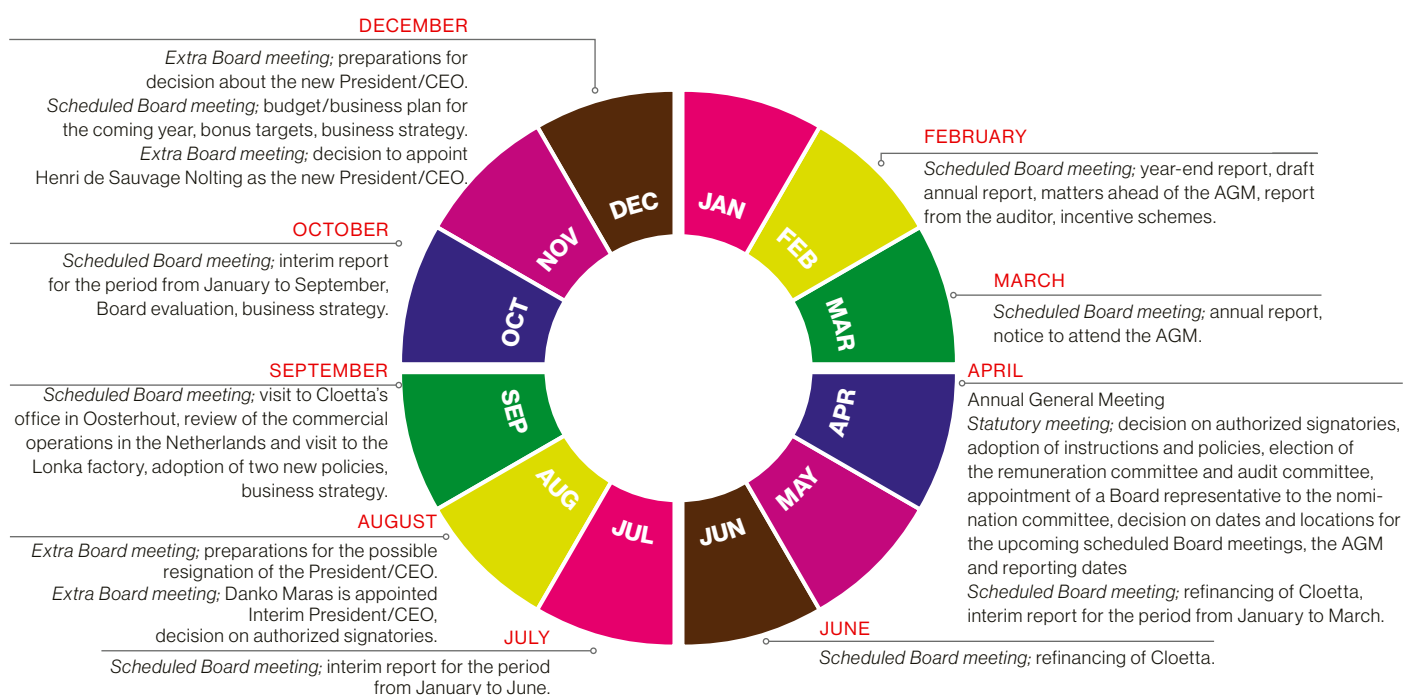
## 8 Financial reporting

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

## Board meetings in 2016





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
- Annual report
- Press releases about important news that are 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

### ► 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.

- Meetings with financial analysts and investors

### Awards for financial communication Aktiespararna and Kanton's Listed Company of the Year competition

In the autumn of 2016, for the third consecutive year, Cloetta was the overall winner in the Listed Company of the Year competition following wins in the sub-categories Best Annual Report, Best IR Website and an honourable mention for Best Interim Report.

The annual Listed Company of the Year competition, which is arranged by Kanton in association with the head sponsor Aktiespararna, among others, is aimed at promoting exemplary financial communication among listed companies and is Sweden's largest competition in financial communications and the most comprehensive competition in investor relations.

### Nordic Market Awards

In the yearly IR Nordic Market Awards survey conducted by Regi among all analysts, Danko Maras was named best CFO within Investor Relations among all companies on Nasdaq Stockholm and Jacob Broberg was named best Investor Relations Officer among all Mid-Cap companies on Nasdaq Stockholm.

### Webranking by Comprend

Cloetta took first place in Comprend's Webranking survey among Sweden's 100 largest listed companies.

Webranking by Comprend is Europe's leading survey of corporate websites and the only global ranking that is based on stakeholder demands. Every year, Comprend ranks the digital corporate communications of 900 companies around the world, measuring how

well they meet the expectations of their key stakeholders – analysts, investors, business journalists and job seekers.

### Best reporting about value creation

For the third consecutive year, PwC named the companies listed on Nasdaq Stockholm that have provided the best reporting about value creation. Cloetta won the prize for smaller companies.

### 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.



**Tomas Forslund**

Auditor in Charge.

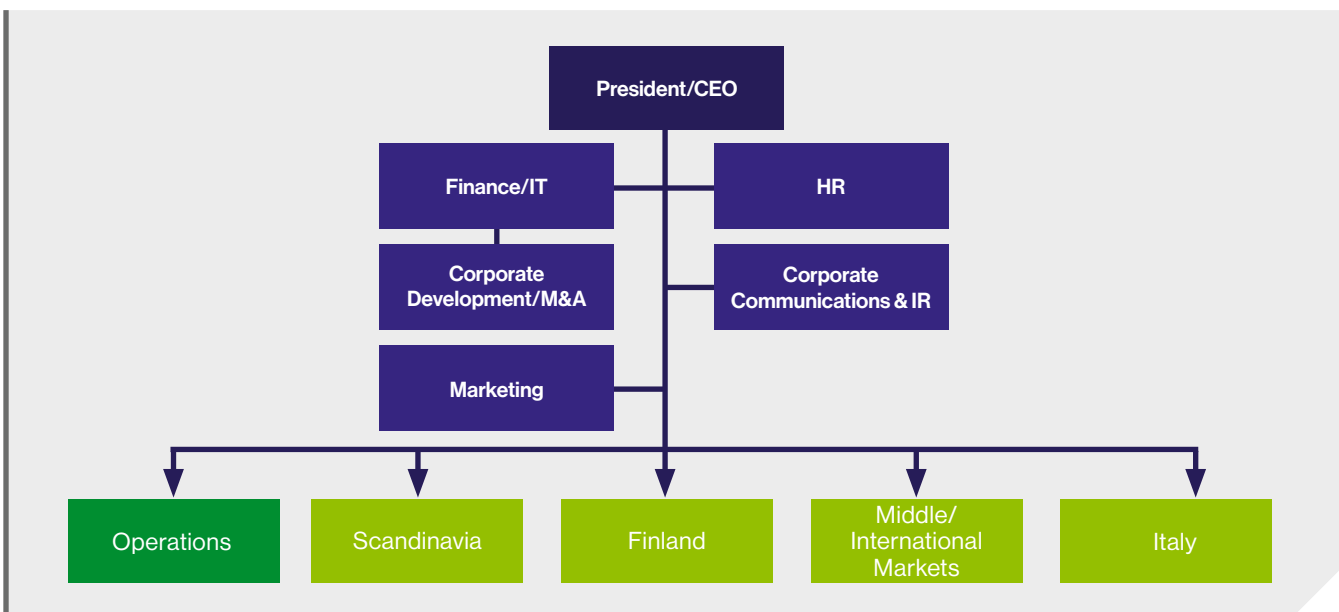
Auditor for the company since 2015.

Born in: 1965.

Authorized Public Accountant KPMG AB.

Previous auditing assignments: ICA-gruppen, Kinnevik, Systemair, DGC, Tradedoubler, Feelgood

### ► Organization





## Board of Directors

Elected by the AGM	Nationality	Year elected	Born in
<i>Chairman</i>			
Lilian Fossum Biner	Swedish	2016	1962
<i>Member</i>			
Camilla Svenfelt	Swedish	2016	1981
Hans Porat	Swedish	2016	1955
Lottie Knutson	Swedish	2015	1964
Mikael Norman	Swedish	2015	1958
Adriaan Nühn	Dutch	2012	1953
Mikael Svenfelt	Swedish	2008	1966

## Group management team

	Nationality	Employed year	Born in
Henri de Sauvage Nolting	Dutch	2017	1962
Danko Maras	Swedish	2010	1963
Jacob Broberg	Swedish	2010	1964
Regina Ekström	Swedish	2004	1963
Johnny Engman	Swedish	2012	1977
Ewald Frenay	Dutch	2000	1963
Jacqueline Hoogerbrugge	Dutch	2010	1963
Ville Perho	Finnish	2004	1979
Lars Pählson	Swedish	2008	1959
Erwin Segers	Belgian	2010	1967

# Glossary

<b>BRC Global Standards for Food Safety</b>	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.
<b>Contract manufacturing</b>	Manufacturing of external brands, i.e. insourcing production of products from external parties.
<b>GRI Global Reporting Initiative</b>	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.
<b>ICC</b>	International Chamber of Commerce.
<b>ILO</b>	International Labour Organization, United Nations agency dealing with labour issues.
<b>ISO 9001 and ISO 14001</b>	International Organization for Standardization. ISO 9001 addresses quality management and ISO 14001 addresses environmental management.
<b>OHSAS 18001</b>	International occupational health and safety management system specification.
<b>Polyols</b>	Sugar alcohols that resemble sugar and are used as sweeteners.
<b>Pick &amp; mix concept</b>	Cloetta's range of candy and natural snacks that are picked by the consumers themselves.
<b>UTZ</b>	Certified standards for sustainable farming with a number of social and environmental criteria.

# GRI index

<b>Strategy and Analysis</b>		<b>Page</b>
<b>G4-1</b>	Statement from the most senior decision-maker of the organization	2
<b>Organizational Profile</b>		
<b>G4-3</b>	Report the name of the organization	Inside back cover
<b>G4-4</b>	Report the primary brands, products and/or services	10
<b>G4-5</b>	Report the location organization's headquarters	40
<b>G4-6</b>	Report the number of countries where the organization operates, and names of the countries where the organization has significant operations	1, 12
<b>G4-7</b>	Report the nature of ownership and legal form	40
<b>G4-8</b>	Report the markets served	12
<b>G4-9</b>	Report the scale of the reporting organization	1, 8–9
<b>G4-10</b>	Total number of employees by employment type, employment contract, region and gender	33–35
<b>G4-11</b>	Report the percentage of total employees covered by collective bargaining agreements	35
<b>G4-12</b>	Describe the organization's supply chain	8–9, 24–27, 39
<b>G4-13</b>	Report any significant changes during the reporting period regarding the organization's size, structure, ownership or supply chain	14
<b>G4-14</b>	Report whether and how the precautionary principle is addressed by the organization	30–31
<b>G4-15</b>	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	21, 48
<b>G4-16</b>	List of memberships of associations and national or international advocacy organizations	48
<b>Identified Material Aspects and Boundaries</b>		
<b>G4-17</b>	List all entities included in the organization's consolidated financial statements or equivalent documents	46
<b>G4-18</b>	Explain the process for defining the report content and the Aspect Boundaries	21–22, 46
<b>G4-19</b>	List all the material aspects identified	21
<b>G4-20</b>	For each material Aspect, report the Aspect Boundary within the organization	19, 47
<b>G4-21</b>	For each material Aspect, report the Aspect Boundary outside the organization	19, 47
<b>G4-22</b>	Report the effect of any restatements of information provided in previous reports and the reasons for such restatements	47
<b>G4-23</b>	Report significant changes from previous reporting periods in Scope and Aspect Boundaries	47
<b>Stakeholder Engagement</b>		
<b>G4-24</b>	Provide a list of stakeholder groups engaged by the organization	22
<b>G4-25</b>	Report the basis for identification and selection of stakeholders with whom to engage	21–22
<b>G4-26</b>	Report the organization's approach to stakeholder engagement	22
<b>G4-27</b>	Report key topics and concerns that have been raised through stakeholder engagement	23, 38
<b>Report Profile</b>		
<b>G4-28</b>	Reporting period for the information provided	1 January – 31 December 2016
<b>G4-29</b>	Date of most recent previous report	10 March 2016
<b>G4-30</b>	Reporting cycle	Calendar year
<b>G4-31</b>	Provide the contact point for questions regarding the report or its content	47
<b>G4-32</b>	Report the GRI Content Index in accordance with GRI G4.0 Core requirements and report the reference to the External Assurance Report	20, 46–47
<b>G4-33</b>	Report the organization's policy and current practice with regard to seeking external assurance for the report	49
<b>Governance</b>		
<b>G4-34</b>	Report the governance structure of the organization, including committees, and Board responsibility for economic, environmental and social topics	20, 40–44
<b>Ethics and Integrity</b>		
<b>G4-56</b>	Describe the organization's values, principles, standards and norms	18–20



# Performance indicators

<b>GREATER WELL-BEING – SAFE EMPLOYEES WITH GOOD WELL-BEING</b>			
<b>Working conditions</b>	<b>Scope</b>	<b>Comments</b>	<b>Page</b>
<b>G4-DMA</b>	Occupational health and safety and absenteeism		14, 18–23, 32–35, 39, 44
<b>G4-LA6</b>	Occupational injuries, lost days, and absenteeism	Includes Cloetta	33, 35, 47
<b>G4-LA12</b>	Composition of governance bodies and breakdown of employees by gender and age group		The indicator is not reported by minority groups 33–35, 45
<b>GREATER WELL-BEING – CONSUMERS</b>			
<b>Product responsibility</b>			
<b>G4-DMA</b>	Customer health and safety		14–23, 28, 39, 44
<b>G4-PR1</b>	Evaluation of products and services with regard to consumer health and safety	Includes Cloetta's customers	14–17, 28
<b>Own</b>	Consumer complaints/returns		16
<b>REDUCED ENVIRONMENTAL IMPACT – FROM OWN OPERATIONS</b>			
<b>Environment</b>			
<b>G4-DMA</b>	Energy consumption, waste and carbon dioxide emissions		18–23, 30–31, 39, 44
<b>G4-EN3</b>	Energy consumption inside the organization	Includes Cloetta	3, 30–31
<b>G4-EN15, G4-EN16</b>	Direct and indirect greenhouse gas emissions, by weight (Scope 1, Scope 2)	Refers to Cloetta and the supply chain	30–31
<b>G4-EN22</b>	Total water discharge by quality and destination	Refers to Cloetta's supply chain	30–31
<b>G4-EN23</b>	Total weight of waste, by type and disposal method		No detailed information about disposal method. Reported in percentage, not weight. 30–31
<b>Own</b>	Recycling of materials		30–31
<b>G4-EN30</b>	Transports	Refers to transports within Cloetta's supply chain	Reported only in kg CO <sub>2</sub> per transported tonne. 30–31
<b>SUSTAINABLE SOURCING</b>			
<b>Human rights</b>			
<b>G4-DMA</b>	Supplier human rights assessment		15–27, 39, 44
<b>G4-HR 10</b>	Percentage of new suppliers that were screened using human rights criteria	Refers to Cloetta's suppliers	24
<b>Own</b>	Results of sustainability programmes for prioritized raw materials	Refers to Cloetta's suppliers	No percentage available. 25–27
<b>ECONOMIC PERFORMANCE</b>			
<b>Economic performance</b>			
<b>G4-DMA</b>	Economic performance		18–21, 40–44
<b>G4-EC1</b>	Direct economic value generated and distributed	Refers to Cloetta and external stakeholders	9
			9

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 10 March 2016. The table of contents above contains all standard disclosures and those indicators that have been identified as the most relevant in view of Cloetta's long-term sustainability targets. The indicators and other contents of the sustainability report have been selected based on Cloetta's materiality analysis on page 21. 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. Cloetta's sustainability report has not been reviewed by an external party, see page 49.

Compared to the reports for earlier years, the indicators G4-PR2 and PR4 have been replaced by Cloetta's own indicator "Consumer complaints/returns".

G4-EN2 has been replaced by the own indicator "Recycling of materials", since the volume of hazardous waste is immaterial. A new indicator is "Results of sustainability programmes for prioritized raw materials".



### Contact for sustainability information

**Thomas Wiesgickl**

Director Corporate Responsibility and Special Sales

Telephone: +46 73 026 16 33

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 organisations

- AIDI (Italian Confectionery Industry).
- 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).
- FFNLI (The Dutch Food Industry Federation).
- HSH (The Federation of Norwegian Commercial and Service Enterprises).
- IBC (Italian Branded Products Industry).
- ISA (International Sweeteners Association), Italy.
- VBZ (Association of the Dutch Bakery and Confectionery Industry), the Netherlands.





# Auditor's Limited Assurance Report on Cloetta AB (publ) Sustainability Report

This is the translation of the auditor's report in Swedish.

To Cloetta AB (publ)

## Introduction

We have been engaged by the executive management of Cloetta AB (publ) to undertake a limited assurance engagement of Cloetta's Sustainability Report for the year 2016. Cloetta has defined the scope of the Sustainability Report on the inside cover in the Annual and Sustainability Report 2016.

## Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 47 in the Annual and Sustainability Report 2016, that are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) 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.

## Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. 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.

The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. 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. Consequently, the procedures performed do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## Conclusion

Based on the limited assurance procedures we have 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.

Stockholm, 8 March 2017

KPMG AB

Tomas Forslund  
*Authorized Public Accountant*

Torbjörn Westman  
*Expert Member of FAR*



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 12 production units in six countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

*Cloetta*

Cloetta AB (publ) • Corp. ID no. 556308-8144 • Kista Science Tower, SE-164 51 Kista, Sweden.  
Tel +46 8-52 72 88 00 • [www.cloetta.com](http://www.cloetta.com)